

PROFITS FROM ARRACK RENTING IN NINETEENTH CENTURY SRI LANKA¹

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THE amount of money in circulation in the domestic economy of nineteenth century Sri Lanka was small, and the British did little to encourage its growth. The plantation industry depended on foreign investment, foreign labor, foreign ancillary services (from the British agency houses to the Indian money-leaders, shopkeepers and laborers), low taxes, and speedy repatriation of profits. Even before the last two decades of the century, however, when Sri Lankan lawyers and other professionals, gem dealers, furniture manufacturers and others began to accumulate sizable fortunes, there was some 'leakage' from the estates to the domestic economy. Some peasants produced coffee as a cash crop; carters transported rice to the estates and coffee to the port until they were displaced by the railroad. Of these the greatest beneficiary among Sri Lankans of economic growth was the arrack industry, which gained directly from the growth of the plantations and the incomes they generated, and did so at the expense of the colonial revenues.

'Arrack renting' was the annual lease by auction of the government monopoly on distillation, distribution and trade in arrack (coconut liquro). It provided the capital that many wealthy Sinhalese families built their fortunes on. The government derived much of its revenues in the nineteenth century from tax farming of this sort; it is an ancient and inexpensive form of revenue collection.² Until its abolition in 1892, the paddy tax provided the largest amount of revenue from tax farming. It was divided among many small renters, however, and was closely watched by the administration, so it did not produce the same effect of creating a small number of very large fortunes.

Profits from arrack renting were high because a small group of families from the Moratuwa area dominated the industry.³ They and a small number of other renters were able to conceal from the government their costs and receipts. The government attempted to regulate the arrack renters and their trade through restrictive legislation and *ad hoc* restraints, but with little success. In later generations these families diversified their investments into land, commerce and even higher education for bright young men, and many Moratuwa families left the arrack industry altogether. Nevertheless, arrack was the foundation of the fortunes of these families and the *karāva* caste they represented.

The profits from arrack renting are attributable to high levels of demand, government ignorance of cost factors, and the concentration of renting in the hands of a small number of men. The initial deposit could be borrowed or provided by a partner, while the monthly payments were met from receipts. An initial investment of some size was necessary, in contrast, to purchase land for either development or speculation and the uncertainty was greater.

The arrack renters also rented toll-collection rights, which was a substantial source of income, particularly before the opening of the Kandy-Colombo railway in 1865. The toll-stations on the Kandy-Colombo road and at certain ferries near Colombo, for example, provided as much revenue as all but the largest arrack farms. Toll renting must be taken into consideration to arrive at a complete picture of the income of the arrack renters, although there is no space in this study for a comparable analysis. A detailed study undoubtedly also would show that many twentieth century elites began their rise to prominence as renters of the paddy tax. This was essentially a local-level occupation, however, since a successful renter needed to know the productivity and the seasonal variation in yield of each field.

There are a great many references to arrack in the first four decades of British rule in the correspondence of the governors to the Colonial Office.⁴ Unfortunately, the British were concerned exclusively with the development of arrack as an export commodity, and not with local production and consumption. It was considered a profitable industry. Arrack was sold to the British troops, carried into the Kandyan kingdom, and shipped in small boats to India. The government of Ceylon even tried to get the British East India Company to import greater quantities of the liquor into British territories. However, there are no reliable statistics on arrack production in any part of the nineteenth century, and none whatsoever for the earlier years. When the government experimented with different forms of control of the arrack industry in the 1820's, it was the *karāva* population of Moratuwa that complained, thus establishing their early connection with the industry. In 1829 Colebrooke received petitions from inhabitants of Moratuwa.⁵ "For want of lands fit for cultivation at our village" they wrote, "[they entered]...the business of drawing toddy from the coconut trees and distilling arrack." Again, "the population at our village is more than 7000, a few of whom follow the trade of fishing for six months, a few, that of carpentry, and all the rest earned their subsistence by means of extracting toddy and dealing in arrack".

