THE CHETTIARS IN BURMA

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ABSTRACT

In the history of Burma's political economy, few groups have been so roundly vilified as the *Chettiars*. A community of moneylenders indigenous to Chettinad, Tamil Nadu, the *Chettiars* operated throughout the Southeast Asian territories of the British Empire. They played a particularly prominent role in Burma where, alas, they were typically demonised as rapacious usurers, responsible for all manner of vices concomitant with the colonial economy. Not least of these was the chronic land alienation of the Burmese cultivator.

The purpose of this paper is to reappraise the role of the *Chettiars* in Burma. Finding that their role was crucial in the dramatic growth in Burma's agricultural output during the colonial era, the paper disputes the moneylender stereotype so often used against them. Employing modern economic theory to the issue, the paper finds that the success of the *Chettiars* in Burma lay less in the high interest rates they charged, than it did to patterns of internal organisation that provided solutions to the inherent problems faced by financial intermediaries. A proper functioning financial system could have provided better solutions perhaps for Burma's long-term development, but Burma did not have such a system, then or now. Easy scapegoats for what went wrong, the *Chettiars* merit history's better judgement.

JEL Classification: Q14**,** O16, O17, N25.

Tersely and pointedly speaking, Chettiar banks are fiery dragons that parch every land that has the misfortune of coming under their wicked creeping. They are a hard-hearted lot that will ring out every drop of blood from the victims without compunction for the sake of their own interest…[T]he swindling, cheating, deception and oppression of the Chettiars in the country, particularly among the ignorant folks, are well known and these are, to a large extent, responsible for the present impoverishment in the land. (Testimony of a Karen witness to the Burma Provincial Banking Enquiry, 1929).[1]

You represent a very important factor indeed in the life of this province…Without the assistance of the Chettiar banking system Burma would never have achieved the wonderful advance of the last 25 to 30 years…The Burman today is a much wealthier man than he was 25 years ago; and for this state of affairs the Chettiar deserves his thanks. (Sir Harcourt Butler, Governor of Burma, to Chettiar representatives, 1927).

I. Introduction

The economic history of Burma contains a number of contentious themes, but surely none has been as divisive as the role of the *Chettiars*.[2] Celebrated as the crucial link between Burma and international finance, and as the providers of the capital that turned the country into the 'rice-bowl' of the British Empire, they were simultaneously vilified as unscrupulous and predatory moneylenders whose purpose was to seize the land of the Burmese cultivator. The truth, as in so many things, was more nuanced. The *Chettiars were* the primary providers of capital to Burmese cultivators through much of the colonial period. But the combination of the collapse of paddy prices in the Great Depression, the *Chettiar* insistence of land as collateral, and the imposition of British land-title laws, did bring about a substantial transfer of Burma's cultivatable land into their hands. The *Chettiars* did not charge especially high interest rates – indeed, their rates were much lower than indigenous moneylenders – but they were high enough to exceed returns to the land in all but the best years. Nor did the *Chettiars* set out to become landlords, fearing that this would only antagonise the local population and lead to reprisals against them. Their fears were prescient, for in the end the *Chettiars* were expelled from Burma, in the process losing the land they had acquired and much of their capital.

The purpose of this paper is to reappraise the role of the *Chettiars* in Burma. It begins, Section II, by re-examining the role played by the *Chettiars* in the reclamation of the Irrawaddy Delta for rice growing, and the extent of their operations subsequently throughout the country. Section III traces the origins of the *Chettiars*, their arrival in

[1] Proof that such demonisation lives on in Burma is surely provided by the constant efforts by the country's ruling military regime to label (opposition leader and Nobel Laureate) Aung San Suu Kyi as a *Chettiar*. For more on this, see Skidmore (2004:136).

[2] '*Chettiar*' (often spelt 'Chettyar') is the honorific plural for the members of the caste that is the focus of this paper. Numerous variants of their name – Chetti, Chetty, Chety, Shetty, Setti – abound, but *Chettiar* was both used by members of the caste themselves when rendering their collective name into English, and it is this spelling that also most often appears in official and other contemporary reports of their activities. Brief details of the caste background of the *Chettiar* are given below, but a comprehensive account is best provided in Rudner (1994).

Burma, and their activities in other territories of the British Empire. In Section IV, the source of *Chettiar* capital is examined. Employing the work of Rudner (1989, 1994), the paper highlights the extent to which *Chettiars* functioned as quasi-financial institutions rather than as stereotypic moneylenders. Section V details *Chettiar* banking business – highlighting their lending, deposit and other products. Examining a related issue, Section VI uses modern economic theory to attempt to account for the *Chettiars'* success in Burma, a success that it finds owed more to strengths in their internal organisation than it did to high interest rates. In Section VII the narrative shifts in tone to examine the period in which all went wrong for the *Chettiars* - the arrival of the Great Depression and the land alienation that followed in its wake. High *Chettiar* interest rates have often been put forward as a cause of land alienation in Burma. Section VIII examines the truth or otherwise of this claim, and largely exonerates the *Chettiars*. Modern economic theory is likewise employed here, to find that *Chettiar* interest rates were determined by the usual forces shaping the conduct of 'informal finance'. Finally, Section IX concludes.

II. Financing the 'Rice-Bowl'

Entry Motivations

Burma's emergence as the 'rice-bowl' of the British Empire came as a result of what Furnivall (1956:116) memorably lauded as the 'epic bravery and endurance' of the country's cultivators in reclaiming the swamps and jungles of the Irrawaddy Delta. An epic motivated by Burma's entry into the commercial imperatives of the British Empire, the conversion of the Delta into rich paddy-producing land initially required little capital. Britain's great 'exchange banks' took care of shipping, milling and other export-finance needs, and up until the middle of the nineteenth century the amount of capital required 'on the ground' in land preparation was slight. As Adas (1974b:389) noted, in the early years of British rule in 'Lower Burma' the growth in rice exports was founded on cheap and surplus labour within cultivator families and upon abundant land that required little more than clearing. What capital needs there were outside family networks could be met by 'successful agriculturalists, local shopkeepers and rice merchants' (Adas 1974b:388).

The opening of the Suez Canal in 1869 famously transformed Burma's prospects as a centre for commercial agriculture. Cutting shipping times to and from Europe by half, the Canal not only directly opened up European markets to rice exports from Burma, it also stimulated demand for the commodity more generally in a region suddenly exposed to greatly expanded commercial opportunities.[3] The price of rice accordingly soared, as did the acreages of land under cultivation in Lower Burma, as Table 1 below indicates:

[3] The opening of the Suez Canal also allowed for the introduction of steamships on the Europe-Asia routes, which had previously been excluded from the Asia trade because of the lack of (commercially-viable) coal stations along the vast coasts of Africa. Accordingly, the dramatic reduction in sailing times occasioned by the opening of the Suez Canal was a function of the combination of technological advances as well as changes in 'geography'. For a discussion of sailing times and related matters, see Ray (1995:476).

Table 1
Paddy Prices and Land under Cultivation
1845-1900

Year	Wholesale Paddy Price (Rs. per 100 Baskets)	Paddy Land Annual Average* Acreage Lower Burma
1845	8	354
1850	24	679
1855	45	993
1860	45	1,333
1865	50	1,627
1870	70	1,965
1875	65	2,704
1880	85	3,402
1885	95	4,011
1890	95	4,865
1895	95	5,765
1900	95	6,832

*For five-year interval beginning in year indicated.
Source: Table derived from data in Cheng (1968:25,73)

Along with rising paddy prices and the concomitant increasing demand for cultivatable land, came rising land prices. But it was not just the price of land that increased in these early years of the 'industrialising' of Burma's rice 'monocrop' – the prices of practically all items, from farm equipment to foodstuffs, soared in response to the swelling demand of this new frontier.

Rising paddy and land prices, as symptomatic of Burma's expanding 'rice frontier', were critical factors in motivating *Chettiar* entry into Burma.[4] Equally important, however, was the introduction into Burma of British land-title law. In this context the seminal event was the implementation of the *Burma Land and Revenue Act* of 1876, introduced into Lower Burma (and subsequently the whole of the country following the third and final Anglo-Burmese war in 1885) to consolidate and accelerate agricultural expansion through the creation of 'peasant proprietors' and, it has to be said, to provide the basis for a system of land revenue via which to finance the State apparatus. Under the *Burma Land Act*, occupiers of land (the label 'squatter' was often employed in official literature) acquired ownership of land via their occupation and payment of twelve successive years of land revenue upon it.[5] Importantly, such ownership under the *Burma Land Act* was in the 'full sense' that had developed over countless generations in Britain itself - with land title bringing with it permanency of tenure (provided land taxes were paid), transfer and inheritance rights and, importantly, the ability to pledge the land as collateral. It was this last 'alienable right' that distinguished the imported British land title forms from the categories of land

[4] 'Rice frontier' was the evocative phrase employed by Adas (1974a) and Furnivall (1956) to sum up the advancing production in the Delta.
[5] Other types of land-title, such as the so-called *patta* (grant) system and various lease and colonization schemes were also introduced during the colonial years, mostly in response to the problems of land alienation that will be outlined further here. As interesting and as important as these were in the broader story of Burma, however, they fall out of the scope of the matters of concern here. For more, however, see Furnivall (1956:51-55), Cheng (1968:137-170) and Thant Myint-U (2001:227-235).

tenure that had existed before the British annexation.[6] Prior to the British there had been a number of land tenure regimes in different parts of Burma *and* under successive kingdoms - but the British authorities understood that 'non-state' land existed under customary laws that assigned 'use rights' to those who cleared and then cultivated the land (*dama-ugya*).[7] In settled areas such land mostly stayed within families for generations (thus becoming land known as *boba-baing-myay*) who, even if they 'mortgaged' the land in some form, retained a right of return. Such land was allodial in the sense that it was not beholden to anyone apart from the occupier, but equally it was not 'private' since 'the holder did not have full rights to dispose of the land as he or she saw fit' (Thant Myint-U 2001:41).

In *Lower Burma*, the sparseness of population and the fact that much of the land was only cultivated in the sunset of the Konbaung dynasty (if at all) made for a variety of landholding forms – most of which involved simply squatting for a time before moving on as diminishing returns from the soil set in. Writing in *The Economic Journal* in 1909 (at that time by far the most prestigious and influential economic journal in the world), the famed Burma scholar and official, J.S. Furnivall, observed that, in Lower Burma, 'there was for the most part no ownership in land' as understood by the 'Western mind, saturated with the idea of private property'. In the same article he cited (1909:555) a 'Colonel Ardagh', Duty Commissioner for Rangoon District, who described land tenure arrangements in the Delta in 1862 as follows:

> In the majority of instances, the villagers regard land, especially paddy land, to be common land, which, if unoccupied, any villagers have a right to take up, and which when they have done with it they have an equal right to throw aside. If not taken up, it remains the common fallowland of the villagers for a few years, until it finally, on being overgrown with jungle and long grass and the bunds partially obliterated, takes its place in the wasteland of the village tract.[8]

In fact, as Thant Myint-U (2001:228) noted, the understanding of British colonial authorities of Burmese land tenure arrangements (which, in any case, had been rapidly evolving under the kingdoms of Mindon and Thibaw) were 'extremely rudimentary'. Nevertheless, for the purposes here this scarcely matters, for what the British did *correctly* understand was that the alienation of land, as a consequence of its surrender as collateral, was neither final nor complete until their arrival.

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[6] The issue of land-title in Burma *before* the British annexation is a topic of immense complexity and depth, and it is considered here only in the briefest of outlines as necessary for an understanding of subsequent events involving the *Chettiars*. The numerous *Settlement Report* series and *Land Revenue Manuals* are a most comprehensive source, though they suffer from the colonial mindset familiar in such documents. Furnivall (1956), Cheng (1968), Adas (1974a) and Government of Burma (1938) offer more approachable, but intellectually similar, readings. Two recent, Burmese, accounts that deal with the topic in hitherto novel ways are Toe Hla (1987) and Thant Myint-U (2001).

[7] The British authorities distinguished land they thought was owned by the 'state' from that which they defined as 'non-state' land. 'State' lands they categorized as taking a number of forms, including 'crown service lands' (*Ahmudan-sa*), 'cavalry lands' (*Si-sa*), 'headman's lands' (*Thugy-sa*), 'senior official's lands' (*Wun-sa*), 'royal lands' (*Min-mye*) as well as waste and abandoned lands (Government of Burma [1900:9-12], Thant Myint-U [2001:228]). It will be noted that many of these categories reflect land given *ex-officio* or as reward for past service to the state and King, indicative of what we might call the essentially 'feudal' nature of some of these title forms.

