

Parching the Land?: The Chettiars in Burma

by

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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.

Tersely and pointedly speaking, Chettiar banks are fiery dragons that parch every land that has the misfortune of coming under their wicked creeping..

(Testimony of a Karen witness to the Burma Provincial Banking Enquiry, 1929).¹

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, 1927).

I.

The economic history of Burma contains a number of contentious themes, but none has been as divisive as the role of the *Chettiars*.² Celebrated as the crucial providers of the capital that turned Burma into the ‘rice-bowl’ of the British Empire, this community of moneylenders from Tamil Nadu were simultaneously vilified as predatory usurers 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 and, indeed, their rates were much lower than indigenous moneylenders. 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.

This paper reappraises the role of the *Chettiars* in Burma. It begins, Section II, by 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* in their Tamil homelands, their arrival in Burma, and their activities in other territories of the British Empire. In Section IV the source of *Chettiar* capital is examined, highlighting the extent to which *Chettiars* functioned as quasi-financial institutions rather than as stereotypic moneylenders. Section V uses modern economic theory to attempt to account for the *Chettiars*’ success in Burma, a success that it finds owed much to strengths in their

¹ Proof that such demonisation lives on in Burma is 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*.

² ‘*Chettiar*’ (often spelt ‘*Chettyar*’) is the honorific plural for the members of the caste that is the focus of this Chapter. 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.

internal organisation. In Section VI 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. Section VII 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.

The opening of the Suez Canal in 1869, however, famously transformed Burma’s prospects as a centre for commercial agriculture and greatly expanded the demand for finance. 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. The price of rice accordingly soared, as did the acreages of land under cultivation in Lower Burma, as Table 1 below indicates:

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

Source: Table derived from data in Cheng (1968:25,73)

Rising paddy and land prices were critical factors in motivating *Chettiar* entry into Burma. 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 colonial state apparatus. Under the *Burma Land Act*, occupiers of land acquired ownership of land via their occupation and payment of twelve successive years of land revenue. 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, transfer and inheritance rights and, importantly, the ability to pledge land as collateral. It was this last ‘alienable right’ that distinguished the imported British land title forms from the categories of land tenure that had existed before the British annexation. 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. In settled areas such land mostly stayed within families for generations who, even if they ‘mortgaged’ the land in some form, retained a right of return. Such land was allodial in 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).

Not surprisingly perhaps, the understanding of British colonial authorities of Burmese land tenure arrangements was, in fact, rather 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 own arrival.

Extent and Importance of Chettiar Operations

The first *Chettians* seem to have arrived in Burma at the outset of British rule – in 1826 accompanying Indian troops and labourers in the train of the British campaign in Tenasserim during the first of the three Anglo-Burmese wars (Furnivall 1956:120). 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 *Chettians* into Burma. By 1880 the *Chettians* 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. 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 1930a:203). Conveying more graphically the ubiquity of *Chettiar* offices, the BPBE concluded (1930a:203) that in ‘nearly every well-populated part of Lower Burma there is a *Chettiar* within a day’s journey of every cultivator’.

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, but once more the BPBE provides an estimate around which most commentators on the *Chettiars* have reached a broad consensus. According to the BPBE (1930a:210-211), Rs.650 million was the ‘unassailable minimum’ of *Chettiar* capital employed as loans in 1930, Rs.800 million being its own estimate but it conceded that ‘Rs.750 million cannot be seriously wrong’. Cooper (1959), Siegelman (1962) and Ray (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.1:1s,6d), 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.

Of course the above are ‘stock’ figures rather than the ‘flow’ (new lending) each year. Regarding the latter, the scarcity of data once more precludes absolute precision, but the BPBE (1930a: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, for example, found that in the (agriculturally important) Hanthawaddy and Tharrawaddy Districts, the *Chettiars* essentially accounted for *all* lending (BPBE 1930b:68). In other regions the economic significance of *Chettiar* lending was disguised by their common practice of financing *other* lenders who in turn lent to agriculturalists. One example highlighted by 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 extent that *Chettiar* money forms altogether two-thirds of all loans’ (BPBE 1930a: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 were held by agriculturalists, the remainder roughly categorised as ‘trade’. Of the loans given to agriculturalists, one component was ‘crop-loans’ – ‘given and repaid every year and corresponding immediately to the annual expenses of the cultivators’ (BPBE 1930a: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 (BPBE 1930a: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 on land. For the *crop* component of agricultural lending the proportion was lower again, with mortgage security backing only around one-third of all loans (BPBE 1930a: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 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 deigned not to notice. 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).

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.

III.

Origins

The *Chettiars*, or more properly the *Nattukottai Chettiars*, came from the Chettinad tract of what is now Tamil Nadu. Chettinad was a collection of 76 villages which, at the time of their activity in Burma, stretched from Ramnad District and into Pudukottai State of 'British' India (BPBE 1930a:190). The *Chettiars* were originally involved in salt trading, but sometime in the eighteenth century they became more widely known as financiers and facilitators for the trade in a range of commodities (Rudner 1994:2). 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* and other indigenous instruments. 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).