Part of the trade of Moratuwa was in small boats to the shores of Tamilnadu. The other, and probably greater, part was inland trade to the Kandyan kingdom, which had been land-locked since the Dutch annexation of the remaining Kandyan ports in 1765.⁶ The Kandyans depended on coastal traders for textiles and salt. They also purchased arrack: "a most destructive traffic", complained the collector of Colombo in 1802, "has been carried on from Morottoo (Moratuwa), Pantura (Panadura), and other distilling villages, by carrying large quantities of arrack into the country, and exchanging it for paddy and other raw produce..."⁷ The conquest of Kandy (following an invasion, the pretext for which was retaliation for the mutilation of ten low-country traders by the king) temporarily disrupted this trade but eventually expanded it tremendously. In 1820 the arrack renting system was introduced into the Kandyan territories. The improvement of transportation made it easier for low-country Sinhalese to set themselves up in Kandyan districts as shopkeepers, tavern keepers, and itinerant traders.

It was, of course, the emergence of the coffee plantation economy that created a commercial boom in the interior. Not all of the colonial rulers looked with favor on this development. Thomas Skinner, the army officer responsible for the construction of many of Sri Lanka's roads summed up the effect of the coffee plantations on Sri Lanka as follows:

the influx of European capital, and the extensive cultivation of coffee, has thrown a large amount of specie into circulation in the interior . . . temptations to, and examples of intemperance, and vice of every kind were rife; the most profligate of the low-country Sinhalese flocked from the maritime provinces into the interior.⁸

He touched upon, in his outraged manner, three of the crucial points about the Sri Lankan economy in the nineteenth century: the plantations put money into circulation, much of this money was spent on liquor, and low-country entrepreneurs – if we may substitute a more generous term – were there to sell it to them.

The Arrack Monopoly

Arrack (*araku*) is distilled from toddy, the nectar that collects in the flowers of palms that are cut and bound for for that purpose.⁹ Most arrack produced in Sri Lanka was made from coconut toddy until recently, when a shortage of men willing to gather the toddy (“toddy tappers”) has forced many Sri Lankans to drink an inferior molasses based product. Toddy is sweet when it is gathered but rapidly ferments. This fermented toddy makes *polwākara*, a distillate of varying strength. “Strong” *polwākara*, the first to come from the still is put aside; “weak” *polwākara* is distilled a second time and blended with the strong *polwākara* to produce a potent drink of 45 percent alcohol. About seven gallons of toddy are required to produce one gallon of arrack.

Arrack stills can be as small as the apparatus of clay pots and tubes that produce a gallon or two of illegal “pot arrack” overnight.¹⁰ The smallest licensed still, however, was required in 1868 to have a minimum capacity of 150 gallons and to pay a license fee of one hundred rupees, to discourage illegal distillation. In the late nineteenth century stills were small, usually producing less than 200 gallons of arrack during the season. Arrack can be distilled in any part of the island, but the British restricted it to the Western and Southern Provinces for easier control. The major arrack producing area is in the Western Province south of Colombo, where the fringe of coconut palms along the coast provide abundant toddy.

While the Dutch began the system of tax farming in a small way in the eighteenth century, the British rapidly expanded it. Governor North created the nineteenth century system of annual public auctions of tax collection rights and monopoly franchise in its essentials.¹¹ Then after some experimentation in the 1820’s, the arrack rents settled into a pattern: every stage of the production and sale of arrack was regulated in theory, but the rights to these were sold in practice to a small group of renters. The British remained uneasy about the system. Throughout the remainder of their colonial rule in Sri Lanka they weighed the advantages of the regular income from the renters at little cost to the administration against the potentially greater returns from a costly direct administration of the monopoly.