[8] Furnivall's citation was from an unpublished memorandum by Ardagh entitled 'The Mode of Tenure by Which the Greater Portion of the Land in Burma is Held'.

Extent and Importance of Chettiar Operations

The first *Chettiars* seem to have arrived in Burma at the outset of British rule - in 1826 accompanying Indian ('Madrassi') troops and labourers in the train of the British campaign in Tenasserim (Furnivall 1956:120, Cooper 1959:29). Their activities, however, were petty and remained so even after the first formal *Chettiar* 'office' was established in Moulmein in 1850 (Cooper 1959:30). It was, however, the opening of the Suez Canal in 1869 and the passing of the *Burma Land Act* noted above, that brought about the first substantial movement of *Chettiars* into Burma.[9] By 1880 the *Chettiars* had fanned out throughout Burma and by the end of the century they had become by far the 'the most important factor in the agricultural credit structure of Lower Burma' (Cooper 1959:30). By 1905 it was estimated that there were 30 *Chettiar* offices in Burma (what constituted an 'office' and what services it performed shall be examined below). According to the *Burma Provincial Banking Enquiry Report* (BPBE), the most dependable source on the extent of *Chettiar* operations, this number had increased to 1,650 by 1930 (BPBE 1930:203). The distribution of *Chettiars* in Burma was, however, highly uneven, with the vast preponderance of *Chettiar* offices being (not unexpectedly) located in Lower Burma. According to the BPBE's reckoning (1930:203), 1,443 (87 percent) of *Chettiar* offices were in Lower Burma, with 343 of these in Rangoon alone. *Chettiar* offices were in 217 towns across Burma but once more they were concentrated (155 towns) in Lower Burma. In 1930 *Chettiar* offices were in 55 towns in Upper Burma and 7 towns in the Shan States. Conveying more graphically the ubiquity of *Chettiar* offices, the BPBE concluded (1930:203) that in 'nearly every well-populated part of Lower Burma there is a *Chettiar* within a day's journey of every cultivator'. In a similarly vivid way, Harvey (1946:55) noted that there was a *Chettiar* office for every 5,000 people in the Delta.[10]

The ubiquity of *Chettiar* offices in Burma created and supported the vast capital they employed in the country. Here the 'numbers' are necessarily less precise (and more controversial), but once more the BPBE provides an estimate around which most commentators on the *Chettiars* have found a broad consensus.[11] According to the BPBE (1930:210-211), Rs.650 million was the 'unassailable minimum' of *Chettiar* capital employed in loans outstanding in 1930, Rs.800 million being its own estimate but it conceded that 'Rs.750 million cannot be seriously wrong'. Cooper (1959), Siegelman (1962), Ray (1995) and Rudner (1989 and 1995) more or less accept the Rs.750 million figure. Furnivall (1956:190) estimated that total *Chettiar* loans outstanding as at 1939 at £50 million, a figure, he noted, which was 'the equivalent of all British investments in Burma combined'. At the then rigidly fixed exchange rate of £1:Rs.13.33 (or Rs.1:1*s*,6*d*), Furnivall's estimate translated to approximately Rs.670 million – a figure not inconsistent with the BPBE's given that Furnivall's estimate was for a time *after* the Depression had done its work (and more of which below).[12]

[9] At this point it should be pointed out, though the issue shall be returned to later, that the *Chettiars* did not set out to become landowners (Adas 1974b:398)

[10] Tun Wai (1953:51) came up with similar numbers and proportions of *Chettiar* offices in Burma to these noted here, but based on information provided by the *Nattukkottai Chettiar Association*.

[11] For the debate on some of the relevant issues, see Rudner (1989:424-428).

[12] Prior to decimalization in 1971, £1 sterling was made up of twenty shillings (*s*.) which, in turn, were equal to twelve pennies (*d*.).

Siegelman (1962:261) likewise pointed to the magnitude of *Chettiar* investments in Burma relative to the total financial commitment of the British Empire in Burma – noting that, at the time of separation, the debt owed by the Government of Burma to the Government of India (and something of an approximate for the value of the latter's investment in the country over the decades) totalled Rs.585 million rupees, slightly less than 80 percent of the *Chettiar* contribution.[13]

The uneven distribution of *Chettiar* offices across Burma was replicated in an uneven distribution of capital employed. According to the BPBE (1930:210) little more than Rs.40 million (5 percent) of *Chettiar* capital was in the form of loans granted in Upper Burma. Based on the Rs.750 million consensus total, this left Rs.710 million for Lower Burma, of which an extraordinary Rs.330 million (46 percent of lending in Lower Burma, 44 percent of the country total) was written in Rangoon.[14] As the BPBE (1930:210) acknowledged, however, the Rangoon numbers were somewhat misleading since an unknown (but believed substantial) portion of lending written in the capital was by large *Chettiar* firms but 're-lent' by associate offices in outlying areas. The overall pattern was nevertheless clear – with *Chettiar* capital being rather more heavily concentrated in Lower Burma than even their physical presence in the form of offices suggested.

Of course the above are 'stock' figures (overall loans outstanding) rather than the 'flow' (new lending) each year. Regarding the latter, the scarcity of data once more precludes absolute precision, but the BPBE (1930:68) reported that for 1929-30 *Chettiar* firms lent something between Rs.100 and Rs.120 million in Lower Burma, an amount it estimated to be around '70 percent' of all borrowings from all sources. Cooper (1959:83) and Harvey (1946:55) estimated that annual *Chettiar* lending represented about 80 percent of total lending, but once more precision, in this case on *Chettiar* 'market share', remains elusive. The survey that accompanied the BPBE (whose findings were a key component of it), for example, found that in the (agriculturally important) Hanthawaddy and Tharrawaddy Districts, the *Chettiars* essentially accounted for *all* lending (BPBE 1930:68).[15] In other regions the economic significance of *Chettiar* lending was disguised by their relatively common practice of financing *other* lenders who in turn lent to agriculturalists. One example highlighted by the relevant District Committee of the BPBE was in Prome, where it was estimated 'that *Chettiars* lend one-third of all the crop loans directly and finance the Burman lenders to such an extant that *Chettiar* money forms altogether two-thirds of all loans' (BPBE 1930:67).

What were *Chettiar* loans used for? In terms of functional distribution, *Chettiar* loans were overwhelmingly employed in agriculture. Two-thirds of all *Chettiar* loans outstanding in 1930 (that is, Rs.500 million of the BPBE consensus total) were held by agriculturalists, the remainder roughly categorised as 'trade'. Of the loans given to agriculturalists, one component were 'crop-loans' – 'given and repaid every year and

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[13] Siegelman's figure is below that of Furnivall's, with the latter including an estimate (how arrived at is not known) for private sector British investment.

[14] The BPBE estimated a value of Rs.1,280 million for the land and produce of Lower Burma in 1929-30, a figure that fortified its belief that an Rs.710 million amount of indebtedness for the same was about right (BPBE 1930:212).

[15] The survey, which appeared as the second volume to the BPBE Report, is denoted in the list of references in this paper as BPBE (1930b).

corresponding immediately to the annual expenses of the cultivators' (BPBE 1930:211). Others were less narrowly concerned with the sowing of crops, but with meeting the needs of agriculturalists more generally in covering the timing mismatch between their expenditure and income from the harvest. *Chettiar* loans were also advanced to agriculturalists for land improvement, housing and other 'longer-term' purposes. Interestingly, though perhaps not unexpectedly, the functional distribution of *Chettiar* lending was very different in Upper Burma – where 'three-quarters' went to trade (BPBE 1930:211)

Chettiar lending was secured against collateral, and mostly against title to land. According to the *Chettiar* representative on the BPBE, the Diwan Bahadur A.M.M. Murugappa Chettiar (sic), two-thirds of loans to agriculture in Lower Burma were secured by mortgage. For trade loans the proportion was somewhat less, with between one half and two-thirds of such loans secured by mortgage. For the *crop* component of agricultural lending the proportion was lower again, with mortgage security backing only around one-third of all loans. Once more there was something of a geographical divide too – with only around half of all agricultural loans in Upper Burma being secured against mortgage over property (BPBE 1930:212).

A deeply significant role played by the *Chettiars* was the way in which they functioned as a 'bridge' between what had formerly been the subsistence agricultural economy of Burma, and the European financial institutions that had newly become interested in the country. The precise magnitude of exchange bank lending to the *Chettiars* will be examined later, but of concern here is the broader issue – of the way the *Chettiars* undertook the task of taking banking and finance into those areas of Burma that the exchange banks ('aristocratic eagles' in the phrase of a witness before the BPBE) deigned not to notice.[16] This role was acknowledged by *Chettiar* representatives at the height of their influence in Burma, the Diwan Bahadur A.M.M. Murugappa Chettiar, for example, described their role thus:

> The banking concerns carrying on business on European lines did not and do not care to run the risk of advancing money to indigenous cultivators and traders; and it is left to the Chettiars to undertake the financing of such classes, dealings with whom are naturally a source of heavy risks. So far as banking business is concerned the Chettiar banker is the financial back-bone of the people…(BPBE 1930b:760).

Subsequent scholars of Burma, notably Adas (1974a, 1974b) and Ray (1995), have likewise noted this cultural 'bridging' role performed by the *Chettiars* in Burma, the latter noting the symbiotic relationship between the 'commanding heights' of Burmese finance (the exchange banks) and what he referred to as the 'expanding intermediate sphere of Asian commercial credit' (such as the *Chettiars*) whose:

> …function within the new colonial trade order was to maintain the supply lines and marketing channels in the interior which enabled the European banks and corporations to sustain the export of produce to Europe and the distribution of foreign goods among the native population…Without the internal monetary regulation of the seasonal flows, the machinery of imports and exports would have ground to a halt (Ray 1995:485,481).

[16] The witness was Saw Pah Dwai, here cited from BPBE (1930, Vol.II:757).

Of course, the role played by the *Chettiars* in Burma in this context was not unique to them, and similar self-contained groups performed comparable functions in other colonial empires. Ray (1995:479) reminds the reader that Chinese bankers performed an almost identical function in what was then the Dutch East Indies (Indonesia), in 'driving the mercantile system into the interior'. Naturally, in this role the *Chettiars* (and their like elsewhere) touched upon the lives of the indigenous inhabitants of Burma and other colonial territories in closer and more profound ways than their European counterparts – who seldom ventured much beyond the 'commanding heights' of colonial economies. In their extraordinarily influential 1957 book, *The Economics of Under-Developed Countries,* Peter Bauer and Basil Yamey succinctly summarised the importance of 'Asian minority' financiers such as the *Chettiars*:

> By permeating the economy more extensively than the establishments and activities of the large-scale European mercantile, industrial, mining or plantation concerns, their influence has generally been more widespread and has affected large numbers of the local people directly (Bauer and Yamey 1957:107).

III. Origins

The *Chettiars*, or more properly the *Nattukottai Chettiars*, came from the Chettinad tract of what is now Tamil Nadu.[17] Chettinad, literally 'Chetti land' in the *Chettiars'* native Tamil, is a collection of 76 villages which, at the time of their activity in Burma, stretched from Ramnad District and into Pudukottai State of (southern) 'British' India (BPBE 1930:190, Siegelman 1962:122). A distinct sect of the *Vaisya* caste, the *Chettiars* numbered little more than 40,000 people in 1920 (Rudner 1994:2).[18] Originally involved in salt trading, sometime in the eighteenth century they became more widely known as financiers and facilitators for the trade in a range of commodities. By the early nineteenth century *finance* had become the primary specialisation of the *Chettiars*, and they became famed lenders to great land-owning families (*zaminders*) and in underwriting their trade in grain through the provision of *hundis* (more of which below). Of course, they became known to the British Imperial authorities in this context, for whom the narrative of the *Chettiars* as bankers who had been 'for centuries developing and perfecting to a remarkable degree a system of indigenous banking' quickly became the accepted wisdom (BPBE 1930b:759).[19]

The first, substantial, expansion of *Chettiar* financial activities beyond Chettinad and the Madras Presidency was to (what was then) Ceylon, sometime in the second decade of the eighteenth century. The motivation seems to have been simply the offer of higher returns there - 10 to 12 percent on capital employed in Ceylon according to

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[17] Though uniformly simply labeled '*Chettiars'*, the peoples who were to become the renowned money-lenders throughout South and South-East Asia were in fact a sub-set of the *Chettiar* community who were referred to by other *Chettiars* as the Nattukottai ('people with palatial houses in the countryside' in Tamil). (Rudner 1994:1). They referred to *themselves* as the *Nakarattar* (roughly translating as 'city dwellers' in Tamil) (Rudner 1994:2).

