

Trade and Caste in India's Pre-Colonial Political Economy

Module 2

Rethinking Corruption in India HS8.401

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A World of Wealth Without Capitalism

Networks, Hundi, Hawala

India's Pre-Colonial Political Economy

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Starting Questions

How can you have thriving markets, long-distance trade, and complex finance without a modern 'capitalist' economy?

What generates surplus and wealth

Who controls it

How

Precolonial Indian Economic World

- Large, **interconnected markets** across Asia, Africa, and Europe
- India as a major exporter of textiles, spices, precious stones, manufactured goods...
- Economic life **embedded** in caste, kinship, religion
 - These three were the organising principles of economic and political life
- These provided
 - Basis of Trust
 - Predictability
 - Limits of what is possible
 - Guardrails for risky ventures
 - Recompense for loss and failure

Merchant Networks

- From Volga river to Caucasian mountains to Arab peninsula to East Africa to South East Asia to Central Asia
 - Marwari, Jains, Khatri, Chettiar, Nadar, Bohra, Banjara, Khoja, Parsi ...
 - Armenian, Jewish, Arab, Turk, Pathan, Tibetan, Chinese, Malay, Burmese ...
- Diaspora Settlements
 - Community Dormitories and guesthouses
 - Temples and other religious establishments
 - Schools and markets
 - Khatri, Bania guesthouses and banks in Russia, Georgia, Iran, Xinjiang
 - Chettiar banking houses in Rangoon and Penang
- All these **networks based on community trust, not contracts**
- Sophisticated financial and commercial **technologies**



1 Asia, 1500-1800: Trade and Culture

- Asian empires:**
- Ottoman Empire 1683
 - Safavid Empire 1512
 - Mughal Empire 1707
 - Qing Empire 1800
 - Korea 1800
 - Japan 1800
- Predominant religions:**
- Animism
 - Buddhism
 - Buddhism with Confucianism
 - Buddhism with Shintoism
 - Christianity
 - Hinduism
 - Islam
- Jesuit travels in the 16th century**

European possessions, 1650

Region	European Possession	Year
INDIA	Dutch	1602
	Spanish	1565
	Portuguese	1505
SOUTHEAST ASIA	Dutch	1602
	Portuguese	1511
PHILIPPINES	Spanish	1565
INDONESIA	Dutch	1602
CEYLON	Dutch	1602
CELEBES	Dutch	1602
SUMATRA	Dutch	1602
JAVA	Dutch	1602
INDONESIA	Portuguese	1511
INDONESIA	Spanish	1565
INDONESIA	Dutch	1602

culture:

- major centre of courtly art
- major centre of religious architecture
- centres of traditional Chinese printing
- major centres of Japanese colour woodblock printing c.1650
- introduction of European printing technology

trade:

main European trading ports:

- Portuguese
- Spanish
- Dutch
- English
- French
- Danish

sources of traded goods (specified):

- carpets
- Islamic trade routes

Caste as Economic Organisation

- Caste is (also) a **corporate body**
 - Controls entry, quality, trust in trade and exchange
- Hereditary specialisation
 - Continuity and **stability**
- Community **arbitration for disputes**
 - Moderate to negligible reliance on State Courts of Law
- Caste prestige linked to economic reputation

Trust without Contract

- European Legal Framework for Trade
 - Contracts enforceable by State / Courts
 - Emerged in medieval times
- Precolonial India
 - Trade deals honoured by social sanction and caste rules
 - Religious Oaths; made temples powerful bankers
 - Social excommunication
 - Loss of creditworthiness = loss of social credibility
 - Example: banishment for cheating within Marwari or Chettiar networks
 - State played a negligible role

Hundi

- Bill of Exchange
- Credit note
 - Negotiable and transferable
- Used for remittance, credit, financing movement of commodities
- No physical movement of cash
 - Reduced risk
- Darshani
- Muddati

