

Money under Capitalism: Domestic, Universal

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“Further, the law enjoins that no private man shall be allowed to possess gold and silver, but only coin for daily use, which is almost necessary in dealing with artisans, and for payment of hirelings, whether slaves or immigrants, by all those persons who require the use of them. Wherefore our citizens, as we say, should have a coin passing current among themselves, but not accepted among the rest of mankind; with a view, however, to expeditions and journeys to other lands,—for embassies, or for any other occasion which may arise of sending out a herald, the state must also possess a common Hellenic currency. If a private person is ever obliged to go abroad, let him have the consent of the magistrates and go; and if when he returns he has any foreign money remaining, let him give the surplus to the treasury, and receive a corresponding sum in the local currency.”

Plato: *Laws*, p. 508, in *The Dialogues of Plato*, translated by B. Jowett,
Vol. Two, New York: Random House, 1937.

Historicizing Money

A great deal has been made in the literature on the nature of money between metallists and anti-metallists: the latter should be divided into chartalists and trust theorists, although there is a prevailing tendency to confuse the two groups. There is also some literature focusing on class struggle in determining how money of different kinds will be positioned in society. However, as our epigraph shows, throughout history, there has been a distinction between what is acceptable within a given society and what is acceptable outside it. With developed state formations, the ‘domestic society or community of exchange’, if it may be so termed, becomes one that comes under state

regulation. But outside that society, the acceptability of money remains a matter of (often unwritten) contracts based on trust.

Weber (1923/1961: 179) writes: “From the evolutionary standpoint, money is the father of private property; it possesses this character from the very beginning, and conversely, there is no object with the character of money which does not have that of individual ownership”¹. He gives illustrations from the pre-capitalist history of Europe and argues that “money was not a means of exchange but merely an object of class possession; one who possessed it kept it only on grounds of prestige and for nourishing his social self-esteem” (ibid, p. 180). But we have to go back to Karl Marx to find an analysis of the way money developed with the development of capitalism. Throughout the period of growth of capitalism, the competing capitalist states have sought to control that form of money which has the largest degree of acceptability in international exchange, including exchange in times of war. In extreme cases, a power seeking hegemony on the global stage has sought to render its domestically acceptable currency, detached from any link to commodity values, also the hegemonic currency in the world.

Despite the antecedents of intense discussion of the nature of money in a historical context by major figures of classical political economy such as David Hume and Adam Smith, and by Karl Marx and Frederick Engels, and by Max Weber, all discussion by contemporary mainstream as well as radical economists take money under advanced capitalist economies as their analytical quarry. Very often it is truncated further to only the domestic context of such money. This paper seeks to historicize the nature of money, primarily with evidence of working of money in early industrial Britain and pre-colonial and colonial India.

Credit as the link to endogenous money: the legacy of Marx and Keynes

Some kind of money served as a medium of exchange in all economies that have moved out of barter in all transactions. But under capitalism, practically all goods came to be commodified and most assets became objects of sale and purchase. Competition then propels capitalists to try and maximize returns on existing assets and acquire more assets for increasing their profits. Competition also propels them to invest more in

¹ This idea goes back at least to John Locke, but we will leave that aside.

expanding the reproduction of existing types of assets and in projects that increase the productivity of those assets. All these are forward-looking activities. The time gap in these cases and in the cases of long-distance trade, before the arrival of electronic banking, could not be bridged by cash transactions. Hence credit emerged as an instrument of trade long before capitalism developed. But with the arrival of the capitalist mode of production, credit became also important for investment and for the ceaseless quest for victory or survival in the competitive game.

In his *Treatise on Money*, in trying to pin down how ‘money’ comes to be recognized, Keynes introduces the making of contracts in money and then goes on: “...by the mention of contracts and offers, we have introduced Law or Custom, by which they are enforceable; that is to say, we have introduced the State or the Community” (Keynes 1930, p. 4). But in his later analysis, he never comes back to ‘community’ or ‘custom’. Keynes may simply not have been interested in the implications of the community and custom enforcing explicit or implicit contracts². But later analysts of the nature of money, except for a number of perceptive economic historians and anthropologists³, have continued to ignore the role of trust crossing borders of state regulation or bypassing such regulation in allowing exchanges to take place and economic activities to continue. Marx’s writings on money accumulated and developed from his published *magnum opus* to the unfinished volumes II and III of *Capital*⁴.