[18] *Vaisya* is one of the four major status or 'caste' divisions of Hindu society in India. It is generally held to consist of merchants, farmers, traders and 'professions' of various sorts. Based on interviews with the community, Rudner (1994:2) estimated the number of *Chettiars* in 1980 at 100,000.

[19] A narrative that was fortified intellectually by L.C. Jain's influential 1929 book, *Indigenous Banking in India.*

estimates by Ray (1995:524), compared to 8 to 9 percent at home. Thereafter, establishing links with European financial institutions (below), they followed the British Empire into Malaya and the Straights Settlements (Malaysia and Singapore), Burma, and even into 'Netherlands India' (Indonesia), Siam (Thailand) and French Cochin China (Vietnam, Laos and Cambodia) (Ray 1995:529, Rudner 1994:67-88). As with Ceylon, the returns to their overseas operations (especially in Burma) easily exceeded those at home, with the result that during their period of colonial expansion the *Chettiars* increasingly retreated from business in their homelands (Ray 1995:524). By 1920 *Chettiar* lending in Madras was 'one-sixtieth' of that advanced in Burma (BPBE 1930:191).

Of all their overseas spheres of operations, however, it was Burma that dominated. The tin, rubber, tea and opium trades of maritime Asia created a ready demand for *Chettiar* capital, but this was significantly overshadowed by the volume of credit demand, and the quality of the collateral, that could be yielded from the expanding 'rice frontier' of Burma. The BPBE estimated a total of Rs.1,200 million in *Chettiar* lending in all of their operations in 1929-30 of which, as has been noted, Rs.750-800 million (roughly two-thirds) was employed in Burma. Malaya and the Straights Settlements took in about Rs.200-250 million, Ceylon Rs.100-150 million and Cochin China Rs.50 million (BPBE 1930:211).

IV. Sources of *Chettiar* Capital

Conventional financial intermediaries 'finance' their lending and other activities primarily by taking in deposits. Recycling these deposits – transforming them into loans and advances – is the primary role played by financial intermediaries historically and, indeed, up until the present day. Of course, financial intermediaries do not lend out the whole of the deposits they take in. For prudential and other reasons (not least that some depositors will want their deposits back), a certain proportion of deposits are held apart by the intermediary in the form of cash or reserves. Reserves aside, however, a process of 'money creation' is set in motion since, just as deposits begat loans, so loans beget deposits (lodged by the ultimate recipients of the spending created by the loans). Such deposits, in turn, are *re-lent* by the intermediary minus (once more) a portion held back as reserves. So the process goes on – and along the way financial intermediaries 'create' (deposit) money. This money creation story, which continues to fascinate even the modern student of the dismal science of economics, is the closest approximate in the discipline to the fabled 'free lunch'. Money is created allowing greater production, greater consumption, more trade – the creation of real goods and services – and a growing economy. The role of the funds of the proprietor of the financial intermediary in this story is crucial – to 'kick off' the lending/deposits cycle and to act as an assurance of their commitment to the intermediary's solvency.[20] Importantly, however, as the money creation process outlined above proceeds, this proportion of 'proprietors funds' to the loans and deposits created becomes relatively small.

The behaviour and economic contribution of a financial intermediary described above is not traditionally applied to the operations of moneylenders who, it is assumed, simply lend out of their own funds and do not take deposits. As such, they are not

[20] An assurance formalised in modern banking systems via adherence to the 'universal' minimum capital requirements stipulated under the Basle capital accords.

perceived as performing an 'intermediation' function. They do not recycle deposits into loans. They do not create money.

Most accounts of the *Chettiars* in Burma (for instance, the BPBE, Brown [1993], Cooper [1959], Tun Wai [1953, 1962] Siegelman [1962], Charavati [1971]) explain *Chettiar* funding arrangements in terms of the traditional money-lender narrative – that is, of a relatively unsophisticated financial structure in which the funds employed by each money-lender come out of their own pocket or, for the larger *Chettiar* operations, from the principals of the firm. Representative of this line was Cooper (1959:36), who asserted that 'the Chettyar banks operated on the basis of their owners capital; deposits were the exception rather than the rule'. Likewise the BPBE (1930:211), working on their 'compromise' figure of Rs.750 million of *Chettiar* loans outstanding (assets) in 1930, places on the liabilities side of this equation (where deposits are located) a figure of Rs.535 million that it describes as being provided by the 'proprietors' of *Chettiar* firms. This estimate, it notes, was 'in accordance with… the general acceptance amongst *Chettiars* that 'on average about two-thirds' of the working capital in Burma is supplied by the proprietors'. The BPBE acknowledged that *Chettiars* sourced some of their funding from deposits but, whilst these were considered as being important at the margins and in signalling confidence in their operations, were seen as constituting a small place in *Chettiar* financing. Putting some numbers to its belief, the BPBE (1930:213) estimated that around one-seventh of *Chettiar* liabilities (around Rs.100 million) were deposits of non-*Chettiars*. These constituted: Loans from chartered banks in Burma, Rs.30 million; general (non-bank) deposits in Rangoon, Rs.50 million; general (non-bank) deposits in the rest of the country, 7 million; loans from Madras-based chartered banks, Rs.13 million; non-bank deposits from Madras, Rs.2 million. In addition to these, however, the BPBE and other sources also note that Chettiar firms placed any idle capital with other Chettiar firms. Inter-firm deposits of this kind, the BPBE estimated, would come to about Rs.150 million, assuming once more that total advances amounted to about Rs.750 million (BPBE 1930:213).

Accepting the BPBE's dissection of the liabilities side of *Chettiar* banking in Burma would indeed suggest that their operations were consistent with traditional money-lender narratives. According to the BPBE's analysis, only about Rs.250 million (or one-third of *Chettiar* lending) was financed by the taking in of deposits and less than half of this was from non-Chettiars. In this sense, Chettiars did little in the way of financial intermediation, little in the way of credit creation by recycling deposits into new loans. Few other authors have ventured into the complex territory of *Chettiar* funding but, of those who have at least attempted some understanding, most differ little from the BPBE's verdict. Tun Wai (1953:42), for example, uses the BPBE's numbers and his own 'back of the envelope' calculations to arrive at a ratio of proprietors capital (he uses the expression 'own capital') to total *Chettiar* lending (in 1929) at 60 percent. Once more this is consistent with a traditional money-lender tag for the *Chettiars* rather than anything more complex.

In the late-1980s, however, this picture of the *Chettiars* as stereotypic money-lenders came under question – and an alternative image emerged of the *Chettiars* as proto-financial intermediaries who, amongst other things, created 'money' in the familiar way of such institutions. This new picture was primarily the creation of David Rudner (1989, 1994), an anthropologist who, apart from spending time in Chettinad and interviewing surviving Burma-based *Chettiars*, examined a cross-section of (hitherto believed lost) account books and other documents of *Chettiar* operations. Rudner's vital contribution was to make the distinction between what was truly proprietors own capital (*mudal panam* in Tamil) and what were, in his analysis, 'deposits' of other *Chettiars*. In other works (noted above), but especially the BPBE, *Chettiar* deposits were classified as 'deposits by close relatives' (*sontha thavanai panam*) and, as such, regarded as part of the capital contribution of the proprietors. In the BPBE's own words (1930:214) 'both (*mudal panam* and *sontha thavanai panam*) are in fact the proprietor's capital'. According to Rudner, however, the latter were best understood simply as 'deposits' (*mempanam*), with no ownership connotations attaching to them. The deposits belonged, for the most part, to 'kinsman' – original inhabitants perhaps of the same village in Chettinad, distant relatives, fellow 'clan' members - but *not* to close family members.

In Rudner's analysis, then, the BPBE *et al* failed to understand how 'loose' the relationships usually were between *Chettiars* placing deposits with each other – failed, in short, to properly distinguish between *Chettiar* inter-lending and what was truly the 'owners' capital' of each firm. In the case of the BPBE specifically, this failure was curious – since in places in its report the BPBE referred to the deposits of other *Chettiars* as 'borrowed capital', and acknowledged that the returns to it was in the form of a 'fixed interest rate' (the so-called 'current rate', more of which below) (BPBE 1930:215). This latter piece of evidence should have been conclusive – since it would be an unusual form of 'owners' equity' that generated fixed interest payments rather than an entitlement to a share in profits.[21]

Rudner's findings are not trivial, nor an arcane issue of interest perhaps only to an archaeological accountant. Using, for example, the BPBE's own numbers for capital/deposit categories, *but* re-classifying them in terms Rudner's scheme, yields a story for *Chettiar* operations in Burma that is very different to the money-lender stereotype. Proprietor capital shrinks from providing 65-85 percent of *Chettiar* lending to 10-20 percent. Deposits (and their recycling into new loans), by contrast, rise – from 10-20 percent to as high as 90 percent (Rudner 1989:446-447). At this latter proportion the extent to which *Chettiars* 'multiplied' the available money-base in Burma through the deposit/lending creation process would have been as high as many modern banks. Unfortunately, however, we cannot be too precise in this matter, since we have little real idea of the proportion of reserves the *Chettiars* held against deposits taken.[22] Nevertheless, the overall picture is unambiguously one in which the *Chettiars* behaved more like conventional financial intermediaries than previously realised, including by 'creating' financial (and subsequently real) resources. Rudner himself put the matter succinctly:

> …every deposit to a Chettiar bank could and did serve as the basis for expanding the supply of money and credit for the system as a whole. That is, Chettiar financial transactions generated what Western economists refer to as a 'multiplier effect'. The capital thereby created (along with profits and interest…) was expended on a wealth of items for consumption, exchange and further investment. To put it simply, financial transactions among different *Chettiar* spheres of exchange created

[21] There are genuine equity instruments that, in present day financial systems, generate 'interest' as well as dividends – but they were unknown in the context of the systems described here.
[22] Rudner (1989:450) thought that *Chettiar* reserve ratios were likely to be quite high.

> wealth…generated an increase in both the supply of money and in the production of things…such as land, minerals or agrarian commodities. Chettiar financial products were…not only highly liquid, negotiable, and transformable, they were also richly productive and generative (Rudner 1989:450).

Funds Provided by the Exchange and Other Banks

A celebrated source of *Chettiar* funding was the 'exchange' and other banks 'organised along Western lines'.[23] The *Chettiar* member of the BPBE, the aforementioned Diwan Bahadur A.M.M. Murugappa Chettiar, put loans from banks to *Chettiars* in 1929 at Rs.40 million (comprised of a mix of direct loans and overdraft advances). The largest lender to Chettiars – by far – was the Imperial Bank – which accounted for about half of all bank lending. Two other major lenders to *Chettiars* were Lloyds Bank (an estimated Rs.7 million in advances) and the National City Bank of New York (Rs.5 million). A few of the other major exchange banks in Burma, including the Hongkong-Shanghai Bank and the Yokohama Specie Bank, did not lend to *Chettiars* at all (BPBE 1930:216).

Christian (1942:118) claimed that the *Chettiars* 'borrowed much of their capital from European banks'. The validity or otherwise of this statement would clearly depend upon what was meant by 'much'. Certainly, however, the BPBE's figure of Rs.40 million was not insubstantial – especially, just as in the case of deposits, this amount would be 'multiplied' as it was on-lent by the *Chettiars*, generating in turn more deposits, more loans, and so on. On the other hand, if Christian's implication was that a majority of *Chettiar* funding was sourced from the European banks – then this study would argue, based on the analyses above, that he was clearly wrong. Of course, the importance of the *Chettiars* in providing the 'bridge' between modern finance as represented by the European banks, and the cultivator in colonial Burma, has already been noted.