Type of Hundi	Category	Payable To	Key Feature
Darshani	Sight	Bearer or order	Payable on demand
Dhani-jog	Sight	Any person	No liability on receiver
Sah-jog	Sight	Specific respectable person	Liability on receiver
Firman-jog	Sight	Order of a person	Similar to order bill
Dekhan-har	Sight	Bearer	Payable to presenter
Muddati	Time	Bearer or order	Payable after fixed term
Dhani-jog (Muddati)	Time	Named person	Payable after fixed time
Firman-jog (Muddati)	Time	Order of a person	Payable after fixed term
Jokhmi	Time	Linked to goods	Risk borne by drawer if goods lost
Nam-jog	Either	Named person	Transferable by endorsement
Jawabee	Either	Drawer	Used for remittance confirmation

British Legalised Hundi

Bombay Province



Rs. 2500



NO. _____ 6 As.

DUE 10-7-1951

BOMBAY 12-4- 1951

(86) Eighty Six days after date we.
promise to pay to Seth Mangoomal Bhagwandas.
or order the sum of Rupees (2500) Two Thousand
Five Hundred only for value received in cash this day.

9, Bhupat Bhawan
Ash Lane
yokhle Road (North)
Dadar
Bombay-28

For Nandlal Mansukhlal & Co.
For Nandlal Mansukhlal & Co.

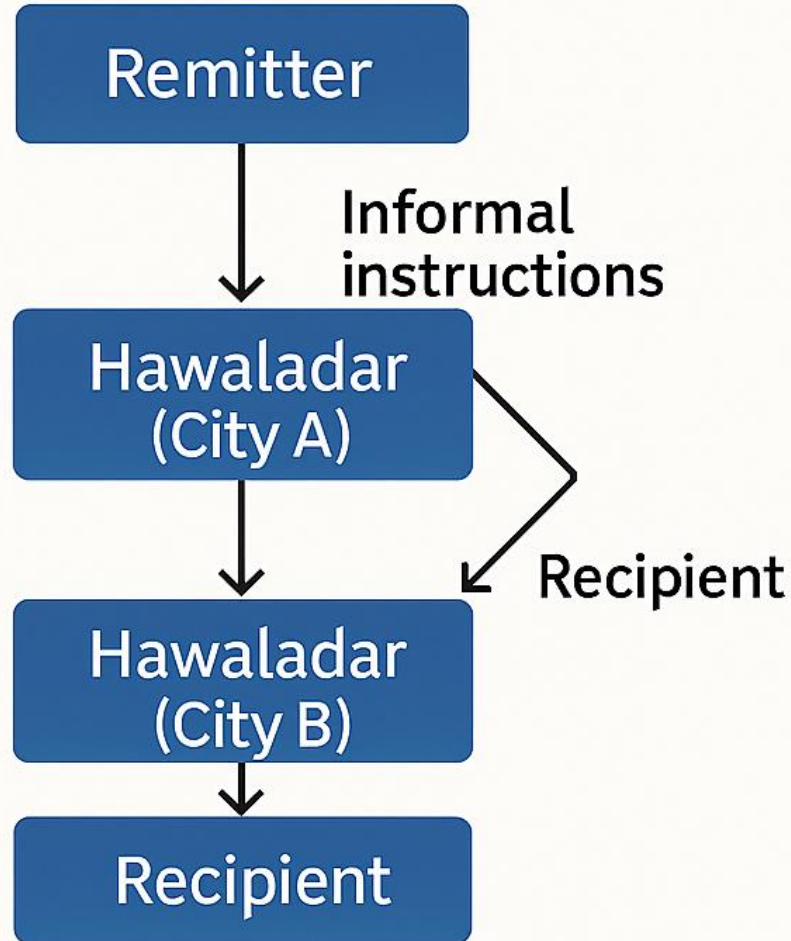
m/bsal Partner.
Partner.