Marx extensively discussed how commodity money was economized and substituted by credit instruments not only under the capitalist mode of production (Marx, 1893/1957: 321, 346) but also under pre-capitalist modes of production (Marx, 1894/1966, Chapter XXXVI)⁵. Marx put it pithily in discussing the role of the banking

² I am not here interested in dissecting the rather involved account Keynes gives in the *Treatise on Money*, which is not germane to my own problematic.

³ See, for example, Armstrong (1924/1967); Bohannon (1959/1967); and Dalton (1965/1967).

⁴ In 1992, the manuscript of Marx’s *Das Kapital*, Volume III was published without the editorial alterations by Engels in its 1894 edition (Marx 1992). It has been argued (by Schefold 1998, for example) that the critical edge of Marx’s argument comes out more clearly in the unedited version. I am not concerned here with that perspective on Marx’s corpus.

⁵ Marx was also aware of the role of public credit in the city republics of Italy before industrial capitalism arrived on the scene in both economizing the state’s cost of borrowing and allowing merchants to control the state: ‘The credit associations established in the 12th and 14th centuries in Venice and Genoa arose from the need for marine commerce and the whole sale trade associated with it to emancipate themselves from the domination of outmoded usury and the monopolization of the money business. While the actual banks

system: “The banking system shows... by substituting various forms of circulating credit in place of money, that money is in reality nothing but a particular expression of the social character of labour and its products...” (Marx, 1894/1966: 607). However, many commentators have virtually ignored his later writings and classed him as a metallist, linking the value of money to the labour embodied in gold. Marx did not foresee the emergence of a particular currency such as the dollar as the ‘world money’, but ultimately it is the link of gold as the dominant world money to commodity prices that Marx theorized. The competition for control of world money among capitalist powers does not figure even in the writings of some of the best Marxists among economists today (see, for example, Foley 1986 or even Foley 1998).

In volume I of *Capital* (Marx 1867/1887, Chapter 3), Marx had already pointed to the ‘purely symbolic character’ of token money, even when it consists of coins of metal rather than notes printed on paper (Ibid, p.127). But then he argued: “Only in so far as paper money represents gold, which like all other commodities has value, is it a symbol of value” (p. 128). But he still did not think that the money value of output of commodities was proportional to the quantity of money. He emphasized that the velocity of circulation of the medium of exchange could vary because of a number of factors. He also thought hoards of money would provide further elasticity to the supply of money actually used in exchange. He recognized the role of credit in facilitating circulation and production under capitalism.

However, when he came to consider global capitalism as an independent system, he reverted to the idea that only gold or some other commodity can serve as ‘universal money’: “When money leaves the home sphere of circulation, it strips off the local garbs which it there assumes, of a standard of prices, of coin, of tokens, and of a symbol of value, and returns to its original form of bullion. ... Its function as a means of payment in

founded those city-republics assumed simultaneously the shape of public credit institutions from which the state received loans on future tax revenues, it should not be forgotten that those associations were themselves prominent citizens of those states and as much interested in emancipating their governments as they were in emancipating themselves from the exactions of usurers, and at the same time in getting tighter and more secure control over the state’ (Marx, 1894/1966: 601-602). I have argued elsewhere that one reason countries like England and the Netherlands could defeat large empires in Asia was their ability to devise a system of public credit that the Asian realms lacked. But the point is that the system of public credit as such did not convert Venice or Genoa into capitalist states.

the settling of international balances is its chief one. Hence the watchword of the mercantilists, balance of trade” (Ibid, pp. 142-3).