Exchange and other bank lending to *Chettiars* was, not surprisingly, heavily concentrated in Rangoon, and fully Rs.17 million of the Imperial Bank's Rs.20 million of loans to *Chettiars* in 1929 were written there. Bank lending to *Chettiars* was also highly concentrated to a few, large, *Chettiar* firms who 'on-lent' to smaller firms and agents across the country (BPBE 1930:216). Loans and overdrafts from banks to *Chettiars* were secured against immovable property (house title-deeds worth no less than twice the value of the maximum advance), and government securities. The whole question of interest rates and the *Chettiars* will be examined in more detail shortly, but it's worth noting at this stage that the Imperial Bank charged its *Chettiar* borrowers around1.5 to 2 per cent per annum above the prevailing 'bank-rate' (BPBE 1930:217). Other banks generally charged 'one-half or one per cent more' (BPBE 1930:218).

V. *Chettiar* Banking Business

The *Chettiars* carried on an extraordinarily wide-range of banking business in Burma. They made loans, took in deposits, remitted funds, discounted *hundis*, honoured

[23] To borrow the phrase employed by the BPBE and by Tun Wai (1953 and 1962) to categorise the European banks and their practices and instruments in Burma.

cheques, exchanged money, dealt in gold, and kept valuables for safe-keeping. They were, in essence, a ‘one-stop-shop’ that covered pretty much the gamut of financial needs, especially those of agriculturalists and cultivators. In the following we consider in more detail some of these products and services, highlighting the more important and/or particular functions of the *Chettiars* in Burma.

Loans and Advances

Above all, the *Chettiars* were known for *lending* money. According to the BPBE (1930:196), *Chettiars* were anxious to avoid ‘speculative loans’, but were otherwise ‘ready to lend their money for *any* enterprise which offers ready security and profit’ (emphasis added). As such, their loans were ‘not determined by the purpose of the loan or the kind of borrower’ – a *commercial* virtue that brought with it the considerable *social* virtue that they ‘dealt with all races and classes on equal terms’ (BPBE 1930:233). As noted earlier, *Chettiar* lending overwhelmingly went to agriculturalists, but this was because it was precisely this sector that most fulfilled their profitability and security prerequisites, rather than any philosophical predisposition to rural pursuits.

Crop-loans and loans for land purchase, redemption and improvement, were the most common forms of *Chettiar* lending to agriculturalists. Cultivators typically drew multiple loans from their *Chettiar* lender throughout the year according to season – for the purchase of seed, transplanting and broadcasting, for payments (often advances) to labourers, for the purchase of cattle, to repair dykes and borders, and to meet general expenses.[24] These multiple loans constituted a type of ‘revolving credit’ facility, upon which repayment was due (in the case of most *Chettiar* firms) only once a year, after the sale of the cultivator’s crop. Recognising the essential fungibility of money (a fact often overlooked by other lenders in Burma), *Chettiars* also lent for a range of other cultivator needs - for marriage expenses, funerals, religious and other social festivities, and for household contingencies generally (BPBE 1930:232). One aspect of *Chettiar* loans highlighted by the BPBE (1930:233) was the speed at which they could be arranged: ‘the time elapsing from the first application for a mortgage-loan…until the document is executed and the loan paid over is often not more than an hour’.

Beyond agriculturalists strictly defined, but mostly still in rural areas, the *Chettiars* lent money for a range of economic activities - to wholesalers, rice millers, shopkeepers, petty industrialists and artisans of various types (BPBE 1930:196). A ‘considerable amount’ of *Chettiar* lending was also made to other money-lenders (BPBE 1930:232-233). These were mostly Burmese, and were a mix of professional money-lenders and land-owning agriculturalists who (as noted above) on-lent *Chettiar* loans to their employees for consumption and other purposes. With respect to the former, these enjoyed certain ‘informational’ advantages over their *Chettiar* funders that enabled them to reach a (poorer) clientele the *Chettiars* rejected because of their lack of collateral. The BPBE (1930:200) painted the issue thus:

[24] This list of typical purposes to which *Chettiar* loans were put by cultivators is yielded from the BPBE surveys of cultivators contained in BPBE (1930b). A reasonably representative example was that of Shan Kwin Kyi village, Pyapôn District, the details of which are outlined in BPBE (1930b:84-85).

> The *Chettiars* are generally at a disadvantage in comparison with a Burman lending to persons of his own race living in his own village; they cannot have quite the same intimate knowledge of the borrowers…Thus most clients of *Chettiars* are landowners or tenants of good standing or shopkeepers. Borrowers who cannot give security to the satisfaction of a *Chettiar* must find a local lender who can accept the additional risk because he is in closer contact, and they must generally pay a higher rate of interest accordingly; labourers of all kinds fall into this class and rarely borrow from *Chettiars.*

With collateral security critical to *Chettiar* lending it is not surprising to find (and as noted elsewhere in this study) that *Chettiars* extended credit to cultivators mostly on the basis of the mortgage of land. Gold was especially well-regarded as collateral too but, as the BPBE noted (1930:234), it was 'usually not available'. There was, however, a degree of flexibility with regard to *Chettiar* collateral requirements and the pledging of jewellery, houses, paddy and other crops was not uncommon. In cases where crop was pledged the BPBE tells us (1930:233) that it was often the case that 'the *Chettiar* alone has the key of one lock of the godown in which it is stored and he keeps a watchman there at the expense of the borrower'. Some of the 'less common' forms of collateral accepted by *Chettiars* included motor vehicles and boats, shares, stocks, and government securities (BPBE 1930:233).

The question of the interest rates charged by *Chettiars* on their loans and advances, a topic of great controversy historically, will be taken up in Section VIII below.

Deposit Types

Chettiars provided a number of different deposit products in Burma however, unlike loans, these products were not so universally available. Large *Chettiar* firms typically offered the full range of deposit types outlined here, but many small, outlying, firms did not actively seek deposits of any form beyond those from other *Chettiars*. The most important deposit devices offered by *Chettiars* in Burma included:

- 'At call' or demand deposits placed by *Chettiar* firms with each other. Such deposits, called *kadai kanakku* in Tamil (literally 'shop' deposits) were a subset of the inter-*Chettiar* deposit system outlined in Section IV above. Though callable at any time, they could remain for a day or indefinitely. Substantial quantities of such *Chettiar* funds were 'floating' in this form in the inter-firm market in normal times according to the BPBE (1930:228) – the necessary result of the different seasonal needs for funds in the regions and countries the *Chettiars* operated in. On such deposits was paid the *nadappu vatti* (essentially 'current rate', but literally 'walking rate') – the 'basic rate' of interest upon which most other Chettiar interest rates were calculated and which functioned, as noted by Rudner (1989:433), like the 'prime lending rate set by the central bank of a modern nation state'. The comparison is apt, as can be readily seen from this description of the setting of the *nadappu vatti* in Burma by the BPBE (1930:225):

  > [The *nadappu vatti*] is fixed in the evening of the 16th of every Tamil month at a meeting held at 9.00pm in the Chettiar temple [the *Nagaraviduthi*] at Rangoon, and it holds good for all the current Chettiar month including the sixteen days already passed. At this meeting the local heads of all Chettiar

> firms may attend if they wish; those who lend to Chettiar firms outside Rangoon are the mostly deeply interested and always try to attend…The meeting discusses the general financial situation, and fixes the current [*nadappu*] rate for the current month with this, taking into account the current pitch and tendency of the thavanai rate [below], the rates current amongst the Marwaris, Multanis, and Gujaratis [other Indian banking communities in Burma, operating on a much smaller scale than the *Chettiars*] and the rates for advances by the joint-stock banks to Chettiars. As every firm has both income and expenses determined largely by this rate, great care is taken to fix the rate according to the needs of the situation.

Not surprisingly, the *nadappu vatti* varied with the season – peaking when the demand for funds rose in January-February, and falling when funds were plentiful in August-September. The rate was typically expressed in its per-month equivalent, (per *mensem* was the contemporary Latin-derived expression) in terms of annas per 100 rupees (BPBE 1930:225-226).

Nadappu vatti were established wherever the Chettiar operated and, as such similar meetings to that described above for Rangoon were also held in Colombo, Penang, Singapore, as well as in Chettinad itself (Ray 1995:526-527).

- Fixed or term deposits were likewise a subset of the inter-*Chettiar* deposit system outlined in Section IV. Known as *thavanai kanakkus* (literally 'period' deposits in Tamil), these were 'fixed' deposits of a minimum term of two months.[25] Most *thavanai* deposits were 'rolled over' beyond their initial term, with compound interest being paid every two months. The interest rate on *thavanai* deposits (*thavanai vatti*) was fixed across each two-month term.

  Thavanai deposits provided Chettiar firms with a dependable channel of funds with which to carry out their activities. Establishing the *thavanai vatti* at an appropriate rate for the prevailing conditions was accordingly critical – arguably more important than getting the 'call rate' (*nadappu vatti*) right since, not surprisingly, it was the longer-term *thavanai* deposits that any particular Chettiar firm would be most desirous of attracting. Indeed, as the BPBE (1930:227) noted, the calculation of the *thavanai vatti* was not dependent on the prevailing *nadappu vatti* - rather, and in contrast to interest rate determination in modern financial markets, the relationship seems to have been the other way about – the course of the *thavanai* rate being a consideration when fixing the current rate.

  Of course, given that both rates reflected underlying monetary conditions they tended to move together, though the *thavanai* rate was typically 'at least half-an-anna (per Rs.100 *per mensem*) below the current rate'.[26] As with the establishment of the *nadappu vatti*, setting the *thavanai vatti* was a formal process strongly reminiscent of modern (central bank) policy-making. Unlike the *nadappu vatti*, however, the *thavanai vatti* was set weekly:

[25] Ray (1995:527) wrongly implies that *thavanai* deposits were primarily provided to outsiders to the *Chettiar* community. In fact, *thavanai* deposits of non-Chettiars were both rare and insignificant.

[26] In modern financial markets, rates on 'at call' deposits tend to be lower than their fixed equivalents - reflecting the benefits to those placing them from greater liquidity.

> In a systematic way every Sunday evening at 9 o'clock by a meeting in the Rangoon temple…generally the decision is a foregone conclusion, and, unless the rate is standing particularly high or low or an abrupt change is expected, few attend... (BPBE 1930:227).

Notwithstanding the potential for weekly variation, tradition (and the interests of the *Chettiar* community as a whole) required that the *thavanai vatti* should be as stable as possible – moving 'one anna at a time', and only when necessary (BPBE 1930:227).

- 'At-call' or 'demand' deposits available to non-*Chettiars*. Known as *katha kanakku,* these were heavily patronised by Burmese and Chinese money-lenders and traders, as well as non-*Chettiar* Indian business interests and individuals. According to Cakravarti (1971:60), these demand deposits 'worked on the principle of savings accounts; no cheques could be drawn but withdrawals were permitted on presentation of a pass-book by the depositor where the deposits and withdrawals, and the credit balance would be entered by the Chettyar'. Interestingly, the efficiency of inter-firm *Chettiar* deposit/lending meant that few *Chettiars* seem to have kept cash reserves against demand deposits, trusting rather in 'temporary borrowings' to meet unexpected cash withdrawals.[27]

- Fixed or term deposits available to non-*Chettiars*. Called *veyan vatti* in Tamil, these were fixed for periods of three, six months, or a year, and were also paid an interest rate typically 1 to 2 percent above the *thavanai* rate. Like the former, these were often rolled over indefinitely and tended to be confined to larger merchant interests (Chakravarti 1970:60).

  From the testimonies given to the BPBE's survey (1930b) it seems likely that the length of 'term' of *veyan vatti* was a somewhat fluid concept. According to one *Chettiar* in Pyapôn Town: 'The receipts that we issue for deposits do not state that they are payable on demand nor do they state the due date. It is however understood that the money will be repaid on demand. This is the universal custom with *Chetties*' (BPBE 1930b:93).

Hundis

One of the most important financial products provided by the *Chettiars* in Burma were 'hundis'.[28] Hundis were (and are) bills of exchange that could be used both to remit funds and to advance credit. An ancient financial device used in India and

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[27] An example of such reliance was given in evidence to the BPBE by a *Chettiar* in Pyapôn Town, see BPBE (1930b:93).

[28] The word 'hundi' is derived from Sanskrit and means simply to 'collect'. Though renowned as a financial instrument as described here, its origins can be readily identified by the fact that 'hundi' is also the word employed to describe the collection box in a Hindu temple. Today 'hundis' are more known for their use in alternative remittance systems than anything else, and in this context the word 'hundi' has an identical meaning to 'hawala', 'hui kwan', chiao hui', 'poey kwan' - and various similar but differently *named* instruments. There are many works devoted to the study of such 'indigenous' banking instruments, but a good introduction is Jost and Sandhu (2000).

surrounding countries well-before the dominance of Europeans in regional commerce, they were integral to the operation of indigenous bankers such as the *Chettiars*.