Brokers K. LACHHMANDAS KINGER

Hawala

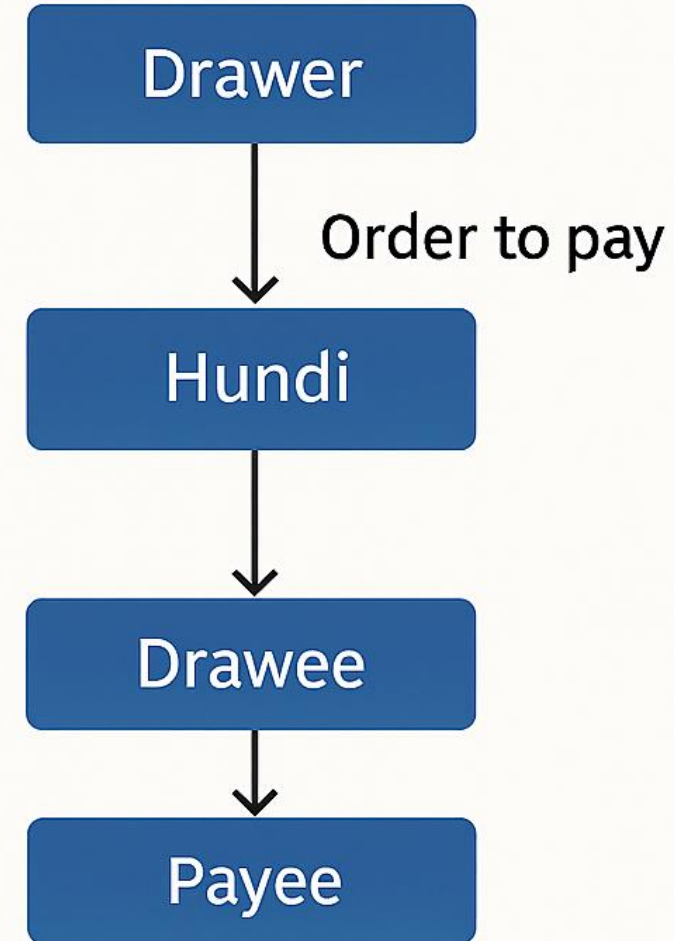
- Instrument of **informal**, trust based remittance
- Marked by **speed, secrecy**, no formal paperwork
- Operated by **balancing of accounts between 'hawaladars'** over long periods
 - Settlement between hawaladars happened later, often through trade goods or netting of accounts.
- Still very **active today** as part of the 'black' economy and for migrant remittances

HAWALA



Trust-based, informal, no physical money movement, relies on hawaladars

HUNDI



Written instrument, legally recognized used for trade credit and remittance

Comparison of Hawala and Hundi Transactions

Obligation and Exchange

- Economic transactions as social acts within a **moral compass**
- Exchange only within primordial relations
 - Create long term **obligations**
 - Reinforce relationships
- Often bound with gifts and marital relations
- Marcel Mauss, *The Gift*
 - In pre-capitalist societies, the **gift is never free**; it creates a **cycle of giving, receiving, and reciprocity which sustain social ties**
 - In pre-colonial India, credit and trade obligations were embedded in long term, often hereditary relationships
 - No free-market pricing on supply and demand; but **terms of trade shaped by obligations of reciprocity within kin and community, and the need to maintain reputation and honour**

Embeddedness of Economic Life

- Karl Polyani: In pre-capitalist societies, the economy is embedded within social, cultural, and political life; it is **not an autonomous sphere** which works only on market logic and cost-benefit analysis
- Primary focus of caste corporations was to reinforce **social status** and hierarchy, political position among a federation of castes
 - Profit was a consequence of success in this
- Access to credit, supply chains, price setting was **determined by community rules, seasonal cycles, religious calendars**, etc
 - Not by anonymous competition in a 'free' market
- Hundi / Hawala system worked because these were embedded in such social structures
 - Did not need, but could work within, universal legal systems of modern state

From Kin to State

- Pre-capitalist economic logic
 - Personal, reputational, trust based, obligation driven exchanges
- Capitalist economic logic
 - Impersonal, contract enforced, profit maximising exchanges regulated by State and Rule of Law
- Obligation to give / receive / reciprocate binds communities
- Under capitalism disembedding of the economy shifts basis of trust from kinship / community to contract and State

