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Financing the Raj: The City of London and Colonial India, 1858-1940

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In 1920, Sir Lionel Abrahams, an Assistant Under Secretary of State at the India Office, likened India's finances in Britain to 'rivers running into a lake on one side and so many rivers running out of the lake at the other side'. David Sunderland, who quotes Abrahams at the beginning of his study, elaborates the metaphor of rivers, lakes and streams into a 'highly complex ecosystem' connected by the City of London (itself a 'much larger system') to the 'vast ocean of international finance and trade' (p. 1). The structures of Victorian high finance can be imagined in different ways, yet the Raj's affairs in the City were indeed complex. They also mattered for many reasons. By the end of the 19th century, Britain's trade surplus with India allowed the country to balance its payments with the rest of the world. British investments in railways and other infrastructure promoted Indian trade and lined the pockets of the British rentier. The India Office's weekly auctions of Council Bills supplied rupees to bankers and its silver purchases occasionally moved the bullion market. Finally, the Indian cash and investments held in London to cover a variety of commitments, including payments for interest, pensions and government stores (the 'Home charges'), were an enormous pool of liquidity available for short-term lending to City institutions and ultimately the defence of the gold standard itself. Whichever way you looked at it, Britain's Indian empire was a bulwark of the metropolitan economy and a source of considerable business for the City of commerce, capital and credit east of St. Pauls. (1)

Unsurprisingly, there is a long academic tradition of writing about Indian finance and exchange. Famously, John Maynard Keynes, happily re-settled at King's Cambridge after his own brief career in the India Office, made them the subject of his first book, published in 1913.(2) The more recent studies by Bhattacharyya and Banerji are well-known.(3) Sunderland's monograph, as the title suggests, focuses on financial operations in London itself. In this respect, it is an extension of his earlier administrative histories of the Crown Agents, who managed the finances and other business of the dependent colonies in Britain.(4) By making comprehensible the 'ecosystem' of Indian finance, Sunderland wants to refute nationalist allegations that the Council of India and an associated 'Lombard Street clique' wasted Indian taxes on costly favours to City friends while also subordinating Indian interests to the London money market. He approaches the task through a detailed examination of the methods and mechanisms of public borrowing, money transfers, and investment. By showing how and why the complex system worked, Sunderland aims to establish the essential probity of India’s financial guardians.

The book is in four unequal parts. The first four chapters deal with aspects of capital market operations on account of the Government of India and the guaranteed railways, including London sales and purchases of rupee denominated debt. A single chapter covers silver bullion purchases for coinage, including the 1912–13 scandal over the secret engagement of a firm of dealers with family connections to the Under-Secretary of State and other Liberal politicians. The scandal ran parallel with the Marconi affair and finally prompted Asquith to appoint the 1914 Royal Commission on Indian Finance and Currency.(5) Four chapters explain the management of the exchanges (including the operations of the ‘exchange banks’ which financed private trade) and the Raj’s monetary transfers to Britain. Finally, two chapters examine the investment of the three reserves of cash held in London: the gold standard and paper currency reserves, and the home balances. A brief conclusion interprets these activities in terms of principal-agent theory, social capital and trust.

The level of detail is often painstaking. The otherwise obscure Mysore Debenture Sinking Fund, for example, makes the briefest of cameos when we learn in the context of a discussion of the operation of sinking funds that, exceptionally in 1921, Indian government securities were purchased for early cancellation from that source rather than through the open market, ‘resulting in a small saving in broker commission’ (p. 60). Indeed, it would not be too much of an exaggeration to describe the study as a virtual handbook of Indian government finance in London, with each factor affecting the management of Indian public funds carefully listed and summarised. Broadly speaking these operations might be divided into two categories: those peculiar to the Indian finance itself, most obviously the system of Council Bills and the management of balances held to cover the Home charges, and those where India was simply one participant amongst many others in the City’s major markets. The value of Sunderland’s study is what we can learn about both the intricacies of financial administration and the bigger picture.

As regards the latter, for example, the opening four chapters on Indian borrowing add to our understanding of the development of London’s capital market from the mid 19th century. Sunderland may not have fully appreciated the finer distinctions between different classes of borrower and consequently misinterprets some sources (it is unlikely, for example, the evidence collected by the 1875 Select Committee on Loans to Foreign States is relevant to the Indian case), nevertheless his research confirms how closely India followed the general pattern for British colonies, and conversely how different that pattern was from that for foreign governments.(6) The India Office, like the other empire borrowers, employed agents rather than contractors (who bought up all or part of an issue); its selling methods progressed from private negotiation, to open tender (first with secret, then with advertised minimum prices), to subscription at fixed prices; and in the 1880s it largely replaced debentures to bearer with inscribed stock whose ownership was registered. Although it is not immediately clear in Sunderland’s account, it is also likely that the ‘syndicates’ involved in tendering for Indian debt were formed independently, rather than on behalf, of India’s loan agents. In almost every respect, the market for colonial debt functioned differently from that for sovereign borrowers.(7) It also became remarkably concentrated, particularly after 1905, when Horace Hubert Scott, the broker to the Government of India – whose family had acted in that capacity over several generations – joined the firm of R. Nivison & Co., whose senior partner Robert Nivison (later the first Baron Glendyne) was steadily picking up the loan business of all the self-governing British Dominions except New Zealand.(8)