In Burma the *Chettiars* offered two main varieties of hundis - 'demand' hundis and 'usance' hundis. Each are examined in turn:

Demand Hundis

A demand hundi was simply a remittance instrument, a device for sending money from one part of Burma to another through a network of *Chettiars*. The logic of a hundi was simple: Suppose that person A in Rangoon wanted to send a sum of money to person B in a village in the Burmese countryside. Banks were unapproachable for most people, and sending money through the post or in person was risky and/or expensive. So person A approached their local *Chettiar* with whom, more than likely, they had done business before. We will call this *Chettiar*, '*Chettiar* A'. *Chettiar* A, like nearly all *Chettiars*, had contacts with other *Chettiars* throughout Burma, including in the village where person A wanted their money sent. We will call *Chettiar* A's contact in the village, '*Chettiar* B'. The links are now in place.

Person A pays *Chettiar* A the sum of money they want to send person B. *Chettiar* A, in return, issues a hundi which orders *Chettiar* B to pay the bearer, upon presentation of the hundi, the sum of money written upon it. The bearer of the hundi is person B, to whom the hundi has been sent through the post or delivered by some other means. At this point various security measures made for varying practices – some hundis were payable on sight, but most were payable only when presentation was followed by advice from the 'ordering' *Chettiar* (*Chettiar* A in this example) conveyed via post or telegraph. This last practice carried the benefit that the final recipient of the money (person B) was protected against the theft of the hundi.

Of course, in the example outlined above there remains the issue of settlement between the two *Chettiars* (A and B). This was accomplished in a number of ways in practice, all of which relied upon the 'trust' between the counterparties which (as shall be examined below) was a virtue of the entire inter-*Chettiar* system. One way was to deal with sums owed and owing as inter-firm deposits/lending in the manner described above, upon which the interest rates likewise outlined above were levied. Other methods included making payments through branches of the Imperial Bank, authorised via telegraphic transfers. Finally, some settlements were completed in cash. The BPBE (1930:49) evocatively described a regional snapshot of this mechanism thus:

> *Chettiars* send a considerable amount of money to and from Rangoon in the form of currency. It is said that the money brought in by *Chettiar* clerks from stations along the Prome railway-line to four Rangoon firms alone amounts to half a million rupees a day…and large sums are sent in also from Wakema, Moulmeingyun and other delta towns.

Chettiars generally did not charge for hundis issued to people who were otherwise their customers as borrowers or depositors. For people for whom they had no existing relationship, charges were not much more than a couple of 'annas' per Rs.100 (BPBE

1930:166).[29] Such charges were very competitive with other remittance forms, but perhaps the greatest competitive advantage enjoyed by the *Chettiars* was the ubiquity of their presence - enabling hundis to be sent to Rangoon, and to cities throughout South and South-East Asia, from all but the humblest of villages.

Usance Hundis

Usance or 'discount' hundis differed from demand hundis in that, in addition to performing a remittance function, they provided credit too. This credit was arrived at in a remarkably straightforward way - a function simply of requiring a period of time to elapse before payment had to be made. Usance hundis were, in this way, little different to the exchange or trade bills employed by European banks, and provided similar stimulus to trade in Burma as such bills had delivered to international commerce.

Usance hundis were the most common form of hundi offered and used by the *Chettiars* in Burma, who generally only applied the label 'usance' (a label favoured by the exchange and other European banks) when they needed to distinguish them from the less numerous demand hundis. An important difference between usance hundis and European bills of exchange was that usance hundis were not written against a specific transaction, but did provide a specific *quantity* of credit. The period of 'delayed payment' which gave usance hundis their credit function could vary – from 30 to 120 days. The latter, the longest period of a usance hundi allowed, was also the most common (BPBE 1930:153).

Chettiars themselves re-discounted *usance* hundis with other financiers, especially the Imperial Bank and certain of the exchange banks. This mechanism provided yet another financial link between the *Chettiars* and banks 'organised along Western lines', but it was one that was only really available to the larger *Chettiar* firms based (typically) in Rangoon. These, however, could discount usance hundis from smaller firms and then present them for re-discount at the banks - giving the latter the 'two signatures' on such instruments sometimes required before they (notably the Imperial Bank) would advance funds (BPBE 1930:154-155). Usance hundis were written on special 'hundi-paper' that was sold by the Government of Burma for a price that represented the 'stamp duty' on each instrument. As shall be examined later, the BPBE recommended the promotion of usance hundis to the extent that they became 'the ordinary mode of financing trade' and - together with the possibility for discounting at the banks - would provide the essential 'elastic margin' to the provision of credit in Burma (BPBE 1930:156). To this end the BPBE urged (1930:156) the reduction of stamp-duty on hundis, as well as the bringing hundis *written in Burmese* under the Negotiable Instruments Act (BPBE 1930:155-156).[30]

[29] A rupee was worth 16 annas, implying a typical hundi charge in percentage terms of around one-eigth of one percent.

[30] The latter would also have the effect of making them more attractive to the banks for rediscounting. At the time, hundis written in a language other than English were limited in status under the Negotiable Instruments Act to the practices of *local usage* only - and thus lowering their reliability relative to European bills of exchange in the eyes of Western-style banks (BPBE 1930:150).

VI. Reasons for *Chettiar* success

How to account for the extraordinary dominance of the *Chettiars* in rural finance in colonial Burma?

The standard answer, which retains great explanatory power, emphasises the links between the *Chettiars* and 'Western' banks. In part this explanation is a sub-set of a broader assertion as to the reasons for the Indian dominance of many of the institutions of colonial Burma. Typical of such accounts is Harvey (1946:70), who wrote of Indians in Burma as 'camp followers' who had, over the Burmese, 'a couple of centuries start' in their contacts with the European commercial world. They had, he continued (1946:71), 'the good will of our trade, they handled the new business we introduced…for long they monopolised the professions, legal, medical, accountancy, engineering, as no Burman was qualified'.

The extent to which the 'Western' banks were a source of *Chettiar* capital has, as this study has noted (Section IV above), been much exaggerated - yet their funding certainly had an impact 'on the ground' in many parts of Burma. It was also the cause of no little resentment – as a Burmese moneylender from Pyapôn Town made clear, complaining to the BPBE (1930b:99), that 'the Imperial Bank and other joint-stock banks give too much support to the *Chettiars* and little or none to the Burmese money-lenders'. Certainly too, the Bank of Chettinad, a 'scheduled bank' formed in 1929 from two prominent *Chettiar* firms in Rangoon, enjoyed strong support from a number of foreign banks, especially the Chartered Bank, the Imperial Bank, the National City Bank of New York and Lloyds Bank.[31] This support crucially involved advancing funds during the periods of seasonal shortage (Siegelman 1962:238).

The relationship between the *Chettiars* and Western banks did not go one way, however, and nor was it purely one in which 'power' rested with the banks. Ray (1995:531), for example, points out that the progress of the Chartered Bank in Burma, for much of the colonial period the largest Western bank in the country, 'was largely in partnership with the Nattukottai Chettiars'. Even more pointedly, he noted (1995:532) that this bank, as well as the Chartered Mercantile Bank, suffered a 'run' upon them from anxious depositors during the depression of 1864 precisely because, for a short period, 'the Chettis decided not to accept [their] paper notes'.

Chettiar Organisation

Another answer as to the reason for the success of the *Chettiars* in Burma, which to a large extent has only come to light in relatively recent times via the work (already cited) of the anthropologist David Rudner (1989, 1994), and the historian R.K. Ray (1995), emphasises the nature of *Chettiar* organisation in Burma. And, of particular importance in this context, their identification of 'trust' as the keystone of *Chettiar* finance. Of course, trust is the foundation of finance of all kind. Financial intermediaries of any stripe depend upon trust, without which their assets (merely

[31] The Bank of Chettinad was capitalised at Rs.30 million and was run by a prominent *Chettiar* family from Kanasakatham in Chettinad. Based in Rangoon, in 1932 it expanded offshore to open an office in Colombo, Ceylon. The Bank survived, albeit it at a fairly low level after the late 1930s, up until 1965 (after being 'nationalised' with all the other 'foreign' banks in 1963). Very little information is available on the Bank, but Weerasooria (1973) has as much as seems to be known.

promises to pay when all is said and done) are worthless, and without the trust of depositors and investors there would be nothing to 'mediate' in any case. In modern banking systems such trust is established by norms of behaviour that have been centuries in evolution, shaped by the state, the law, and other institutions easy to identify but hard to replicate.

In the case of the *Chettiars*, 'trust' was a function of caste and kin rather than more impersonal institutions. This trust was manifested in a number of ways, but not least the way in which *Chettiar* firms were formed by partnerships of individuals connected through marriage, home village ties and other loose forms of kinship (Rudner 1994:90). Interestingly, because of Hindu inheritance laws based on primogeniture, partnerships were generally not formed between close 'blood' relatives' (Ray 1995:525). This trust was also the engine behind the inter-firm lending/deposit system between *Chettiars*. The worth of this system as a principal source of individual firm capital has already been noted, but it also constituted a most intriguing framework of 'prudential' arrangements that acted to dampen systemic risk. Alleviating systemic risk in a modern financial system is the responsibility of a central bank, but in the *Chettiar* arrangements this role was subsumed by collective 'caste' responsibility. According to Rudner (1989:451), the identifiably caste system of 'inter-depositing banks' employed by the *Chettiars* (implicitly) ensured 'the regulation of reserve levels', and with it 'confidence in individual *Chettiars* as representatives of the caste as a whole'.

Perhaps the most important way through which trust was manifested in the *spread* of *Chettiar* operations in Burma was as it was embodied in their 'agency arrangements'. The device 'that enabled the *Chettiar* bankers to extend their far-flung banking network into Southeast Asia', the use of 'agents' allowed *Chettiars* without financial means to establish their own firms to act as agencies for their more financially secure kinsmen (Ray 1995:525). Ray (1995:526) described the *Chettiar* 'banker-agent' relationship as 'a particular form of creditor-borrower relationship in which the agent did business with the capital advanced by his patron' – an arrangement that usually lasted until the agent 'had enough savings to set up on his own'. According to the BPBE (1930:209), the sums advanced by the patron to the agent were often large, and the only security, 'an unstamped receipt on a piece of palmrya leaf'.

Chettiar agents had almost complete discretion on the lending out of their patron's money and, indeed, they usually enjoyed 'power of attorney' generally over what might be regarded as the activities of the 'joint' firm (BPBE 1930:209). The arrangement seems to have been enormously successful in creating appropriate incentives for the agent, the BPBE (1930:526) reporting that 'some *Chettiars* believe that their agents are more earnest in trying to make their business a success than are employees of banks, and even advance this as a reason against attempting to establish in Burma banking on western lines'.[32] The BPBE was certainly impressed with another aspect of 'trust' in the *Chettiars* agency system – declaring in its report

[32] Unwittingly, since the problem had yet to find a name, in their agency arrangements the *Chettiars* solved what is known within the discipline of economics as the 'principal and agent' problem. In the modern world solving the problem - which simply refers to the dilemma of how to ensure that the agent acts in the best interests of the principal - has generated all manner of methods, including franchising, incentive contracts, commission-based payments, and so on.

(1930:207) that it had found ‘practically no cases of dishonesty’ between firms and agents.

Chettiar agents typically served in Burma for three years, the last six months of which were spent training their replacement. At the completion of the three years they invariably returned to Chettinad for three years of leave, before returning to Burma (sometimes, but not always, to their original station) to begin the cycle again. Particularly successful agents could be offered partnerships in the firm they represented after their three year stint, a distinct few may even have assembled enough capital with which to create their own firm (BPBE 1930:209). This triennium service pattern seems to have proved efficient in producing and training *Chettiar* bankers, but it was the cause of much resentment amongst their clients. The issue emerges time and again in the BPBE surveys (BPBE 1930b), typical of which was the testimony of a cohort of paddy-millers in Kyaiklat. They complained (BPBE 1930b:104) that the agency-handover often involved the recalling of loans that the incoming agent was not comfortable with, the unilateral variation of interest rates, and the costly re-issue of mortgage deeds.