Pre-Capitalist Economies	Capitalist Economies
Economic activity embedded in social, ritual, and political life	Economic activity disembedded from social and ritual obligations
Exchange often mediated by caste, kinship, or religious authority	Exchange mediated by impersonal markets and contracts
Wealth accumulation tied to status, legitimacy, and redistribution	Wealth accumulation aimed at reinvestment and capital expansion
No universal equivalent (money not the sole measure of value)	Money as universal equivalent for all value
Production often for subsistence and local exchange	Production primarily for profit and market sale
Surplus redistributed via tribute, feasting, or religious donation	Surplus reinvested for capital accumulation
No formal separation between economic and political authority	Clear legal-institutional separation between economic and political spheres

Relationship with Political Authority

- Merchants (and merchant communities) not 'subjects of law'
 - Negotiated privileges and obligations with kings and various potentates
- Taxes often as tribute, gifts, or 'recognition' payments
- State offered protection for caravans, markets, habitations
- State often drew on merchants for credit and solvency
- Royalty often piggy-backed merchants for trade

Key Points

- Precolonial commerce in India was **sophisticated, decentralised and community-governed**
- Credit instruments like **Hundi** and **Hawala** provided the hard-wiring for commerce without modern state's legal framework
- Trust and obligation were **socially enforced**, not by State
- So what was the State (political authority) in pre-modern times?

Political Authority & Economic Power before Capitalism

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Teaser Question

- Power before the Modern State
 - Kings
 - Potentates
 - Castes
 - Religious institutions
- The politics of tribute
- If the King was not 'Sovereign' like today's State, what was he?

Distributed Political Authority

- Power was **layered**
 - Negotiated
 - Context Specific
- Kings ruled *with* and *through* local potentates, landlords, caste corporations, religious institutions etc
- Sovereignty was **not absolute**
 - God was the only absolute sovereign
 - Earthly power was distributed
 - **Overlapping jurisdictions** and authority was the norm
 - Overlap along lines of territory, time, demographics....

King's Role

- **Protector** of Territory
- **Patron** of Religion
 - Which itself was a source of political power
- Protector of social order
 - Tied to religion and social institutions
- **Arbiter** of disputes irresolvable by these
- No central bureaucracy
 - Relied on intermediaries for revenue collection and law enforcement
- Legitimation through rituals
 - **Loyalty to person of king**
 - Coronations, Religious Endowments, Festival Patronage

Local Potentates (sub-kings)

- Raja, Nawab, Nayak...
 - Exercised substantial autonomy
- Hereditary Rights to collect revenue
 - *Jagir, Zamindari*
- Obligation to the King
 - Personal fealty and loyalty: Accept Overlordship
 - Tribute
 - Military service

Caste Corporations (Guilds)

- *Shreni* (guild like bodies) and *jati panchayat*
 - Self-regulating authorities
 - Combined judicial as well as executive powers around customary laws
- Controlled trade
- Adjudicated disputes
- Maintained internal discipline
- Negotiated with rulers and other caste corporations on behalf of their members
 - Terms of trade
 - Duties and exemptions (privileges)

Taxation in a Pre-Capitalist Economy

- Not a uniform system
- Different authorities had **different, differentiated demands**
- Mix of cash, goods, services, labour obligations
 - All a form of **declaring loyalty and submission** to that particular authority
- Income from
 - Land Revenue (agriculture)
 - Cess and taxes on trade
 - Loyalty Payments (*Nazrana*)
- Framed as share of produce, not as modern tax

Tribute / Gift as Political Instruments

- Tribute paid to varied hierarchy of Rulers was both
 - Economic extraction of surplus
 - Symbolic subordination of status
- Gifts and Tributes overlapped
 - Reinforced loyalty
 - Created reciprocal obligations
- Rulers distributed received wealth through patronage