Under the regulations the distiller could sell his product only to wholesalers or to the renters.¹² Wholesalers were licensed; the profession was open to competition, but they could sell only to the renters, which limited the gain from wholesaling. The renters had exclusive retail rights in the district of their franchise. The distribution was regulated—in theory—in minute detail to prevent fraud. Arrack had to be stored in a locked warehouse

(godown) in a cleared area, subject to regular inspection. The distiller could sell only in quantities of 35 gallons or more. The wholesale price was not fixed, but marketing restrictions held it near the cost of production (approximately one rupee a gallon). On one hand the renter was the only legal market, while on the other the regulations required the wholesaler to dispose of his entire stock before December 31, when the new season began. This attempt to prevent fraud by the distiller and wholesaler gave the renter a monopoly over purchases, and thus control over the distribution.

The right to sell arrack and toddy by retail usually was auctioned by districts called "farms". In practice the tightly-regulated auction became a struggle of wills and wits between the Government Agent (G. A.) and the renter. This essay can suggest only briefly the number of devices used on both sides to raise or lower the sale price, respectively. One example of the complexity of the renting occurred in the size of the farm. Renters purchased contiguous farms for efficiency and to discourage smuggling from nearby farms. Over time, these tended to become single farms. The G. A.'s discouraged this, as it surrendered a great deal of government authority to a dwindling number of men. Yet in spite of repeated schemes by the government to subdivide the farms, there were only 18 of them for the whole island by the end of the century. Of these, the farm of Colombo and its suburbs and that of the Central Province were by far the largest.

Table 1. *ARRACK RENT BY PROVINCE IN 1896*

<i>Province</i>	<i>Population</i>	<i>Consumption (gallons)</i>	<i>Rent (rupees)</i>	<i>Rent per capita (rupees)</i>	<i>Consumption per capita (gills)</i>
Central	263,000	206,521	612,000	2.32	25
Northern	161,000	26,893	113,000	.70	5
North Western	175,000	141,593	323,000	1.84	25
North Central	41,000	7,471	20,000	.47	5
Uva	88,000	32,964	120,000	1.36	11
Sabaragamuwa	142,000	59,039	210,000	1.48	13
Eastern	79,000	27,880	103,000	1.31	11
Southern	249,000	118,221	238,000	.95	15
Western	401,000	399,185	970,000	2.42	31

Source: Sessional Paper XXXI of 1897, p. 21.

Table 2. *ARRACK RENT OF 1896 97: PROFITS*

Location	1	2	3	4	5	6
	Estimated	Consumption	Price per Gallon	Estimated	Rent	Profit
	Silva (gallons)	Ellis (gallons)		Receipts		
(000 Rupees)						
Western Province	563,750	399,185	..	..	..	..
Colombo	412,500	..	5.96	2458	550	1496
Siyane & Hewagam	42,500	..	6.77	288	142	104
Negombo District	75,000	..	6.77	508	180	283
Panadura & Raigam	15,000	..	6.97	105	43	47
Kalutara & Pasdun	18,750	..	6.18	116	55	42
Central Province	300,000	206,521	8.79	2637	612	1725
Southern Province	71,250	118,221	6.05	431	238	82
Northern Province	34,750	26,893	8.07	280	113	132
North-West Province	120,000	141,593	..	..	..	..
Seven Korales	52,500	..	7.50	394	120	221
Chilaw & Pitigal Korale	52,500	..	7.42	390	152	185
Puttalam District	15,000	..	7.59	114	51	49
North Central Province	15,000	7,471	9.46	142	20	87
Sabaragamuwa	67,500	59,039	..	..	..	..
Three Korales	30,000	..	8.45	254	90	134
Four Korales	18,750	..	8.55	160	57	84
Ratnapura	18,750	..	9.00	169	63	87
Eastern Province	34,750	27,860	7.83	272	108	134
Uva Province	30,000	32,964	13.24	397	120	147
TOTALS	1,200,000	1,019,767	7.48	8976	2709	5067

Source: Compiled from *Sess Pap. XXXI of 1897* and [Gabriel de Silva] *Arrack Farming in Ceylon*.