The *Chettiars* sent into the Burmese countryside as agents were exclusively male, and were almost never accompanied by spouses or other family members. Most seemed to have lived an extraordinarily frugal existence, with such expenses as they had (including accommodation) usually met by the firm they represented. Typically between half and two-thirds of their entire triennium salary was paid a month after taking up their station, whereupon it was mixed in with the proprietors capital advance and employed in making loans. Key to an agents likelihood of establishing their own firm was not so much their salary, but the size of the ‘bonus’ they were able to secure at the end of their three year service - which typically amounted to between 6 and 10 percent of the profits they generated (BPBE 1930:209).

Bankers Born and Bred?

In giving weight to the argument that various ‘internal’ factors might have accounted for the success of the *Chettiars* in Burma, the issue of education within the community – especially of young males – is worthy of note. This aspect of *Chettiar* culture fascinated contemporary observers of the *Chettiar* phenomenon, even though their observations read somewhat archaically today – rich as they are in moneylender stereotypes and other prejudices. Nevertheless, it would be less than complete *not* to record such observations – representative of which is this from the renowned Edgar Thurston, whose work on ‘castes and tribes’ of the ‘East’, commissioned by the Government of India, remained a seminal work for many decades:

> A *Nattukottai Chetti* is a born banker. From his earliest childhood he is brought up on the family traditions of thrift and economy. When a male child is born in a *Nattukottai Chetti's* family, a certain sum is usually set aside to accumulate at compound interest and form a fund for the boy's education. As soon as he is ten or twelve, he begins to equip himself for the ancestral profession. He not only learns accounting and the theory of banking, but he has to apply his knowledge practically as an apprentice in his father's office. Thus in a *Chetti's* training, the theory and practice of banking are not divorced from each other, but go hand in hand, from the very start. When a boy is married he attains a responsible position in the family. Though, being a member of the joint Hindu family system, he may not make a

> separate home, yet he must bear his own financial burden. He is allotted a share in the paternal, or ancestral, estate and he must live on it. He alone enjoys all that he may earn and suffers for all that he may lose. So he naturally grows self-reliant and ambitious, with a keen desire to build a fortune for himself…Strict economy is scrupulously practised, and every little sum saved is invested at the highest rate of interest possible...So particular are the *Chettis* where money is concerned that, according to the stories current about them, if they have a visitor - even a relative - staying with them longer than a day he is quietly presented with a bill for his board at the end of the visit (Thurston 1909: Vol.V, 252).

VII. Land Alienation and the 'Hostile Symbiosis'

Chettiar success in Burma came to a shuddering halt with the onset of the global Depression of the 1930s. An event with severe economic repercussions in most countries, in Burma these were manifest primarily in the near total collapse of paddy prices. Paddy prices had been trending downwards across the latter half of the 1920s, as can be seen in the table below, but they went into a precipitous decline in 1930 and remained at unremunerative levels until after the Second World War.

Table 2
Paddy Prices:Rs./100 baskets[33]

Year	Price	Year	Price
1926	202	1933	64
1927	190	1934	70
1928	169	1935	93
1929	169	1936	89
1930	133	1937	97
1931	80	1938	90
1932	92	1939	97

Source: Author's calculations from data in Wickizer and Bennett (1941:332-333)

The impact of the collapse in paddy prices was soon felt amongst the cultivators of Burma's lower delta, whose general situation was neatly summarised by the Commissioner of Settlement and Land Records in his annual report to the Government for 1930-31:

> The year was one of extreme depression for agriculture in Burma. The…agricultural economy had for many years had been based on the assumption that the price of paddy would be Rs.150 or more per 100 baskets. The result was that contracts for wages were made and loans were taken on the same scale as in previous years at the beginning of this cultivating season. Consequently when the crop was harvested, after the labour had been paid for at the rates agreed upon, and the rents paid in kind at the old rates, the tenant though left with the same share of produce, found its value reduced by half, and was unable to repay his loan and often not even able to pay the interest. The landlord found himself receiving produce worth only half as much as in the previous year with large irrecoverable loans outstanding and the land revenue to pay at the same rates (Government of Burma 1932:10).

[33] Prices as at Rangoon docks. The 'basket' was the standard unit of account for paddy, and was the equivalent of 46 lbs.

Of course, at the end of this cycle of distress were the *Chettiars*. Unable to collect even interest payments on their loans, increasingly *Chettiars* came to foreclose on delinquent borrowers and to seize the pledged collateral. For the most part this was land. Table 3 below eloquently conveys what followed:

Table 3
Classification of Land Holdings in the 13 Principal Rice-Growing Districts of Burma* ('000s of acres)

Year	Total Land Under Cultivation	Land Occupied by non-Agriculturalists	Land Occupied by Chettiars	Proportion of non-Agriculturalist Land Occupied by Chettiars	Proportion of Total Land Occupied by Chettiars
1930	9,249	2,943	570	19	6
1931	9,305	3,212	806	25	9
1932	9,246	3,770	1,367	36	15
1933	9,266	4,139	1,782	43	19
1934	9,335	4,460	2,100	47	22
1935	9,408	4,687	2,293	49	24
1936	9,499	4,873	2,393	49	25
1937	9,650	4,929	2,446	50	25
1938	9,732	4,971	2,468	50	25

*The thirteen districts were then Pegu, Tharrawaddy, Hanthawaddy, Insein, Prome, Bassein, Henzada, Myaungmya, Maubin, Pyapon, Thaton, Amherst and Taungoo. Table derived from Government of Burma (1938:39).

The alienation of much of the cultivatable land of Lower Burma, a tragic and seminal event in the political economy of Burma, would also prove to be the equally tragic climax to the story of the *Chettiars* in the country. Exposed to the understandable anger of indigenous cultivators and the demagoguery of Burmese nationalists of all stripes, they became easy scapegoats not just for the current economic distress, but the foreign domination of Burma's economy:

> Alien in appearance and habits, the Chettyar was the butt of the Burmese cartoonist, he was depicted as Public Enemy No.1, and the violence of the mob was directed against him, a canalization, a projection of the people's own faults and failings on to a convenient victim (Harvey 1946:56).

In the vernacular press the demonisation of the *Chettiars* soared to extreme heights, and they were accused of all manner of barbarities well beyond a mere rapacity for land. Nevertheless, it was the latter alleged sin that was the most difficult to rebut. In February 1930, for example, the Maubin District-based newspaper *Thuriya* reported that the *Chettiars* had 'aimed at obtaining possession of agricultural land' through the artifice of loan arrears - a strategy which, in the past three years alone had secured them '30,000 acres' of the District's best land.[34] Like much of the vernacular press it called for the outlawing of foreign ownership of land and called upon Burmese

[34] The newspaper's claim, made in its edition of 19 February 1930, is cited and discussed in BPBE (1930:198-199).

everywhere to 'raise an outcry'.[35] In this particular instance the *Nattokottai Chettiars Association* attempted to answer the charges laid against their members - asserting that the *Chettiars* in Maubin were doing their best to help local cultivators avoid foreclosure.[36] Unusually, in the same rebuttal to the *Thuriya's* accusations there contained something of a threat too, with the *Chettiar Association* emphasising that *Chettiars* 'already had business in various countries, that men with capital could make a living anywhere, and that if newspapers in Burma tried to spoil the good terms now existing between the agriculturalists and the *Chettiars* they would close down their Burma business and invest their capital elsewhere'.[37]

In the immediate post-independence period most observers of Burma, but especially ex-colonial officers, tended to side with the extreme nationalist press in condemning the role of the *Chettiars* in the land alienation of the 1930s. J.S. Furnivall (1956:116), whose comments ascribing the reclamation of the Delta to the 'epic bravery and endurance' of the Burmese cultivator has been cited already, wrote that this same epic concluded 'with a picture of imposing government offices and business houses in Rangoon, and gilded Chettyar temples in Tanjore, while in the rice districts, the source of almost all of this wealth, nearly half the land is owned by foreigners and a landless people can show little for their labour, but debts…'. B.O. Binns (who was to play a critical role in the creation of rural credit institutions in Burma post-independence) was even more scathing, calling the *Chettiars* 'a useless class of parasitic middlemen' (Binns 1946:10). One contemporary observer who stood aside from the general condemnation of the *Chettiar* was J.R. Andrus. He wrote later (1947:68), in a similar vein to the *Nattukottai* Association's defence against the *Thuriya* allegations, that *Chettiars* often 'nursed' their debtors, reducing interest rates to allow at least some measure of payment and anxious as far as possible to keep the original owners on the land. He also noted a compromise device often employed by the *Chettiars* 'whereby part of the land was left in the hands of the former owner, free of mortgage, while the remainder was deeded to the Chettyar without lawsuit' (Andrus 1947:68).

Although the Depression and the collapse in paddy prices had provided the trigger, the conditions for the land alienation of Burma's indigenous cultivators had been underway for some time. As noted earlier in this study, almost from the moment it come under 'industrial' cultivation, Burma's lower delta became a vast arena in which the fluctuating fortunes of cultivators, moneylenders, millers, traders, and others in the paddy production chain were contested. Most often it was the cultivator who lost out, the vagaries of agriculture forcing them to surrender title to the land they enjoyed (or were in the process of establishing through continuous occupation) under the *Burma Land and Revenue Act*. This on-going struggle between what was, in essence, 'three economic systems in Burma' (the European, the Indian and the Burmese) created a situation in which, as a Financial Commissioner in the country famously observed as early as 1895, 'land in Lower Burma was transferred as readily as shares

[35] *ibid.*
[36] The *Nattukottai Chettiars' Association* had been formed in 1923 to represent the interests of *Chettiars* in Burma. The response of the *Association* to the *Thuriya* accusations is cited from BPBE (1930:199).
[37] *ibid.*

on the London Stock Exchange'.[38] In the 1930s this situation of musical chairs came to an end. The ‘closing’ of the rice frontier as the best land in the Delta was taken up, the resultant increase in land prices and rents – coupled with the declining prices of its principal output – meant that the hitherto boundless supply of cultivators willing to buy land forfeited to moneylenders dried up. According to Siegelman (1962:249), what happened in the wake of the Depression then was simply that what had been a ‘*sub rosa*’ alienation of the land was replaced by *explicit* alienation - and revealing the extent to which Burma’s lands had passed into the hands of absentee (and foreign) landlords.

The demonisation of the *Chettiars* in the vernacular press and at the hands of the demagogues, as well as the question of *sub rosa* land alienation before the Depression, found voice in the BPBE and its surveys. Regarding the latter, the evidence of J.M. Clark. Deputy Commissioner of Tharrawaddy District, was representative of a large body of ICS officers:

> Before the annexation…there were few sales of land and mortgages. Money was tight and ostentatious display rarely resorted to for the fear of the ‘Myosa’. But with the advent of the British the Myosa disappeared, the Chetty arrived, money became easier, land increased in value, mortgage became common, the number of Chetties increased and more as each year passes, the land is passing into or through their hands, and little by little each year disappears the possibility of a peasant proprietary…We could not do without the Chetties but in my view they should no longer be allowed to enjoy their present monopoly…(BPBE 1930b:734).

Within the BPBE there was disagreement regarding the *Chettiars’* desire to control land. The four Burmese members of the Enquiry, as well as H.S. Jevons, the then Professor of Economics at Rangoon University, agreed that in recent years there had ‘been a tendency for *Chettiars* in general to become land owners and for this *purpose* to seize land more readily when loans are in arrears (BPBE 1930:199, emphasis added).[39] Strong exception to this assessment, however, was taken by the BPBE Chairman, S.G. Grantham of the ICS, and Lawrence Dawson, Managing Director of Dawson’s Bank (the one ‘Western’ bank whose main business was lending to Burmese cultivators). Grantham and Dawson took issue with both the *Thuriya’s* accusations regarding Maubin in particular, as well as the broader point of a change in *Chettiar* desires regarding land. Their statement asserted that (1930: 200):

> ….the conditions of recent years when cultivators profits have been small may have caused a temporary increase in the amount of land taken over, but this does not indicate a general change of policy…
>
> …the *Chettiars* predilection is to be a financier, and he would rather have for his assets loans which he can transfer to another *Chettiar* when he wants to go back to

[38] The Commissioner’s comments are cited in Furnivall (1956:86). On the idea that the economic struggle in Burma’s lower delta was the clash of three, distinct, economic systems, see the contemporary account of Andrus (1936).