The Western European capitalist nations created a domestic currency, in the form of bank notes, which were nominally denominated in gold (or silver), but which were used as money. Notes of some banks were used for paying taxes or other government dues, and more widely, as legal tender, that is, for settling all dues or debts. Such banks generally picked up a considerable portion of the borrowings by the state, in return for which the notes were recognized as legal tender of some kind. The practice started in Italian republics but it acquired a strategic role in facilitating capitalist growth and competition in the international arena, with the foundation of the Bank of England, and the predominant body of evidence used by Marx in his analysis of money and the credit system related to the working of the Bank of England and the British banking system. The Bank of England was supposed to keep a stock of gold to meet any demand for conversion of notes into gold. However, if the gold or rather gold coins were used in domestic circulation, there was no particular problem, since much of it comes back to the Bank. However, “the demand for *international* media of circulation and payment differs from the demand for *internal* media of circulation and payment.... Under certain circumstances a drain of wealth from the Bank to the home market may combine with a drain abroad. The question is further complicated by the fact ‘that the reserve fund of gold kept by the Bank’ is arbitrarily burdened with the additional function of serving as a fund guaranteeing the convertibility of bank notes in countries, in which the credit system and the credit-money are developed” (Marx 1894/1966, pp. 453-4).

Marx was emphatic in his conclusion that the domestic monetary system based on tokens, bank notes and credit transactions did not need the use of metal or bullion.

The entire history of modern industry shows that metal would indeed be required only for the balancing of international commerce, whenever its equilibrium is momentarily disturbed, if only domestic production were organized. That the domestic market does not need any metal even now is shown by the suspension of the cash payments of the so-called national banks, which resort to this expedient in all extreme cases as the sole relief (Marx 1894/1966, p. 517)⁶.

⁶ See also in this connection, Ganssmann 1998.

Marx repeatedly emphasized the role of credit in sustaining the expanded reproduction of capital and loosening the constraints imposed by commodity money, at the same feeding speculative forces. Referring to the function of bills of exchange, for instance, he wrote:

With the development of the productive power of labour, and thus of production on a large scale: 1) the markets expand and become more distant from the place of production; 2) credits must, therefore, be prolonged; 3) the speculative element must thus more and more dominate the transactions. Production on a large scale and for distant markets throws the total product into the hands of commerce; but it is impossible that the capital of a nation should double itself in such a manner that commerce should itself be able to buy up the entire national product with its own capital and to sell it again. Credit is, therefore, indispensable here; credit, whose volume grows with the growing volume of value of production and whose time duration grows with the increasing distance of the markets. A mutual interaction takes place here. The development of the production process extends the credit, and credit leads to an extension of industrial and commercial operations (Marx 1894/1966, pp. 480-81).

In the opposite case, when credit is contracted, it has an adverse impact on the process of expansion, and there also expectations play a part:

The maximum of credit is here identical with the fullest employment of industrial capital, that is, the utmost exertion of its reproductive power without regard to the limits of consumption. These limits of consumption are extended by the exertions of the reproduction process itself. On the one hand, this increases the consumption of revenue on the part of labourers and capitalists, on the other hand, it is identical with an exertion of productive consumption.

As long as the reproduction process is continuous and, therefore, the return flow assured, this credit exists and expands, and its expansion is based upon the expansion of the reproduction process itself. As soon as a stoppage takes place, as a result of delayed returns, glutted markets, or fallen prices, a superabundance of industrial capital becomes available, but in a form in which it cannot perform its functions. Huge quantities of commodity-capital, but unsaleable. Huge quantities of fixed capital, but largely idle due to stagnant reproduction. Credit is contracted 1) because this capital is idle, *i.e.*, blocked in one of its phases of reproduction because it cannot complete its metamorphosis; 2) because confidence in the continuity of the reproduction process has been shaken; 3)

because the demand for this commercial credit diminishes. The spinner, who curtails his production and has a large quantity of unsold yarn in stock, does not need to buy any cotton on credit; the merchant does not need to buy any commodities on credit because he has more than enough of them (Marx 1894/1966, pp. 482-3).