Sunderland’s conclusions are brief but difficult to argue with. The Raj’s key objectives in the City were the stability of the rupee exchange and the maintenance of Indian credit. The efficient management of India’s finances was essential to attaining both. This understanding of the India Office’s fundamental aims is close to the view of Cain and Hopkins.(9) Disappointingly, however, the larger questions those historians posed about the influence of the gentlemanly order are not considered here. Nevertheless, the implication of Sunderland’s argument is that the India Office’s financial administration in London is only comprehensible in terms of the gentlemanly culture of the City: ‘In reality, it [i.e. the India Office] was a crucial component of a financial ecosystem composed of self-interested institutions and individuals, which survived and prospered through mutual independency’ (p. 213). India’s interests (or, more precisely, those of its masters) were served because agents wanted to maintain their reputations and trust was engendered by relationships that sometimes persisted over several generations. They were bolstered also by exchanges of favours (or 'gifts') that promoted cooperative behaviour. In other words, India's financial advisers and 'service providers' conformed to the same standards as the rest of the City establishment: gentlemen did as they had always tended to do. Relationships of trust and mutual cooperation, however, might often conceal the true location of power. The latter only became apparent when conflicts arose. A running theme throughout Sunderland's study, particularly in the early 20th century, was the persistent tension between the India Office and the Bank of England, which the former was often obliged to employ, over the Bank's charges and the working of India's cash balances.(10) Sunderland even suspects (admittedly with little evidence) it was the Bank that rumbled the India Office with a planted question in the Commons over its secret silver purchases in 1912. Invariably, the officials and their advisers were the ones forced back into line. In these instances, it is hard to avoid the suspicion that financial 'gifts' to the City were sometimes extracted rather than freely given, and those granted in exchange were the rewards for good behaviour.

In summary, Sunderland's study is a valuable addition to the administrative history of the British Empire and its gentlemanly arm in the City. It will be the first reference for anyone interested in the Raj's financial operations in London and a source of leads for those wishing to set India's experience in a wider context. Most importantly, Sunderland shows what kept the complex mechanisms of Indian finance in the City in motion and ultimately made them tick.

Notes

1. The phrase derives from R. C. Michie, *The City of London: Continuity and Change, 1850–1990* (London, 1992).Back to (1)
2. John Maynard Keynes, *Indian Currency and Finance* (London, 1913).Back to (2)
3. S. Bhattacharyya, *Financial Foundations of the British Raj: Men and Ideas in the Post-Mutiny Period of Reconstruction of Indian Public Finance, 1858–1872* (Simla, 1971); A. K. Banerji, *Finances in the Early Raj: Investments and the External Sector* (New Delhi ; London, 1995).Back to (3)
4. D. Sunderland, *Managing the British Empire: The Crown Agents, 1833–1914* (Woodbridge, 2004), and *Managing British Colonial and Post-Colonial Development: The Crown Agents, 1914–74* (Woodbridge, 2007). From the 1840s, the self-governing settler colonies generally took care of their own business though their Agents-General and High Commissioners as well as a variety of financial institutions employed as financial agents.Back to (4)
5. G. R. Searle, *Corruption in British Politics: 1895–1930* (Oxford, 1987), pp. 201–12.Back to (5)
6. A similar point can be made about borrowing for the dependent colonies, Sunderland, *Managing the British Empire*, ch. 6; for contrasts with foreign governments, T. Suzuki, *Japanese Government Loan Issues on the London Capital Market, 1870–1913* (London and Atlantic Highlands, NJ, 1994), pp. 25–6.Back to (6)
7. For details, B. Attard, 'The London Stock Exchange and the Colonial Market: The City, Internationalisation and Power', in *The Foundations of Worldwide Economic Integration: Powers, Institutions, and Global Markets, 1850–1930*, ed. Christof Dejung and Niels P Petersson (Cambridge, 2013); for the foreign market, Suzuki, *Japanese Government Loan Issues*, ch. 2, and A. L. Mikkelsen, 'Red lists, syndicates and underwriting: issuance practices for sovereign loans in the London Market, 1870–1914', seminar paper, Monetary History Group, King's College London, 20 April 2012 (cited with the permission of the author).Back to (7)
8. According to Sunderland, Nivisons was one only of two firms of stockbrokers employed by the India Office (the other being Mullens, Marshall & Co., the stockbrokers of the Bank of England and Commissioners of the National debt) over the entire period from 1858 (p. 32). He also reports: 'Informal underwriting first appeared in the 1860s and involved the recruitment by Nivisons of a group or syndicate of brokers and City institutions' (p. 39). Of course, the origin of syndication and Nivison's activities were not necessarily contemporaneous. Nevertheless this cannot be correct at any time before 1905 for several reasons. In the 1860s, Nivison was still employed as a junior in a Dumfriesshire branch of the British Linen Bank. He did not establish his stockbroking firm until 1886. Just as importantly, until the early 20th century the name that invariably appeared in the prospectuses

for India’s sterling loans as ‘the Broker for the Secretary of State for India in Council’ was one or other member of the Scott family. In fact, the succession of Scotts is usefully summarised in a footnote later in the book. Here, however, the family only appears as the ‘brokers’ who arranged the India Office’s loans to the London money market. Sunderland does report Hubert Scott’s transfer to the Nivison partnership in 1905, but Nivisons are still described with reference to the preceding period as ‘the stockbroking firm that handled the issue of India’s sterling loans’ (p. 194). Nivison’s career and Scott’s transfer (along with the Indian business) is covered in the former’s obituary in *The Times*, 16 June 1930, p.16; for examples of loan prospectuses, *The Times*, 2 October 1877, p. 6 and 10 July 1893, p. 8.Back to (8)

9. P. J. Cain and A. G Hopkins, *British Imperialism: 1688–2000* (2nd ed., Harlow,, 2001), pp. 277–8. Back to (9)
10. There are also many parallels here in other colonial experience.Back to (10)