[39] The Burmese members of the BPBE were: U Aye, a member of Burma’s Legislative Assembly and representing the Chinese and Burma-Indian Chambers of Commerce; U Ba Maung, Manager of the Pegu Central Co-operative Bank and the representative of the co-operative movement; U Mya, Manager of the Myingyan Electric Company who was listed as representing ‘urban interests’, and: U Shwe Tha, a retired Deputy Commissioner listed as the representative of ‘agriculturali interests in Upper Burma’ (BPBE 1930:4-5).

> Madras than land which cannot be transferred in the same wholesale way…the present increase of land in *Chettiar* hands is a reflection of the depression in business of paddy cultivation, and will disappear when that depression disappears, and is not an indication that the *Chettiar's* heart has changed and made him greedy to get possession of land.

Later commentators on the role of the *Chettiars* in Burma, even those otherwise critical of their net contribution to the country, were in essential agreement that *the object* of *Chettiar* operations was not land *ownership*. Siegelman (1962:249) made the point that liquid assets were the *Chettiars* primary concern and as such they 'characteristically disposed of land quickly'. Siegelman provided a telling rebuttal to those who thought otherwise in evoking the internal structure of *Chettiar* operations - rightly noting that 'the ownership and management of land was not a suitable function for the staffs of Chetty firms' (1962:249).

VIII. *Chettiar* Interest Rates

One component of the hostility to the *Chettiars* was the accusation that the interest rates they charged were usurious and, as such, were the means by which loan default and the seizure of land was activated. Accusations to this end were especially prevalent in the wake of the events outlined above – the principal *plausible* variant of which had it that *Chettiar* interest rates failed to follow other interest rates down during the Depression.

The question of *Chettiar* interest rates is not easily settled, and Goldsmith's caution on this issue regarding India, that 'quoted interest rates must be taken with several grains of salt in a country in which the money and capital markets were little developed…[and] in which many interest rates have conventional features and do not often change', is at least equally applicable to colonial Burma (Goldsmith 1983:75). Of course, critics were in little doubt that *Chettiar* rates were exorbitant. Especially loud in making such accusations were borrowers without collateral such as small stall-holders. One such group from Myingyan Town in Upper Burma claimed in the BPBE commissioned surveys (BPBE 1930b:146) that *Chettiars* charged 'from 4 to 5 per cent per month' (around 70 per cent per annum). Peam (1946:16) asserted that *Chettiar* rates ranged as high as 45 per cent per annum, while Kyaw Min (1945:38) alleged rates of 25 per cent were applied even to loans secured against land.[40] Throughout the BPBE surveys (the Myingyan Town testimony was unusual), *Chettiar* rates were seldom reported beyond 25 per cent per annum, and even these rates *only* applied to loans unsecured by collateral. The last illustrated a universal truth of *Chettiar* lending - the applicable interest rate depended nothing on the purpose of a loan, but everything upon demand and supply in the lending market, the creditworthiness of the borrower and the security they offered, and the size of the loan (BPBE 1930:234).

Chakravarti (1971:65) constructed the following table of *Chettiar* lending rates based upon the BPBE Report and surveys:

[40] Kyaw Min's claim sits oddly with other sources, and in the view of this author should not be regarded as a particularly reliable source.

Table 4
Chettiar Lending Rates, 1929

Type of Collateral	% p.a.
Land and Immovable Property	9-15
Precious Metals and Jewellery	12-15
Promissory Notes backed by Collateral	12-15
Unsecured Promissory Notes	15-24

Source: Chakravarti (1971:65)

Chakravarti was not an unbiased source perhaps - and certainly his 1971 article was a spirited defence of the role of the *Chettiars* in Burma generally. Nevertheless, his quoted lending rates are not in dispute with other reputable sources. Tun Wai (1953:53) came up with some very similar numbers (Table 5 below, though for almost a decade later), and nor are these rates inconsistent with the BPBE (from which, of course, Chakravarti drew freely) or the other major studies of the *Chettiars* (Brown [1993], Cooper [1959], Siegelman [1962], Rudner [1989 and 1994]).

Of course this does not yet imply that *Chettiar* rates were reasonable - since for that we would need to know the rates that they in turn had to pay on deposits and on other funding. Once more the most reliable source on this was the BPBE, which put the cost of *Chettiar* working capital (which it took to be represented by the *nadappu vatti*, the *Chettiar* 'current rate') at 'between 2 and 3 per cent above bank rate' (BPBE 1930:226). Bank rate in this context was the rate at which the Imperial Bank made advances against securities of the Government of India. Across the 1920s the BPBE estimated that Bank rate ranged from a low of around 6 per cent (in 1925) to a high of 11.5 per cent in 1926. In 1929, the latest relevant year for its report, the BPBE had Bank rate ranging from 7 to 10 per cent. Given that the *Chettiars* had to pay 2 to 3 per cent above bank rate, we can estimate from this a *nadappu vatti* at about 10 per cent for 1929. In evidence given to the BPBE by a group of the largest *Chettiar* firms in Rangoon the figure of 10 per cent was likewise cited as their 'average cost of their working capital' (BPBE 1930:214).

With a funding base that 'cost' around 10 per cent the lending rates in Table 4 do not look usurious. This is especially so when we remember that at this stage no other 'costs' to *Chettiar* firms have as yet been factored in. Such costs will be considered more fully below, but suffice to say at this stage that even in 'normal' (that is, pre-Depression) times, these could not have been less than about 5 per cent of each individual loan. So far then the *Chettiars* seem to be exonerated from the usury charge.

And yet, not so fast. The chief complaint of Tun Wai (1953:53-55) is that *Chettiar* lending rates *do* suddenly look exploitative in the 1930s when, he points out, interest rates throughout the world steeply declined. Goldsmith (1983:69) traced the Indian Bank rate thus:

Table 6
Indian 'Bank Rate'
1931-1941

Year	% p.a
1931	7.0
1932	5.5
1933	3.6
1934	3.5
1935	3.5
1936	3.0
1937	3.0
1938	3.0
1939	3.0
1940	3.5
1941	3.5

Source: Goldsmith (1983:69)

According to Tun Wai, the collapse in interest rates in the 1930s dramatically decreased the cost of *Chettiar* funding, allowing them to bring down 'the current rate of interest [*nadappu vatti*] by 60 per cent during the depression'. This reduction in the cost of their liabilities was not matched, he alleged however, by a similar reduction in *Chettiar* lending rates. Table 7 below recreates Tun Wai's (1953:53) 'depression-revised' table of *Chettiar* borrowing and lending rates:

Table 7
Chettiar Borrowing and Lending Rates
1935-1942

Borrowing Rates	% p.a.	Lending Rates	% p.a.
Nadappu vatti (Current) Rate	3.0-3.25	Land and Immovable Property	9-15
Thavanai (Fixed) Rate	2.8-3.25	Precious Metals and Jewellery	12-15
Advances from Banks	4.0-5.0	Promissory Notes backed by Collateral	12-15
Veyan Vatti (Fixed) Rate	4.25-5.75	Unsecured Promissory Notes	18-24

Source: Tun Wai (1953:53)

On the face of it, Tun Wai's revisions look damning. *Chettiar* funding rates unquestionably fell over the course of the 1930s, but their lending rates are scarcely different than the BPBE/Chakravarti numbers for 1929. Surely now the usury label could be applied to the *Chettiars?*

Once more, however, a reasonable appraisal of the situation would still have to deliver an answer of 'no'. The reason for this is simple. However low deposit rates had fallen in theory, in practice there were scarcely any new deposits available to most *Chettiar* firms! As Tun Wai himself acknowledges (1953:44-50), fresh *Chettiar* deposits more or less dried up from the mid-1930s and few banks were willing to lend to them. It is true that *Chettiar* firms could pay lower interest rates on existing deposits, but since the bulk of these belonged to other *Chettiars* (as noted above), the net effect on the *Chettiar* 'system' was not one to alleviate their funding squeeze.

On the *asset* (lending) side of *Chettiar* balance sheets there were even firmer grounds on which to dismiss this latest variation on the usury charge. Once more the reason is simple, and once more Tun Wai himself alluded to the answer – the *Chettiars* had, in large measure, ceased to become lenders in the 1930s. Reluctant though the shift may have been, and as unprepared as they were in terms of their own predilections, by 1934 the *Chettiars* were as much landlords in receipt of rent (to the extent that this too was paid) as they were money lenders. In short, whatever interest rates may have nominally been charged by *Chettiars* at this time, there were few loans that they applied to. Tun Wai (1953:44-45) calculated that across 1935-42 *Chettiar* assets, which as late as 1929 had consisted entirely of cash, hundis and loans, had transformed 'from a liquid to a solid form' as these categories were largely replaced (87 per cent of the total) by 'land and houses'.

In examining and, where necessary, defending, the interest rates charged by the *Chettiars*, one must also consider the rates offered by their peer competitors - the credit provided by Burmese moneylenders, shopkeepers (indigenous and non-indigenous), landlords, employers and so on. And, likewise on this score, the *Chettiars* compared favourably. Interest rate charged by non-*Chettiar* moneylenders in Burma varied enormously, but it is amongst this cohort that 'true usury' was perhaps truly apparent. This was especially the case with regard to so-called *sabape* loans - advances made 'in kind' (usually in rice) to cultivators to be repaid after harvest. Such loans, most often made by Burmese landlords to their cultivator tenants and farm labourers, were subject to all manner of social norms, but the interest rates applicable on them usually ranged from 8 to 10 per cent per month - in per annum terms between around 150 and 220 per cent. In one case reported in the BPBE survey for the Tharrawaddy District, *sabape* rates of between 600 and 1,500 per cent per annum were claimed.[41] Of course, given that such loans were generally for periods considerably shorter than a year, such astronomical implicit *annual* charges are somewhat misleading.

With regard to other lenders, the BPBE found varying practices that included lending by a Chinese-owned general store at 20 per cent per annum, loans by cultivating tenants in Pyapôn District to their agricultural labourers of 3 to 4 per cent per month (40 to 60 per cent per annum), and loans from landlords to tenants in Kangyi Village at 25 to 35 per cent per annum (BPBE 1930b:90-95). Highlighting the importance that unchanging social convention often played in the setting of interest rates by non-*Chettiars* was the observation by a Settlement Officer in Upper Chindwin District that 'interest rates on short term loans were *nearly always* 60 per cent per year' (Government of Burma 1930c:13).

A Modern Appraisal of Chettiar Interest Rates

The interest rates charged by moneylenders such as the *Chettiars* have, until recently, attracted little in the way of intellectual attention. This is understandable. For a millennia the actions of moneylenders have been easily explainable as simply the

[41] This claim was made by Saw Pah Dwai, the Karen MLC whose comments are employed in the preface of this paper. His evidence appeared in the BPBE survey volume (BPBE 1930b:758).

manifestation of malice and greed. As such, very little in the way of nuance or sophistication was required to explain the charges of ‘usurers’, ‘parasites’, ‘loan sharks’, ‘shylocks’, ‘leeches’, ‘vampires’, ‘dragons’ - and all the other derogatory labels that have been created for the moneylender down the ages.

Of course, as Robinson (2001:178-181) notes there were, and no doubt are, many examples of rapacious moneylenders bent on expropriating land and bonding labour through debt. Economists, however, are (arguably) rarely satisfied in simple answers that ascribe generalised economic behaviour to moral predilections. As such, especially over the last three decades, a large literature has grown up that has attempted to explain the behaviour of moneylenders and the markets they operate in. Central to this have been the theories that attempt to explain interest rate determination by moneylenders - usually in terms of; i) transaction and opportunity costs; ii) risk premiums, and; iii) monopolistic competition.

(i) *Transaction and Opportunity Costs*

In the context of moneylending, ‘transactions costs’ is the umbrella term used by economists to refer to the expenses that creditors confront when making a loan. These include the costs of identifying and screening borrowers, processing and dispersing loans, collecting and monitoring repayments, assessing collateral (where applicable), ‘policing’ and salvaging loan delinquencies, and so on. Such costs are essentially invariant to the size of the loan - meaning that they loom larger, *in percentage terms*, the smaller the size of the loan. Of course, it is precisely such ‘small’ loans that are usually the stock and trade of moneylenders.