Money during the rise of industrial capitalism in Britain

In writing the history of banking in colonial India, I have distinguished between apex banking institutions and banking institutions or credit arrangements serving lower orders of society. Interestingly enough, such a distinction can be useful also in analysing the monetary system of Britain in the eighteenth and early twentieth centuries, that is, precisely during the period when the industrial revolution was changing the economic and social structure of Britain in an unprecedented manner. The period between the establishment of the Bank of England and the stabilizing of the money market by passing the Bubble Act in June 1720 and transforming the South Sea Company into a depository of government debt saw the consolidation of a class of rich financiers and rentiers deriving their income from the interest in government securities and using Bank of England notes and international and domestic bills of exchange to finance wars, trade and large-scale industry. But the ordinary people, including many small traders and manufacturers were left to the mercy of a very ill-organized trimetallic system, consisting, as in India, of silver, gold and copper coins. ‘In the seventeenth century the English Mint coined in both silver and gold, but silver had been traditionally the English standard. Its status was confirmed by the silver recoinage of 1696-8’ (Styles, p. 172).

However, the royal mint in England was so organized

as to encourage its officials, who formed a close monopoly, to work on their own account for private customers rather than for the public; the government, for its part, failed to maintain for more than very brief periods the appropriate ratios between the monetary metals. The silver issued was undervalued and driven out of circulation, and therefore counterfeiting, already facilitated by the Mint coins, was stimulated (Pressnell, 1956, p.14).

‘In the twenty years after the recoinage, the newly minted silver coin all but fled the country. Gold became, by default, the national standard. Immediately after the recoinage the face value of silver in circulation was estimated at £6.75 million, compared with a gold circulation of £9.25 million. By 1776 a gold circulation of £26 million almost

eclipsed a silver circulation of, at best, £2 million' (Styles, p. 173). The British economy faced a shortage of coins, not only because the government coined many fewer silver coins than needed but also because silver was exported to other European countries or to Asia or the Levant almost as soon as it was shipped from the Americas. Ironically enough, this served the British exporters and hence the emergence of the British as the hegemonic economic power very well⁷, but it starved the domestic economy of circulating coin. An attempt to introduce copper coins into circulation failed, mainly because the price of copper increased way beyond the parity sought to be maintained between copper and gold or silver coins. But ordinary people used degraded copper coins, pieces of metal which could hardly be recognized as coins. Moreover, in many areas, especially in the textile district of Yorkshire, clipping coins became a separate trade: traders and manufacturers tolerated it because ordinary gold coins in circulation were often underweight by 10% or even more. The authorities generally turned a blind eye to the deliberate degradation of copper coins. But clipping silver or especially gold coins was a serious matter, and dozens of clippers were executed for the crime. However, the authorities often faced an active resistance from the ordinary in apprehending such felons, because they regarded as a legitimate response to the rulers' tolerance of underweight coins and the rampant corruption surrounding some of the activities of the royal mint. In the 1760s, this almost took the shape of popular revolt in some places (Styles 1980, pp.180-98).

The circulation of Bank of England notes alleviated the shortage of coins, but only for the wealthy and near the capital. Also, the Bank of England's notes circulated within very narrow limits. Counterfeit coins abounded and there were regular auctions of such coins in London (Pressnell, 1956, p. 22). The towns and villages away from London were served by a class of bankers that have been dubbed 'country banks' in the literature, of which Pressnell (1956) remains a canonical account.

⁷ This connection between what can be called the hegemonic medium of exchange and the shortage of it in the domestic economy was exaggerated in the colonies and dependencies of imperial powers, and has been actively promoted by the British in India and other non-white colonies. And it has been repeated in a new form by the USA and its allies since the onset of globalization II.

In many cases, the industrialists, such as textile manufacturers, became also bankers because they had money to invest outside their main line of business. In some other cases, they became bankers and often issued their own means of payment in order to meet the needs for small change of their workers and small traders who supplied their needs. This happened particularly in the case of mining enterprises or early mills, which were located in areas with cheap sources of waterpower, and these were away from major towns, with difficult communications.

The substitution of barter or token coins by capitalists, of course, could occur as an additional means of exploitation of workers. This also led to labour struggles in England during the industrial revolution period. For example, in the early nineteenth century, hosiery workers of Nottingham and southern England rose up against their masters. One major complaint was that in some factory villages “truck” was so widespread that it had almost displaced payment by wages’ (Thompson 1968, p. 581).