Gift Economy and Political Power

- Drawing on Mauss
- Gifts bind giver and receiver in durable relationships
- In politics, gift giving sustains alliances and legitimises authority
- Wealth displays as political theatre

Legitimacy without a Constitution

- No written social contract
- Legitimacy rested on divine sanction, custom, reciprocity
- Authority was embedded in relationships
- Not abstract institutions and processes
 - Justice was personal
 - Rather than impersonal

Comparing to the Modern State

- Modern State
 - Centralised
 - Uniform Law
 - Impersonal Bureaucracy
- Pre-Modern State
 - Decentralised authority
 - Negotiated Power
 - Personalised justice
- Political authority worked through integration
- Not Monopoly of Violence

Something to Think About

- If taxation was negotiated and tribute was reciprocal, was it 'exploitation' in the modern sense?
- What would corruption be in such a system?

Key Points

- **Wealth, Legitimacy, Power are interconnected** before Modern legal frameworks
- Pre-colonial political authority was diffuse and relational in India
- Caste corporations **shared governance** with kings, nobles, zamindars, and religious institutions
- Tribute and gift were central to political economy
- ‘Corruption’ as we understand it, does not map neatly onto such a system
 - Helps explain why many pre-colonial practices were later reframed as ‘corruption’ under colonial laws

Sacred Power Sacred Wealth

Ritual Authority & Surplus Extraction in late Medieval India

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Moral Authority

- How did religion and its institutions become a mechanism for economic power?
 - Temple, Akhara, Matha
 - Mosque, Madrasa, Dargah
 - Monastery
 - Pilgrimage

Ritual Authority

- Authority rooted in
 - Sacred knowledge
 - Divine Sanction
 - Religious Office
- Legitimises Rulers
- Shapes norms
 - Vectors of giving and receiving
 - Status and Obligations
 - **Moral Economy** (Dharm, Deen)

Economic Actors

- Religious institutions were often large landholders
 - Large **endowments of land, gold, produce**
 - Regular payment of **donations** and contributions
- Religious establishment became the **nucleus of an urban settlement**
 - Relative safety and security for money and commodities
- Functioned as **credit institutions**
- **Stored wealth** and participated in financial and commercial networks

Temple Economies

- Stores of Wealth and Credit
 - Merchant financed endowments
 - Hundi
- Patronage and Management of Trade/Commerce affairs
 - Food, Shelter, Security, mediation, granaries, artisans and handicraft manufacturing
- Festivals as Markets
- Religious Institutions involved heavily in trade and commerce
 - Srirangam, Madurai, Tirupati, Jagganath, Kashi Vishwanath, Kamakhya, Somnath, Nathadwara...
 - Ajmer Sharif, Nizamuddin Dargah, Sirhindi Khanqah, Hazratbal ...
 - Hemis, Thiksey, Tabo, Key, Tawang, Rumtek ...
 - Shatrunjay, Girnar, Nathadwara, Ranakpur...

Surplus Extraction by Religious Institutions

- Donations, Religious taxes, pilgrimage fees
- Labour obligations
 - Buildings
 - Water
 - Roads and river crossings
- Redistribution
 - Feeding pilgrims and travellers
 - Funding festivals and markets
 - Supporting artisans
- Surplus extraction embedded in the cultural logic of piety, morality

Political Power of the Sacred

- Major Shrines Legitimised Rulers
- Religious institutions and Leaders mediated disputes
- Important role in diplomacy and war/peace negotiations
- Shared sovereignty with political rulers over the same masses

Sacred Gift

- Sacred Gifts carry **moral weight**
 - Binding obligations
 - Creates its specific networks of reciprocity
- Offering to the deity / divine
 - Ring-fenced and secure from political interference
 - Protection from fraud and robbery
 - **Available as funds as well as political leverage for members of the religious institution**
- Wealth display and philanthropy create social networks
 - Reinforce status and credibility

Contestations

- Rival religious orders and institutions compete for patronage and profit
- Merchant networks / Caste corporations important
- Rulers shifting support between religious institutions and orders
- Conflicts over trade, lands, revenue
- All these often reflected as religious conflicts
 - Reported in documents and records as moral lapse / breakdown of religious piety