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 estimates by Ray (1995:524), compared to 8 to 9 percent at home. Establishing links with European financial institutions, they followed the British Empire into (what were then) Malaya and the Straights Settlements, Burma, and even into ‘Netherlands India’, Siam and French Cochin China (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. By 1920 *Chettiar* lending in Madras was ‘one-sixtieth’ of that advanced in Burma (BPBE 1930a: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 1930a: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. 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, a process of ‘money creation’ is set in motion since, just as deposits create loans, so loans create 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 economics, is the closest approximate in the discipline of economics 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.³ 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 mostly assumed, simply lend out of their own funds and do not take deposits. As such, they are not perceived as performing an ‘intermediation’ function. They do not recycle deposits into loans. They do not ‘create’ money.

Most accounts of the *Chettians* in Burma (for instance, the BPBE, Cooper [1959], Tun Wai [1953, 1962] Siegelman [1962], Chakravati [1971]) explain *Chettiar* funding arrangements in terms of the traditional moneylender narrative – that is, of a relatively unsophisticated financial structure in which the funds employed by each moneylender come out of their own pocket. 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 (1930a:211), working on their figure of Rs.750 million of *Chettiar* loans outstanding 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 *Chettians* that ‘on average about two-thirds’ of the working capital in Burma is supplied by the proprietors’. The BPBE acknowledged that *Chettians* 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, they were seen as constituting a small place in *Chettiar* financing. Putting some numbers to its belief, the BPBE (1930a:213) estimated that around one-seventh of *Chettiar* liabilities (around Rs.100 million) were deposits of non-*Chettians*. 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 noted 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 1930a: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 moneylender 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-*Chettians*. In this sense, *Chettians* did little in the way of financial intermediation, and 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 differed little from the BPBE’s verdict. Tun Wai (1953:42), for example, used the

³ An assurance formalised in modern banking systems via the ‘universal’ minimum capital requirements stipulated under the Basel capital accords.

BPBE's numbers and his own 'back of the envelope' calculations to arrive at a ratio of proprietors capital to total *Chettiar* lending at 60 percent. Once more this was 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'. 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 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, 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 (1930a:214) 'both (*mudal panam* and *sontha thavanai panam*) are in fact the proprietor's capital'. According to Rudner, however, the latter were better 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' (BPBE 1930a: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.

Rudner's findings were 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, 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. 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.

V.

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’.

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), emphasised 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 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* 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 (1930a: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 1930a:209). The arrangement seems to have been enormously successful in creating appropriate incentives for the agent, the BPBE (1930a: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’.⁴ The BPBE was certainly impressed with another aspect of ‘trust’ in the *Chettiars* agency system – declaring in its report (1930a:207) that it had found ‘practically no cases of dishonesty’ between firms and agents.

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 colonial 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

⁴ 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 has generated all manner of strategies, including franchising, incentive contracts, commission-based payments, and so on.

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 (Thurston 1909: Vol.V, 252).

VI

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 Table 2 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 baskets⁵

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 Burma’s 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 (Government of Burma [GoB] 1932:10).

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:

⁵ The ‘basket’ was the standard unit of account for paddy, and was the equivalent of around 21 kilograms.

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

Table derived from GoB (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.⁶ Like much of the vernacular press it called for the outlawing of foreign ownership of land and called upon Burmese everywhere to 'raise an outcry'.⁷ 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.⁸ 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

⁶ The newspaper's claim is cited from BPBE (1930a:198-199).

⁷ *ibid.*

⁸ The response of the *Association* to the *Thuriya* accusations is cited from BPBE (1930a:199).

a living anywhere, and that if newspapers in Burma tried to spoil the good terms now existing between the agriculturalists and the *Chettians* they would close down their Burma business and invest their capital elsewhere'.⁹

Within the BPBE there was disagreement regarding the *Chettians*' 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 *Chettians* in general to become land owners and for this *purpose* to seize land more readily when loans are in arrears' (BPBE 1930a:199, emphasis added). Strong exception to this assessment, however, was taken by the BPBE Chairman, S.G. Grantham of the Indian Civil Service, 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 (1930a: 200):

...the *Chettians* 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 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.

VII

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. 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 *Chettians* of Tamil Nadu. Scapegoats then and now for the misfortunes that heralded the breakdown of Burma's colonial economy, the *Chettians* 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 purpose of this paper has been to demonstrate the central role played by the *Chettians* in the development of Burma's colonial economy. Forming a critical bridge between 'Western' finance and the Burmese cultivator, the *Chettians* were crucial players in the advancement of Burma's 'rice frontier'. In contrast to the received wisdom, however, this Chapter 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 does not

⁹ *ibid.*

conclude, however, that all aspects of the *Chettiars* role in Burma were 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.

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