The government agent had two forms of auction available, public outcry and sealed tenders. He was not required to accept the highest bid, or any bid for that matter. If public outcry did not provide what he considered an adequate offer from a qualified renter, the G. A. could call for tenders. When the renter finally bid an acceptable price, the G. A. accepted it tentatively and forwarded it to the colonial secretary for the governor's approval. Even then, the governor, on the advice of the colonial secretary, sometimes rejected bids that were too low. Bids were rejected even when the G. A. produced what he considered compelling reasons for acceptance. The G. A. then had two options: the farms could be rented by taverns in order to get tavern keepers and others with less capital than the renters to invest in the rents, or the farms could be collected in *amani*, directly by headmen. Although these latter two methods appealed to some G. A.'s, they invariably provided less revenue and caused a great deal more work for the *kachcheris*, because of government ignorance of the market.¹³

Bids were rejected so frequently by the G. A. and the governor because they expected open competition to drive up the rents close to the renters' costs. The files overflow with frustrated correspondence between the colonial secretary and G. A.'s who could not induce another renter to raise an outrageously low bid. Their problem was that the demand for arrack rents was limited to a small interconnected group of men. Their bids reflected not only the rational calculation of profit, but their concern for the goodwill of their fellow renters, the costs of taking a farm from an established renter, and the long-term effects of driving up the rents. All the renters benefitted from keeping rents low, and in this sense, competition was between the renters collectively and the government as much as it was between renters.

When rents failed to rise, the British assumed that a "syndicate" of renters conspired to keep them low. Although the idea of a syndicate has become fixed in the literature, there is little evidence of such a conspiracy. In fact, the records of the annual auctions confirm the uncertainty of the bidding. When tenders were called for, occasionally a renter would submit a fraudulent bid under a servant's name just to discover what a rival had bid. On the other hand, there were probably as many cases of over-bidding in the frenzy of an auction as there were of outright collusion. The threat of renting farms by tavern or administering them in *amani* strengthened the G. A.'s bargaining position. On balance, the tortuous process of bidding and re-bidding, pursued by the G. A.'s with occidental cunning to force bids higher, seems to have extracted the maximum the renters were willing to pay.

The lawful tippler bought his arrack at a licensed tavern. The price was fixed and marked on the side of the glass. The customer could buy up to two quarts to take home for personal consumption—not for re-sale. The tavern was allowed to sell in larger quantities, but in these cases a written receipt must be issued to discourage fraud. The legal price was raised from rupees 2.60 a gallon to rupees 3.20 and then to rupees 4.48 in the 1870's. The renters either sub-contracted the taverns to tavern keepers or operated them directly by the employees.

Renters were obligated to pay the government in twelve equal installments due on the last day of each month. Arrears were charged nine percent interest, less than the normal interest rate of twelve percent. To ensure payment the government required an initial deposit of ten percent of the amount contracted and surety for one-third. The deposit was in cash, but, the surety was usually in the form of title deeds to land which were hypothecated for the term of the rent by the renter and his partners. If an installment fell more than one month in arrears, the contract could be cancelled and the farm re-sold to another renter. The amount of the new contract would be subtracted from the first one, and the first renter was liable for the balance. Since the resale was invariably at a lower rate this was usually a substantial amount. The surety of the defaulting renter could be sold to pay this balance. In theory, therefore, the government's share of arrack revenue was almost guaranteed.

This system worked well in many ways. From 1840 to 1845, while arrack exports declined by nearly 70 percent, government revenue from the arrack monopoly rose 44 percent, from 41 thousand pounds to 59 thousand pounds.¹⁴ In the second half of the nineteenth century it provided up to sixteen percent of government revenue in return for the minimal costs of auctioning the arrack monopoly, recording the payments and inspecting taverns and warehouses, (Table 3). The costs of production, collection (except for defaulting renters), and prevention of illicit manufacture and sale were met by the renter. The government felt certain that the system allowed a minimum of illegal sales. They expected the licensed renter to prevent illicit distilling and sale, since any such sales would reduce his (presumably) narrow profit margin.

These welcome receipts never quite overcame government suspicions that it did not collect all the revenue potentially available; as the government minimized costs, it also minimized surveillance. The government's ignorance of the industry was summarized by the Auditor-General in 1886:

little or nothing is known of the consumption of arrack, or the sufficiency of the supply, of the quality of the spirit, or, in fact, of anything connected with the subject, except the amount to be annually recovered from the renters, a portion of which amount is frequently paid in arrears, and is recovered only after much trouble and annoyance, and sometimes is not recovered at all.¹⁵

They could not tell what a fair price for the rents would be, and the agent who sold them would have to infer from the behavior of the renters and other indirect evidence what the maximum revenue should be.

Ignorance of the industry produced two defects from the British point of view: on the one hand, arrack renters sometimes accumulated conspicuously large fortunes, while on the other hand the rents did not always increase from year to year at the rate anticipated by the G. A. and the secretariat. As long as the renters made their payments regularly, these defects could be tolerated. They became intolerable from the G. A.'s point of view, however, when revenues declined or the renters fell into arrears. In the first case, the G. A. had to explain decreases in revenue under any heading in the revenue to the governor in the annual administration report. The first and foremost entry in this report was a comparison of

aggregate revenue for the current year and the previous one, and the G. A.'s career rose and fell with the balance. In the second case, official correspondence of the period contains extended discussion on arrears. G. A.'s were required to carry them for years, long after any possibility of collection had passed, until the colonial office gave permission to strike them off.¹⁶

There was thus a built-in tension between the G. A. and the renter. The G. A. depended on efficient renters to maintain the revenue at a high level, yet the most competent renters were the most difficult to administer. Every G. A., for example, deplored the tendency of renters to make their monthly payments irregularly and late. Most renters seemed to prefer to incur the small interest charges for late payments. They paid in numerous—up to 200—small payments in sacks of coins apparently brought directly from receipts. This caused not only additional clerical work, but a distortion in the records. And when December's payment did not come until January, it lowered the figures in that year's revenue report. Furthermore, renters used default as a means of defrauding the government.¹⁷ In some cases the G. A.'s were unable to sell the deeds put up as surety to recover the balance owed by a defaulting renter. Occasionally the title would be invalid, or else the same land had been hypothecated for another rent, in which case the land could not be sold. Even when the deeds could be sold, appraised values were invariably much higher than the market price. Some G. A.'s believed, with justification, that renters bribed the *mudaliyars* who appraised the land; others found that the original owner dissuaded potential purchasers in order to repurchase the land himself.

An extreme case of renter fraud was the "Kandy Fraud Case" dealing with the default of the renters of the farm of Tumpane and Harispattu for 1879–1880. One deed was "purchased" at an inflated price by one of the renters just prior to the sale in order to hypothecate it at the higher value. Another lot was registered twice and both "owners" had used it as surety. The renter claimed to own all of another lot—and had a bill of sale to prove it—but the person he had purchased it from owned only one-eighth. The G. A.'s were left for years with a large balance of uncollectable arrears.

In practice, therefore, the simple system of tax farming became a time-consuming ordeal requiring constant vigilance on the part of the G. A. In addition, regulations were modified to improve the administration.¹⁸ Payments in coin were eventually prohibited; stricter rules for sureties were passed. The amount of the surety was raised to one-half the value of the rent; the property must not have had any encumbrances, claimants, or have been purchased within the previous ten years; sureties used for one rent could not be hypothecated for another until the first was completely settled; and a renter could not take possession of a rent until all deeds were appraised.

Such rules were unenforceable. Most renters were fully committed to current rents at the time of the sales and could not have found new sureties in time. A G. A. who refused to carry over the surety to another year would have to encourage new renters. Rents would have to be collected in *amani* directly by officials until the appraisals were completed. In practice, therefore, the G. A.'s frequently overlooked these infringements of the regulations, especially where they believed the revenue might suffer by refusing a high bid.

The Profits from Arrack

No direct evidence exists for calculating the profits from the arrack industry. This section of the paper is an attempt to estimate these profits from the extant data, dealing only with the period 1889-1900. These data thus exclude the early pioneers, but they suggest that the arrack industry served to concentrate a disproportionate amount of the wealth generated by the growing export economy in the hands of a few entrepreneurs.¹⁹

The ultimate source of the renters' profits was the growing plantation economy of the later nineteenth century. The wages of the estate laborers imported from South India were the largest source of cash in the domestic economy, but the "leakage" of money from the export economy to the internal economy took other forms also. For example, plantations hired short-term labor from the villages. Until 1868 they paid Sri Lankan carters to bring rice up from the harbor and to take coffee down from the estates. The planters and exporters also purchased coffee grown by villages, and bought local land claims to head off litigation. The "multiplier effect" of consumption provided opportunities for shopkeepers, itinerant traders, and craftsmen. The latter tended to be Sri Lankans from the southwest coast, who were experienced in a cash economy. The export economy created direct opportunities for Sri Lankan entrepreneurs as well as these indirect ones. The "infrastructure" of British Sri Lanka eventually enabled them to export not only coffee but graphite, coconut products, cinnamon and cinnamon oil, other crops, gems and, of course, arrack. All these developments increased the amount of money in circulation.

The economic pie grew much larger during the second half of the nineteenth century with a temporary setback due to the collapse of the coffee industry, 1878-1883. Even after the planters and officials from Britain helped themselves to the largest portions, substantial slices were left for local entrepreneurs. In this society the role of arrack renter provided an ideal economic niche for a small number of these entrepreneurs to maximize their opportunities. Industrialization was out of the question as long as the entrepreneurs had no political influence—there would be few enterprises that would not conflict with British interests. Direct competition with British plantations likewise would have been suicidal. Their best opportunities for the accumulation of capital were in fields protected by the government—and the arrack monopoly and the toll rents were the greatest of these.

The most valuable arrack farms were in the central and western provinces which contained most of the plantations, the port of Colombo and the roads connecting port and plantations. The coffee industry appears to have involved more peasant producers and suppliers to the plantations, and thus more potential arrack customers, than the tea industry. On the other hand, the impact of the transition from coffee to tea may have been to strengthen the bargaining position of the renters. As I show later, the sale price of arrack farms fell further than other sources of revenue and remained low longer, suggesting that profits may actually have increased.

In general the income of the renters was correlated with the state of the economy. It is difficult to pinpoint the exact relationship, and it is useless to make facile generalizations on the basis of other impressionistic evidence.²⁰ Receipts varied also from year to year within each farm, and from farm to farm for local reasons. For example, one of the most vivid

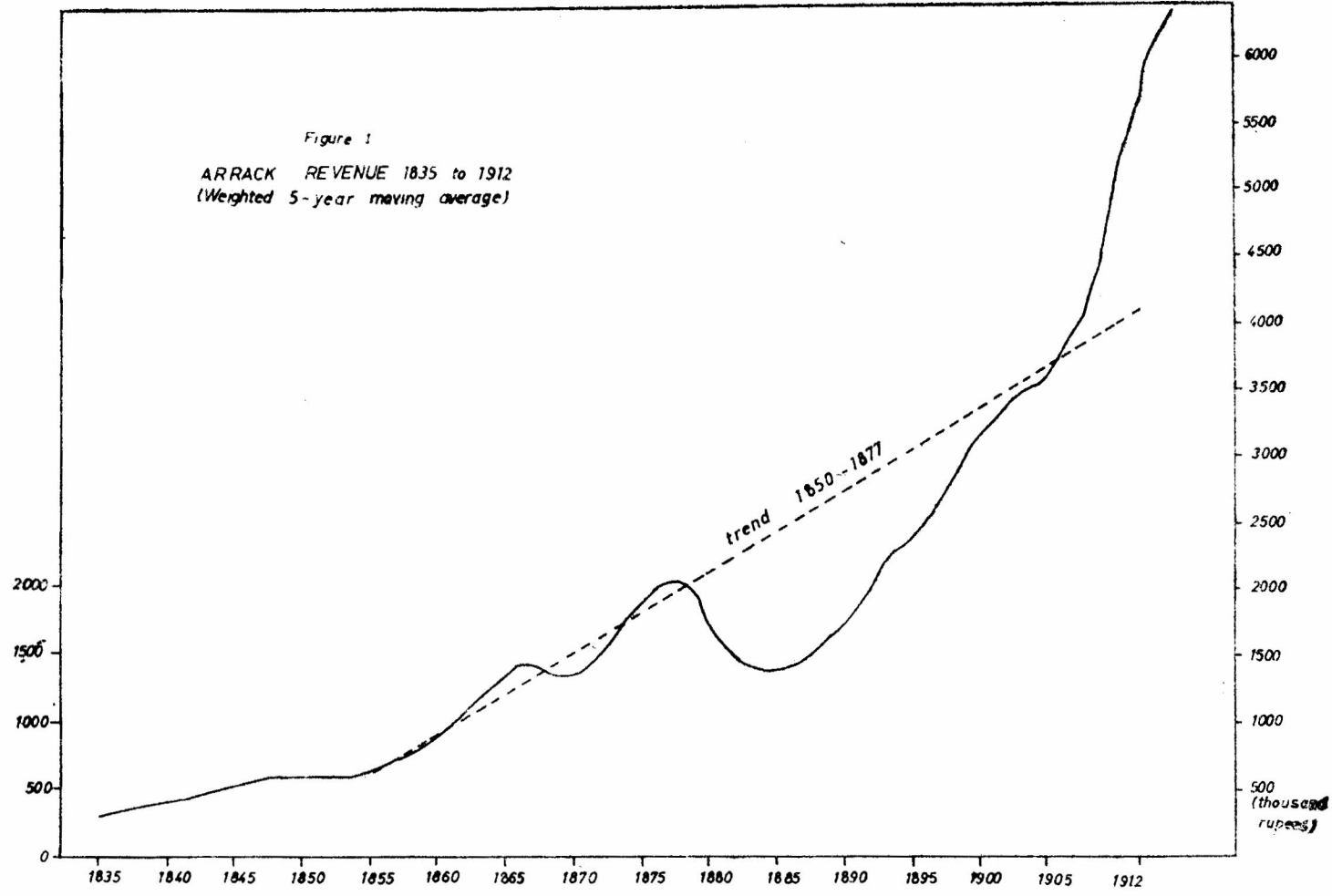
examples of the relationship between British expenditures in Sri Lanka and arrack sales was the change in their value as railway construction proceeded. The values of each farm increased when construction was underway, dropped off as the railway crews moved to other districts, and fell to new lows when the opening of the railway disrupted cart traffic. Of this last, a G. A. wrote. "These figures are a startling proof of the thirsty nature of cartmen, and perhaps account for the losses of coffee, of which complaint was formerly so frequent".²¹

Few Sri Lankans possessed all the qualities demanded of the renters: entrepreneurial skill, wealth enough to post sureties, the local authority to prevent illicit sales, and the boldness to deal on a face-to-face basis with the lordly Government Agent. A renter needed good working relationship with arrack producers, the cooperation of local officials, and the assistance of a large staff of tavern keepers, carters, and watchmen. The few men who could qualify for the occupation were well known to each other.