Very little data has survived regarding transactions costs for the *Chettiars* in Burma, nor were such issues given much attention in the BPBE and its surveys. Timberg and Aiyer (1984:56), however, found that for *Chettiar* bankers *in the 1980s,* total administrative costs came to around 5 per cent of their loan book. Given advances in information technology in the intervening decades, it is difficult to imagine that the administrative costs of the ‘Burma’ *Chettiars* could have been any less. More broadly, the World Bank (1974:40) found that ‘just the administrative costs of an *efficient* agricultural credit institution lending to small farmers equal 7-10 per cent of its total portfolio’ (emphasis in original). There remains much controversy over the extent to which transaction costs can reasonably explain high moneylender interest rates, but if the numbers above are only proximately accurate for the *Chettiars* in Burma, their interest rate charges (given their own cost of capital) hardly seem usurious.

A ‘flipside’ to the transaction costs burden on moneylenders such as the *Chettiars*, is that their services imposed relatively *lower* transaction costs on their customers. Borrowers, like lenders, face a raft of transaction costs when seeking a loan – costs which are, for the most part, simply the mirror image of the transaction costs noted above on lenders. Borrower costs, especially for rural clients, rise according to the degree of ‘formality’ of the arrangements imposed by the lender. The more ‘formal’ the arrangements, the less ‘access’ poor, and/or geographically marginalised people have to credit. This is important since, as Helms and Reilla (2004:3) remind us, the ‘poor generally consider ongoing access to credit more important than the actual cost of the credit’. The high access and low transaction cost attributes of moneylenders (for borrowers) were acknowledged by Robinson (2001:210) thus:

> Moneylenders are conveniently located for people who need microcredit; they live in the same or a nearby village, or in the nearest market town. Loan procedures are minimal, and cash is available quickly. Loan amounts, maturities, and payment schedules are flexible. There is little transportation cost or opportunity cost of time spent travelling or waiting.

Robinson's summary of the 'virtues' of moneylenders was readily apparent in the operations of the *Chettiars* in Burma. Their readiness to approve loans in 'not more than hour' has been noted already (Section V above), but this is but one of many similar testimonies given to the BPBE and noted in other narratives.[42] Representative was this summary of *Chettiar* 'office arrangements' by the BPBE (1930:239):

> *Chettiars* have no fixed hours and do not observe public or official holidays. Except for their own festivals of *Pangani Uthram* (in March or April) and *Thaipusam* (in January), when business may be stopped for about four days in all, they are ready to transact business on any day and at any time. This is often a great convenience to depositors who wish to withdraw money, and also to some borrowers whose circumstances make it desirable for them to conceal from others the fact that they are borrowing.

Chettiar accessibility was also manifested in their liberality with regard to a willingness to lend for almost any purpose – so long as the security and 'price' was right. Unlike more 'formal' lenders (the exchange and Dawson's banks, the credit cooperatives, and so on), *Chettiars* did not lend merely for 'productive' or commercial purposes. Instead, recognising the essential 'fungibility' of money, *Chettiars* lent for purposes that their clients themselves deemed necessary – purposes that Tun Wai (1977:311) noted were sufficiently and subjectively 'urgent' that 'the farmer was willing to pay high rates of interest'. The issue of fungibility was lost on contemporary and later critics of the *Chettiars,* typical of which was Siegelman's (1962:247) reproach that *Chettiars* were willing to lend to the cultivator for anything, 'foolishly for gambling, or willy-nilly on the bare necessities of existence'.[43] In a similar admonishing vein, Christian (1942:118-119) noted that 'less than ten per cent of the money loaned on Burma rice lands was used actually to improve the land or to purchase additional holdings'. Such criticism over the purposes of *Chettiar* loans was misplaced. As noted above, it missed the fungibility of credit - advances earmarked for productive purposes clearly 'free up' an equal amount of money to be spent elsewhere, on anything. Fisher and Sriram (2002:39) succinctly put the modern understanding of the issue, but which was one implicitly recognised by the *Chettiars*; 'credit needs start with consumption purposes'.

A final 'cost' economists consider in the context of moneylending is that of 'opportunity cost' - the returns foregone by moneylenders in granting loans rather than using their funds for other purposes. The higher the returns on alternative uses, the higher would be the *justifiable* level of their interest rates.

The relevance of opportunity costs in the interest charges of the *Chettiars* in Burma is a mixed one. On the one hand, the returns generated in Burma (*before the Depression*)

[42] This particular example of *Chettiar* lending efficiency is noted in BPBE (1930:233).

[43] But similar moral pronouncements are endemic across the literature dealing with the 'credit culture' in Burma, and all are similarly wrong-headed.

were considerably higher than elsewhere, suggesting that, at least in terms of alternative uses of funds *outside* Burma, the opportunity costs of *Chettiar* lending were low. On the other hand, *Chettiar* lending in Burma was highly seasonal and, as such, it was impossible to keep their funds fully 'lent out' through the whole of the year. *Chettiar* interest rates, accordingly, had to be higher during the times the *Chettiars* had loans extended to tide them over for the times that their money was idle. In evidence given to the BPBE (1930:211-212), it was reported that around 20 per cent of the capital of *Chettiars* in Bassein was idle from April to early May – 'waiting to be used in the agricultural loans of the next cultivating season'.

(ii) *Risk Premiums*

The losses associated with loan default must also be covered by the interest rates moneylenders charge across their loan portfolio. The greater the likelihood of default, the greater the need for an interest rate margin sufficient to cushion the lender against loss. Arguably, moneylenders have always lent to borrowers, and into economic environments, of greater risk than considered acceptable to more formal lenders. Indeed, one of the hitherto assumed advantages moneylenders possess over their more formal competitors - their proximity to their clients - is an example of their heightened risk they face from being less geographically diversified and more exposed to covariant shocks (Robinson 2001:195).

The *Chettiars* in Burma lent into what would become an increasingly risky economic environment. Ultimately even their fallback security, the title over land, would fail as political events swept away the laws and institutions that once must have seemed unimpeachable. We have some idea of the day-to-day riskiness of *Chettiar* lending, however, from the BPBE and its surveys, and other reasonable sources. In its 1923 Annual Report, for instance, Dawson's Bank (as previously noted, the only formal bank that lent to Burmese cultivators in a major way) reported that

> …the difficulties in the way of financing produce are considerable. It is not easy to obtain good security. Even with land as security there are sometimes risks. The absence of record-of-rights makes it difficult to be sure about title and the investigation of title is sometimes a long and laborious proceeding.[44]

Dawson's Bank itself charged 14.5 per cent per annum on its loans - somewhat lower than the *Chettiar* average, but not dramatically so and only (as the Bank itself acknowledged) by taking 'the cream of the security'.[45]

Testimonies presented to the BPBE told of loan default rates rather greater than that which would be presumed by a formal bank. In Pyapôn Town a *Chettiar* reported that he lost 'one-sixteenth [6.25 per cent] of my loans' (BPBE 1930b:93). Another in Kyaiklat Town said that 'one eighth' [12.5 per cent] of their loan book was in default. Such *Chettiars* also experienced the problems in realising property security noted by Dawson's Bank - the *Chettiar* in Pyapôn complaining of the expense of litigation and their Kyaiklat counterpart that the 'interval between the final decree and the sale of the property' was too long (BPBE 1930b:101). Both complaints pointed to the erosion

[44] The Annual Report is here cited from Government of India (1928:255).
[45] *ibid.,* 255.

of collateral coverage from such problems, and the concomitant increase in the inherent risks they faced.

In his concluding thoughts on *Chettiar* interest rates and their relation to risk, Cooper (1959:41), captured the essence of the matter, well before economic theory had turned its gaze towards the moneylender:

> …in coming to any conclusion with respect to the fairness of Chettyar interest charges and the efficiency of his business operations, the standards of western banking practices should not be used as criteria…in the west the banker (and even the moneylender) operates on the theory that his principal will be returned and in part to assure this is willing to accept a low rate of interest…On the other hand, Chettyar operations, like those of moneylenders throughout Asia, operated on the theory that the return of their principal was doubtful and charged high interest to compensate for this.

(iii) *Monopolistic Competition*

The one aspect of modern economic research into moneylending (and moneylenders) that is somewhat sympathetic to the traditional 'exploitation' narrative, is that which explains high moneylender interest rates as a consequence of 'monopolistic competition'. A phenomenon theoretically first identified by the great English economist, Joan Robinson (1933), monopolistic competition describes a situation in which, notwithstanding the possible existence of many competitors (moneylenders in this instance), competitors are able to exploit varying degrees of 'monopoly' pricing power. That they are able to do this is because of any number of obstacles that inhibit direct competition and segment the market. In the case of moneylenders, such obstacles typically include their geographical dispersion and the information they accumulate on their clients – information not available to potential competitors but essential for profitable lending in specific markets.

Practices that reflected degrees of monopolistic competition were in evidence amongst *Chettiars* in Burma. In Dedaye Town, for example, Burmese moneylenders and millers complained to the BPBE that local *Chettiars* had agreed 'not to lend' at less than 1.4 per cent per month, or 'pay a fine to the local temple' (BPBE 1930b:106-107). Meanwhile two BPBE committee members, U Ba Maung and U Mya, alleged similar practices amongst *Chettiar* firms in Myingyan Town, albeit in this case the minimum interest rate was 1.75 per cent per month and was allegedly accompanied by an agreement that they would not compete for each others customers. Of course, these are examples of explicit collusion – more powerful probably was simply the pricing power a local *Chettiar* might enjoy from the fact that their isolation precluded their customers from going to anywhere else.

But whilst there was some evidence of monopolistic competition amongst *Chettiars* in Burma, there was also much to suggest the phenomenon was not dominant – indeed, that a high degree of *competition* amongst *Chettiars* (and other moneylenders) was more typical. The BPBE documented fierce competition between the 22 *Chettiar* firms in Kyaiklat Town for instance, in which all components of *Chettiar* charges were up for grabs (BPBE 1930b:100). It reported a similar situation in Myingyan Town, challenging the account of its two committee members above (BPBE 1930b:141). Meanwhile a 1916 Settlement Report (for Tharrawaddy District) made what would become a familiar refrain from Government officials, that competition amongst *Chettiars* was too vigorous, prompting each 'in making reckless loans, and in cultivators to borrow money' (Government of Burma 1916:14). Finally, perhaps the most remarkable demonstration of competition amongst moneylenders in colonial Burma was that which took place in the Taungtha and Natogyi Townships of Myingyan District where, according to a deposition to the BPBE, 'local *Burmese* moneylenders lowered their rates sufficiently to bring about the closure of the limited *Chettiar* operations in both towns' (BPBE 1930b:146).

IX. Conclusion

The Japanese invasion of Burma in 1942 brought with it many harrowing scenes, but few would match that of the flight of the diaspora of Indian merchants, workers, administrators and financiers who had done much to transform Burma in the colonial era. How many of these died on the long march out of Burma – most on the road from Rangoon to Assam – remains a topic of lively controversy, but it is likely that no less than 80,000 people succumbed to disease, starvation and the other dissipations of war.[46]

Prominent amongst those fleeing the onslaught of the Japanese, just as they had been prominent in the transformational role played by Indians in Burma beforehand, were the *Chettiars* of Tamil Nadu. Scapegoats then and now for the misfortunes that heralded the breakdown of Burma's colonial economy, the *Chettiars* were not allowed to return to their lives and livelihoods following the granting of Burma's independence in 1948. Portrayed by British colonial officials and Burmese nationalist politicians alike as almost pantomime villains in Burma's 20th century dramas, they left the stage as unambiguous victims. The property they had acquired in roughly a century of money lending in Burma was effectively nationalised by successive Burmese governments after 1948, and dissipated by the same.

The purpose of this paper has been to demonstrate the central role played by the *Chettiars* in the development of Burma's colonial economy. Forming a critical bridge between 'Western' finance and the Burmese cultivator, the *Chettiars* were crucial players in the advancement of Burma's 'rice frontier'. In contrast to the received wisdom, however, this paper paints a picture of *Chettiar* operations that escapes the moneylender stereotype to present them instead as proto-financial institutions that created monetary, and ultimately real, resources in Burma. The paper has also attempted to rebut, using conventional economic theory, the notion that the *Chettiars* charged 'usurious' rates of interest with the objective of acquiring land. The paper does not conclude, however, that all aspects of the *Chettiars* role in Burma were positive or even benign. Financial institutions of a 'proto' form though the *Chettiars* might have been, what Burma needed was fully-fledged financial and other institutions that history tells us are conducive to economic growth and development. These were imperfectly created in colonial Burma and, alas, they remain so.

[46] This 'consensus figure' is arrived at by Bayly and Harper (2004:167), which likewise provides a comprehensive account of the flight of Indians (and others) from Burma in 1942.

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