Thus we see that if other conditions of economic development operate strongly, a shortage of metallic coins does not impede that development. This is also seen in the centuries-old system of *hundīs* or *hundawīs* (Habib, 1982) that sustained the expansion of the Indian economy during the Mughal period. In some regions the date of settlement of the *hundis* could be extended beyond the appointed day on payment of a larger *anth* or premium; they could also be traded forward. Sometimes, as a result of such trading and the inability of the endorsers or issuers to make payments on the settlement day, the whole mechanism broke down and trade could be stalled. It is because of such problems and because this system could bypass official machinery for revenue collection that many rulers of Gujarat, such as Mohtarim Khan, and the British rulers succeeding them, banned the system of forward trading in these ‘fictitious’ means of payment (Bagchi, 1981/2002, p. 64). But the subterranean continuation of this device probably protected the Gujarati merchants against the general shortage of coin that accompanied the long depression of most regions of India lasting from the 1820s to the 1840s (Ibid, p. 58).

In the early days of capitalist development the influx or efflux of precious metals affected economic development and prices or merchant's fortunes. But how they did so depended on the political and social structure of the country concerned. For example, the influx of silver from Spanish America into Spain and the attendant increase in prices of Spanish manufactures shattered the artisanal economy of Spain and increased the power of the rural landlords and the *mesta*, the guild of rich Castilian sheep owners. Price inflation may have shifted the income distribution towards capitalists during the Tudor and Stuart periods of British history, but the firm establishment of capitalist production relations required the confiscation of church property under Henry VIII and its distribution among the favoured lords and officials and the final abolition of feudal tenures, as a result of the civil war of the 1640s.

In the pre-colonial periods of China and India, the influx of silver from the Americas may have helped the spread of commercialization as that influx and the trade out of which it originated helped energize trade-related activities in many regions. But again, that did not change the basic social structures of those countries, until colonialism adversely impacted most sectors of their economies (Bagchi, 2005/2006, chapters 9-11, 18). Under colonialism, the influx or efflux of metallic coins, especially those of silver and gold becomes important, because the tribute was extracted in that form, even though such coins or bullion was often used for acquiring commodities, including slaves from a third source and used for consumption or accumulation by the citizens of the metropolitan country. The unremitting imperative of tributary remittance was a principal factor in the Bengal famine of 1769-70, the de-peopling of villages in their hundreds in South India, the de-industrialization of region after region as the British conquered fresh regions of India, from the territories of Tipu Sultan in the South to the Maratha Deccan in the West, and the Punjab in the North (Bagchi, 1996).

Money under capitalist colonialism: India in the nineteenth century

In India, from the time European traders established their presence in long-distance trade, they had been influencing the nature of money and use of gold and silver in many different ways (Bagchi 1982). On the one hand, they brought in silver that

supported extension of exchange networks in the country. On the other hand, they tried to control trade as monopsonists wherever they could, they tried to direct the flows of silver in their chosen direction, and where they could establish a territorial and tributary presence, they substituted payment of dues in kind by payment in the preferred metallic coin.

These activities, of course, reached their peak when the British conquered Bengal and then set about conquering the rest of India. India had a trimetallic system under the Mughals and the successor states before the establishment of British suzerainty. This was also the system prevailing in England before the eighteenth century (Habib 1987; Styles 1980). Silver was the dominant currency in most of India except the Southern region, but gold was also used for high-value payments in Northern India.

Let us start talking about the institutional structure of the Indian political economy, which shapes the relations between bankers and financiers of various sorts and their customers from the poor peasant and the artisan to the industrialists and big businessmen. While pretentiously endogenizing many types of institutional structures in their growth models, few have really tried to endogenize in a systematic passion, the relation of finance to development.

This endeavour has to start with the recognition that finance can lead or simply be a reflection of the forces of growth in the real economy. On occasion, as in many countries under financial liberalization, there may even be an inverse relation between the growth of finance and the growth of the real economy. The Janus-faced relation between the real economy and monetary and financial factors was implicit in the analysis of one of the fountainheads of the theory of the relation between money and growth, namely, David Hume. His essays, 'Of money' and 'Of the balance of trade' (Hume, 1752/1987, 1752a/1987) have been the basic texts of the monetarist doctrines of the price level and the equilibration of the balance of trade. The so-called specie-flow price mechanism holds that if in a world of two countries, say, A and B, in which gold or silver or some other medium of exchange is accepted as the means of payment in both countries, the