The handful of renters who successfully held the great majority of rents made high profits because they carried on their business in a highly efficient manner and because they found other lapses in the government regulation of arrack.²² They refused to bid higher not because they conspired with other renters, but because no other renters could bid higher and still make a profit. The difference was the return that accrued to their entrepreneurial skill. I will now turn to an examination of what that return was.

It was apparent to the British that at least a few of the leading arrack renters were accumulating fortunes from the industry, but they were unable to explain satisfactorily how these fortunes could slip past the elaborate network of regulations they created. The simplest explanation, but only a partial one at best, was that a "syndicate" of renters had combined to lower the bids at auctions. The inadequacy of the bids was particularly evident in the 1880's, when the revenue from arrack remained far below the gradually increasing totals the colonial government expected, as Figure 1 suggest. Since the revenue from arrack was exceeded only by customs duties and after 1868, by railway receipts as a source of government revenue, this was a matter of great concern to the government. Before the last years of the century, when arrack revenue rose sharply, the arrack renters appear to have made huge profits, probably getting a greater income from the industry than the government. This section of this essay attempts to estimate the magnitude of their profits.

The information on the rents of the year 1896-1897 are unusually complete due to the investigation of the arrack industry of the year by the government. I will use these and private sources to estimate the gross income from arrack in that year and to arrive at a loose estimate of the years that preceded it. The investigation was carried out by the G. A. of the Western Province, F. R. Ellis, who amassed a considerable amount of data. His conclusions, however, seem to have been greatly influenced by a predecessor, Fredrick Saunders, who was G. A. of the Western Province from 1877 to 1890, the period when arrack rents rose least relative to other sources of government revenue. "Arrack renters", Saunders wrote, "as a rule, make a fair, but not an excessive, profit considering the risk".²³ Ellis maintained this opinion in the face of contradictory data.



Source: Computed from annual Blue Books

Ellis reported that 1,019,767 gallons of arrack were sold in the island in 1897 according to the figures he collected from renters, and 997,719 gallons were sold according to the distillers' figures.²⁴ The 2.2 percent discrepancy seemed minor enough for Ellis to accept them as reasonably accurate. The renters had a vested interest in underreporting their sales, however, and they may have influenced the distillers (some of whom were also renters) to do the same. A Sinhalese proctor with intimate knowledge of the arrack industry, G. M. Silva, reported to Ellis that 1,200,000 gallons was a closer figure. This amount, in fact, can be derived from Ellis' own data. Stills manufactured an average of 5458 gallons of arrack at 19° to 20° under proof on the Sikes scale, or 46 percent alcohol. Pure arrack was not sold, however, but was first mixed with variable amounts of the first distillation of toddy (*polwākara*), which was only half strength. Ellis discovered, but did not take into account in his estimates of consumption, that the arrack sold in taverns varied from 25° to 40° under proof. After deducting exports, assuming that arrack was sold at an average of 30° under proof, or 40 percent alcohol, this would give a total of 1,225,000 gallons sold.

Most commentators have assumed that arrack was further adulterated at the tavern.²⁵ Ellis denies that this was so, although his explanation (that dilution with water alters the taste distinctively) is a feeble one. Even if this were true, it is highly likely that arrack was diluted by the further addition of illicitly distilled (*polwākara*) if nothing else. This adulteration would have to take place at the tavern (since warehouses were inspected), so that any extra profits would probably go to the tavern keeper rather than the renter. Although the renter might gain by asking a higher price for subletting the tavern rents, or by retailing the arrack himself, this is not calculated in the figures for renters' profits.

Ellis discovered another source of income for the renters when he demonstrated that patrons were usually shorted when they bought arrack by the glass.²⁶ He had government agents secretly buy 25 cents worth of arrack at selected taverns throughout the island. According to the fixed price, 25 cents should buy nine ounces of arrack. