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The institution of brokerage in India during the 17th Century

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Abstract
Dallals (Brokers) were specialised mercantile professionals who worked as middlemen in commercial transactions. This group seems to have been active throughout the medieval period. The increase in foreign trade due to the arrival of European trading companies led to increase in significance and importance of middlemen. As the European merchants were completely unknown to pattern of marketing and sales, centres of production and native languages of India, they depended on Indian brokers for their commercial transactions. Indian brokers were found in all the major market towns in India including Agra, Surat, Ahmedabad, Patna and many coastal towns. Indian brokers were also found in foreign ports such as Bandar Abbas (Iran), Basra (Iraq), etc. Brokers were a heterogenous group and could be divided into several categories. Some brokers were appointed by state, some worked on contract basis, some brokers worked for one specific client or firm whereas some brokers worked for several clients. Brokers worked independently as well as in partnerships. Some brokers dealt with one specific commodity whereas some dealt with an entire market. There were also sub-brokers and under brokers who worked for well-established brokers.

Keywords – Brokerage, *Dallal, Gumashta, Dadani,* Commission.

1. Sources

The primary sources used in this research are the accounts of foreign travellers such as Bernier, Tavernier, Manucci and Peter Mundy. The records of English and Dutch trading companies are an important source to understand Indian markets and marketing practices. Secondary sources and reference books such as 'Indian Merchants and Entrepreneurs in Historical perspective' by Makrand Mehta, 'Surat in the seventeenth century' by Balkrishna Govind Gokhale and various research papers regarding the brokers and brokerage firms are also used for the purpose of this research.

2. The need of Brokers

The growth of an economy and expansion of market size reduces transparency of doing business. During the 17th century the technology for transport and communication were primitive all around the world including India. In order to conduct transactions in markets that are distant in time and space merchants required services of brokers and agents. The term *Dallal* is of Arabic origin whereas the term *Gumashta* is of Persian origin. Both the terms were used to describe middlemen during the medieval period. The need of brokers enhanced with the increase in foreign trade, arrival of European trading companies and expansion of market in India. In 17th century there was fluctuation of market prices throughout the country due to variation in demand and supply of goods. The buyers and sellers whether Indian or foreigners were competitive regarding market information and market penetration. Market intelligence was crucial in order to create commercial monopoly. This was made possible through specialised activities of a large class of brokers[1].

3. Communities engaged in Brokerage

The community which was mostly associated with Brokerage throughout the medieval period was the *Bania* community. English travellers such as J. Ovington and John Fryer have stated that without the assistance of Brokers belonging to *Bania* caste no one can do business in India as the *Bania* were highly skilled in rate and value of commodities. *Parsis* and Muslims were also engaged in trade as middlemen. *Parsis* became agents of Company officials. The role of *Parsis* expanded later during the rule of East India Company and subsequently during the British Raj. During 17th century the Parekhs belonged to the *Bania* community whereas Rustom Manek belonged to *Parsi* community[2].

[1] Moreland, W.H. (1923). *From Akbar to Aurangzeb*. Macmillan and Co. limited. Page 146.

[2] Sharma, Monika (2012). Brokers of medieval Gujarat. *Journal of B.J. Institute of learning and research*. Page 7.

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4. Role of Brokers

The brokers were present in all the major commercial centres of India. The big merchants did not buy the commodities directly from the markets. It was a convention that the broker used to obtain various types of commodities for the merchant. It was duty of the broker to keep the stock of commodities at the right place. The merchant would later contact the broker and instruct him to prepare the commodity either for shipment or for sale. The main role of the broker was to buy the commodity at the minimum possible cost and sell the commodity at the maximum possible cost. The function of broker was a specialised one. Each class of goods had a separate set of brokers such as house brokers, cart brokers, etc[3].

5. Commission for Brokerage

The fees or commission for the broker was not strictly fixed. The commission depended on various factors such as the type of commodity, efforts of broker to strike the deal, labour involved in procurement of the commodities, etc. Generally, the commission of the broker was equivalent to two percent of total value of transaction[4]. Each party that is buyer and seller had to give one percent each to the broker. Brokers who were employed by big merchants on a regular basis were paid fixed salaries by their employers. In addition to fixed salaries brokers also received some commission in some important or difficult deals. It gave incentive to the broker to strike good deal for their employer. As per the records of English East India company, the salary of brokers during this period ranged between 10 rupees per month to 38 rupees per month.

6. Role of Brokers in Production process

Apart from buying and selling commodities for their clients, Brokers in medieval India played a significant role in the manufacturing sector. The practice of *Dadani* was very common during this period. The word *Dadani* is derived from the Persian word *Dadan* which means advance. This practice was initiated by merchants to ensure the supply of commodities in the markets at low prices. The supply of credit to artisans and manufacturers at low interest rates was termed as *Dadani*. The term *Dadani* means 'giving out' that is providing money supply at extremely low interest rates. One of the reasons for using this practice by the merchants was to control the desired level of production which would ensure desired level of supply in the market. The money advanced to the manufacturers were made through the brokers. In textile industry, Brokers were engaged by merchants to give money to *Paikars* at an interest rate ranging from one to two percent. The *Paikars* delivered the money to the weavers and charged commission from them. As the weavers depended on the capital provided by the merchant their actions were indirectly controlled by them. This process was done through the help of a series of intermediaries or middlemen.

Somji Chitta was a prominent broker in 17th century. He used to employ a large number of weavers and paid them 5 mahmudis 3 paisa. He received 6.25% of textile from the company and made enormous profits[5]. Brokers who enjoyed some control over manufacturing made huge profits.

7. Types of Brokers

Brokers in medieval India can be divided into four categories on the basis of the nature of employment and method of remuneration.

The Brokers which were employed by one particular merchant or company and received a fixed monthly salary were first category of brokers. They were employees of a firm or company and could not provide brokerage service to any other merchant or company. Their duty was to strike the best deal for their employer. In several transactions they were also provided some commission apart from their regular salary.

There were brokers who used to work for several clients. They formed the second category of brokers. They did not receive any fixed monthly salary. They took commission from their clients on every transaction. Their duty was to strike best deal for their clients. They charged commission from both buyer and seller. Kalyan Parekh became the broker of East India company in 1635 and also acted as agent of Mirza Mahmood (Indian merchant). Rustom Manek worked as broker for three European companies during the 1690s[6].

Some brokers worked on ad hoc basis. They worked as broker-contractors and were the third

[3] Raychaudhari, Tapan and Habib, Irfan (2008). *The Cambridge economic history of India*. Cambridge university press. Page 342.
[4] Ibid.

[5] Gokhale, B.G. (1978). *Surat in the seventeenth century*. Popular Prakashan. Page 122.

[6] Sharma, Monika (2012). Brokers of medieval Gujarat. *Journal of B.J. Institute of learning and research*. Page 7.

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category of brokers. They worked on a specific deal or transaction and took commission for that transaction. The rate of commission for broker-contractors was just 0.5% of the transaction. This was due to the fact that the amount of transaction in which broker-contractors were engaged was enormous.

Brokers employed by the state to register sale and purchase of articles at commercial centres formed the fourth category of brokers. State was one of the largest buyers of commodities during the Mughal period.

8. Brokerage firms in India during the Mughal Period

Most of the brokers organized their firms as Hindu undivided family firms. These family firms consisted of investments contributed by all its members or partners. The operations and accounts of these type of Brokerage firms were conducted by Senior family members who had experience as well as expertise. The partners of the firm would assemble together at the end of the day. They would give account of money they received and spent. They would inform each other about the deals they struck on that day.

During the rule of the great Mughals, the two largest Brokerage firms in India were that of Chhota Thakur and Parekh family. The Parekh family worked as a Partnership. Bhimji Parekh had 8 shares, Kalyandas Parekh had 5 shares, Kessodas Parekh had 4 shares and Vithaldas Parekh had 4 shares[7].

The brokerage firms such as the Parekhs consisted of a large number of sub-brokers who worked as employees of the firm. The sub-brokers were commodity brokers which means their services were limited to a particular commodity. Parekhs had several wealthy clients which included Muslim merchants as well as European traders.

9. Conclusion

The institution of brokerage was essential to trade, commerce as well as industrial production. The importance of this institution increased after the direct entry of Europeans in Indian markets. This led to the rise of Brokerage family firms such as Bhimji Parekh and Chhota Thakur. These family firms were organised in form of partnerships with clearly demarcated shares. Some brokers were employed by big merchants or European companies and received fixed salary for their services whereas some brokers were independent contractors who took commission from parties during sale and purchase of commodities. It was difficult to penetrate Indian wholesale markets without the help of brokers. Even Mughal state officials had to employ brokers for market intervention. That is why it can be concluded that the institution of brokerage played a crucial role in the economic history of India.

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