country with a surplus in the balance of trade (say, A) will experience an inflow of that medium. But with the same output as before, the price level in A will rise and that in B will fall, so that the demand for the goods produced by A will fall and that for B's goods will rise. Thus in such a world, there is no particular advantage accruing to a country that tries to accumulate the specie in which trade is conducted. However, that is not the only mechanism Hume talks about. In his essay on the balance of trade, Hume (1752a/1987, p. 319) deals with what he calls 'bank-credit' and distinguishes it from credit from particular persons. That particular type of bank credit was later known as 'cash credit' in the banking circles of Britain and countries influenced by Britain, such as India.

Ironically enough, in the colonial context, the system of cash credit became yet another instrument for discriminating against Indian businessmen. The government-backed Banks of Bengal and Madras lent money to European businessmen cheaply because these banks did not have to pay for the government balances deposited with them. For them, cash credit was available. Moreover, bills endorsed by them were also regularly discounted by all the three Presidency banks. Because of the greater prominence of Indian businessmen in Western India and the presence of Indian directors on the board of the Bank of Bombay in its two incarnations, Indian businessmen received almost—though not entirely—the same treatment from it. But the other two banks always demanded hypothecation of government securities or other approved securities for the full value of the loan plus a premium for lending to any Indians. They also discounted bills of Indian businessmen more rarely and generally on more onerous terms than bills of Europeans. These statements would apply even more strongly for credit extended by so-called exchange banks which financed export credit, since all of their headquarters were located abroad and they were exclusively controlled by Europeans (or the Japanese, in the case of one or two banks). Thus Indian businessmen had a far more restricted access to formal and generally cheaper credit than Europeans and effectively paid higher rates of interest than Europeans when they could access that credit.

Menu people and finance: the Indian experience

As far the history or discourse of finance in India is concerned, there is really no excuse for not putting the relations of the *menu peuple* at the centre of our enquiry. The first historian of commercial banking in India, C. N. Cooke was also one of the first to put forward a classification of Indian bankers and moneylenders according to their relations to the wealthy and the poor:

“The Bankers of the present day may be divided into three classes: the City Shroffs, the Zillah Bankers, and the Village Mahajans. The first are chiefly engaged in exchange operations, in dealing with the public stock, and making advances on securities to provincial establishments. The second are the depositories of the monied wealth of the landed families or their creditors, and have a close connection with the internal trade of the country, in which they are often found engaged directly on their own account. The character and functions of the third are well known. In the North Western Provinces, the Village Mahajans are, owing to the impoverished condition of the agricultural classes, and to the severity of the operations of the revenue laws upon them, a thriving, in fact the only thriving class” (Cooke, 1863/1976, pp. 13-14; orthography as in the original source).

Cooke considered the Zillah bankers to be most useful, primarily because, I suspect, they acted as the intermediaries between the Indian borrowers and the European-controlled joint-stock banks. Cooke was aware of the close connection between the poverty of peasants, the nature of the land revenue system and the relative conditions of the *mahajans* and their customers. He devoted a considerable amount of attention to the rates of interest and the *batta* or discount charged by moneylenders and moneychangers in different parts of India, using the authorities of Buchanan Hamilton, Munro, Tytler and others for his account (Ibid, pp. 25-28). He defends the Indian banker against the vituperation of European observers: “The Indian Bankers are just what the nature of their position makes them, and neither better nor worse than what any other class of men would be under similar circumstances” (Ibid, p. 26n).

British administrators such as Munro or Elphinstone or the commissioners of the Deccan Riots Commission were aware of the close connection between the land revenue system introduced by the British, the deterioration in the condition of the peasantry in most parts of India and the increased power of the moneylenders associated with it. Students of the agrarian history of India such as Binay Chowdhury (1958) or Elizabeth

Whitcombe (1972) have also been aware of these connections, although not all of them grasped the fact that the property rights in land or rather the rights to pay land tax to the state introduced by the British was not equivalent to full property rights in land and the British dispensation that the land tax was to be paid promptly on the date of the *kist* on pain of losing those rights altogether introduced a new source of insecurity for the landholders and the holders of inferior rights (Bagchi, 1992). As I had put it earlier: “.....whereas in Britain the nature of property rights held by a person in land often determined the extent to which, and the form in which he was subject to taxation, in India it was the form of the land tax that determined the nature of property rights in land. It also determined the kind and the degree of security a person with such tax-determined property rights enjoyed in his property” (Ibid, p. 3).