Comparing to Modern Systems

- No separation of religious and profane
 - State and Deity were fused
- Commercial practices were ritualised, not bureaucratised
- Accumulation / Extraction of Surplus, Financing Trade, Logistics, Redistribution were controlled by religious sanction
 - Divine Gift
- Ritual authority was central for
 - Legitimacy of power, of profits
 - Commercial credibility
- Moral Economy
 - Honour and reputation are key economic assets

- What would wrongdoing and corruption mean in a world where trade and commerce, as the exercise of political power, were embedded in religion and divine sanction?

Legitimacy and Corruption in a Pre-Capitalist World

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- If there is no “rule of law” in the modern sense (which says everyone irrespective of status is equal before the law), what does corruption mean?

Recap

- Caste based trade and finance
- Decentralised political authority and tribe
- Ritual authority on surplus extraction, accumulation, circulation
- All operated without capitalist economy or modern contracts

Pre-Modern Legitimacy

- Rooted in
 - Custom
 - Religion
 - Lineage
 - Local consensus (tradition)
- Enforcement by caste councils, religious bodies, rulers
- No single, codified, legal system
 - Overlapping Jurisdictions
- Legitimacy was rooted in a **moral code** which was deeply internalised and **intertwined with family and religion**

Illegitimate, Wrong, Corrupt

- Who is illegitimate/ Wrong / Corrupt
 - Pre-Modern societies blurred the distinction between public and private
 - Ruler who failed to uphold divine justice or protect subjects
 - Merchant who cheated or regened on word
 - Religious leader who broke the customs and protocols
- Against accepted norms and religious codes
 - Being 'just' or 'fair' is to adhere to these
- To be corrupt is a moral category
 - Breaks the sanctity of social, kin, economic relations
 - Cheating, thievery, etc is primarily a moral offence, only then an economic one
 - The loss was to reputation, personhood, status

Potlach and Legitimacy

- Competitive gift-giving as assertion of power-status
 - Spectacular ways to give away wealth, disdain for wealth
- Festivals, charity feasts, grand constructions
- What appears 'wasteful' expenditure is investment in honour, legitimacy and social status
- Accumulation → Display → Legitimacy
- The status-power holder cannot deny the legitimate claim of those who are his subsidiaries
 - Patronage and Gifting seen as duties (dharm), not corruption
- Big-Spectacle Spending, Opulent Generosity, Signal Moral Authority and Trustworthiness in their Networks

Breakdown of Legitimacy

- Failure to uphold the moral code
- Religious misconduct or neglect of ritual obligations
- Failure to sustain patronage of own community and meet expectations of gifting
- Taxation without gift and reciprocity based redistribution
- When money is used merely as money and not as a moral currency
 - Moral Code need not be aligned to modern ideals

Kin Solidarity

- Kinship equals Trust, Security, and Obligation ties
- Reduced risk and underlined credibility
- Familial relations and loyalty enforced payment and promises
- Seen as Moral
 - Supporting Kin was not just pragmatic, it was duty
 - Not favouritism
- Wealth circulated within trusted circles
 - Let to community resilience
- Not against fairness and ethical codes, rather a demand of these
- What is public and what is private

Key Takeaways

- Pre-modern legitimacy was **relational** and **moral**
 - Not legal and rational
- Wrongdoing was judged via customary authority
 - Not abstract law (rule of law)
- Projecting modern notions of 'corruption' back to the 17th and 18th century cannot help us understand or explain what was happening
 - Similarly, forgetting that our **past customs, habits, idea(l)s are still a living presence** risks misunderstanding how power, authority, legitimacy, and status actually works

Transition to Module 3

- Colonialism brought
 - Codified law
 - Bureaucratic State
 - Capitalist Market; where everything could be commodified
- Formal Economy and Informal Economy
- Public World and Private World
- Western and Indian
- How does the idea of corruption and wrong-doing emerge in this context