But if you examine the books on the history of finance or the current orthodox literature on finance, you will rarely come across an analysis of production relations or the real economy. In the Indian literature the typical shibboleth is about how to link up the formal or organized banking sector with the informal sector, and the more fashionable current concern is about effecting a larger degree of financial deepening or financial intermediation. The quest of the Indian seekers after firmer linkages of the formal with the informal sector was misconceived for two reasons. First, it ignored the fact that the organized and unorganized sectors had always been integrated in India. The Banks of Bengal, or Madras would rarely lend directly to Indians except on the security of government paper, and the landlords or traders seeking credit would generally have to go through mahajans who would borrow from the two Presidency Banks and then extend the credit to less favoured customers. Generally the khazanchee or cash-keeper or shroff (the designation varied from bank to bank), who would be a mahajan himself would vet the creditworthy mahajans and would bear the risk. Many khazanchees were ruined in the process. In the case of the Bank of Bombay, Indian borrowers considered to be good enough to obtain cash credit were a larger fraction of all borrowers but the procedure would be the same as in the case of the other banks. But, of course, that did not make a great deal of difference to the access of the ordinary cultivator or small trader to the credit given by these government-backed banks.

Very similar mistakes are made by policy-makers who design institutions so as to increase financial deepening. Again, cleverer institutions are not going to deliver credit to the people who need cheap credit but do not get it, without the state being willing and able to act as the final lender of last resort. Furthermore, these policy-makers are also very often avid supporters of opening up, of financial globalization and Basel norms as the shield against malperformance of banks and other financial bodies. Financial liberalization of economies that do not belong to the inner club of OECD countries has resulted in most cases to financial disintermediation, financial shallowing, financial exclusion and financial exploitation. Mexico and Indonesia in the 1990s and Argentina from 2001 can be cited as prime examples of this. A turn towards a properly conceived social history of finance and a social account of finance and putting the menu people at the centre of the analysis would be a big step against such fallacies of financial history and policy analysis in this area.

In the following, I will give illustrations mainly from my earlier work about the way credit and agrarian relations jointly affected the fortunes of peasants. These illustrations refer mainly to the way in which the colonial system impacted on those fortunes. But that system could not abolish the agency of people even under adverse circumstances. Moreover, many of the native states (such as Baroda) retained a system under which land could not normally be sold for settlement of a debt. As a result not only in such states but even in areas that had come recently under British rule, the relations between money-lenders and peasants continued to be shaped for some time by the memory of that earlier practice. For example, in a study of land transfers in the Mau tehsil in the district of Jhansi (which presumably came under British rule after the failure of the 1857 Indian revolt), Kolff (1979, p.61) reported:

The Ahirs of the village of Rewan had, about 1840, when their bankers of Madarwas—a village some four miles away—failed, ‘invited some Marwaris of the jagirdari village of Tori Fatehpur to take up their abode in Rewan and do a friendly banking business. Rewan thus became headquarters of four Marwari firms, which have lent money to the zamindars of most of the neighbouring villages.’ The Ahirs of Rewan, with bad seasons, high interest and extravagant expenditure on marriages, etc. naturally got heavily into debt of the accommodating Marwaris, of

whom two, Pokhar Das and Gopinath, 'have prospered considerably'. The Ahirs' debts, about 1890, amounted to some Rs 40000, this being about twenty times the annual revenue of the village. Yet, for a long time, the number of shares mortgaged or sold was small: the Marwari was often happy to leave the management to the zamindars and to retain as long as possible his image of the accommodating *saraf*.

Under conditions of competitive commerce unrestrained by norms about land transfers, despite this forbearance on the part of the accommodating moneylenders, between 1865-66 and 1889-90, the Ahirs lost 23.7 per cent of their land and the kurmis, another land-holding agricultural caste, lost 24.3 per cent of their land over the same period. The net gainers were non-agricultural castes such as Thakurs, Kayasths, Banias and so on, the biggest gainers being the Marwaris (Kolff, 1979, Table II).

In another case of tradition and agency putting up some resistance against colonial encroachments, we find that at Mirzapore in today's Uttar Pradesh, the new paper currency issued by the government of India did not circulate in the early 1860s because the local shroffs conducted their business in *toras* (packets) made up of Furruckabad rupees bearing the names of particular shroffs. In order to stay in business and keep their goodwill intact, the shroffs gave loans at low rates of interest so as to retain their clients. The Bank of Bengal, on opening a branch there in 1862, found that the interest rate charged by the local shroffs was fully 3 per cent lower than its prime rate. The Bank of Bengal branch, in order to show some profits almost certainly used its balances to speculate in the Furruckabad currency. Ultimately, however, with the patronage of the colonial state at its back, the Bank of Bengal won out (Bagchi, 1987/2006, chapters 21, 24). Other struggles took place between Indian shroffs' ways of doing business and the methods preferred by the Presidency banks in Hyderabad, Indore and Burma, and in all cases, the Presidency banks eventually came out victors⁸ (Bagchi 2007).

The main contentions

First, emphasis on the acquisition of precious metals in the period since the rise of capitalism down to the end of the 1930s was not an irrational hankering after a positive

⁸ For an account of the conflicts of interest between the British Indian government, the Bank of Bengal and the Indian bankers in Hyderabad, see Bagchi, 1987/2006, pp. 1013-1020; for the story of the conflict between Indian bankers operating from Indore and the New Bank of Bombay (which grew up on the ashes of the old Bank of Bombay that collapsed in 1867), see *ibid*, pp. 1087-1091; and for the saga of the conflict between the Bank of Bengal, extending from Akyab, Moulmein and Rangoon to their home base in the Madras Presidency, see Bagchi, 1989, pp. 228-233.

balance of trade as displayed in mountains of gold but was an essential feature of capitalist competition leading inevitably to imperialism. While Keynes savaged the accumulation of gold and silver in India and the East in general, he failed to see that the English state from the eighteenth century on accumulated gold and economized on its use in any territories that it conquered even as it continued to acquire as much silver as possible for trading with Asian countries where Europeans failed to sell any manufactures other than arms until the end of the eighteenth century. When the question of introducing either a gold standard or bimetallic standard into India came up in Indian official circles during the period of silver depreciation, the attitude of the typical British publicist could be summed after the title of an anonymous book, *Silver is for the East, Gold is for the West* (Bagchi, 1997). This is the height of irony, since John Locke when he was advocating the recoinage of silver coins without devaluing them contended that ‘silver was by its very nature the universal measure of value: gold was “not the money of the world and measure of commerce, nor fit to be so”’ (Styles, 1980, pp.172-3). The sterling exchange standard lauded by Keynes in his first book was another device for centralizing all the gold of the dependent colonies, and especially India, in London, as the centre of the global financial market. Keynes continued to bat for such centralization, even as he was becoming sceptical about the utility of the international gold standard for stabilizing the global market.

Karl Marx was neither the metallist nor the quantity theorist as he was made out to be by many authors down to the end of World War II. He recognized the function of credit in providing elasticity to the size of the circulating medium, and he argued, even before Keynes and the Keynesians that a purely domestic money with no link to gold or silver could perfectly take care of domestic investment and it is only when expanded reproduction hit the limit of internationally accepted medium of payment including lines of credit that the constraint of the supply of world money comes up. Ultimately a token universal money such as the dollar has to take account of how much commodity trade can be costlessly traded with it. It is not for nothing that the US rulers saw red and started their criminal war against Iraq when Saddam Hussein began trading his oil in euros rather than in dollars.

True to its inegalitarian essence, money under capitalism has had a dual character even within the same territorial jurisdiction: universal money with low transaction costs for the rich and low-value money with limited acceptability for the poor. This also applies to credit relations as is blatantly evident under neoliberal banking: capture the assets and labour of the poor and exclude them from the purview of low-cost, formal banking (Bagchi and Dymski, 2007).

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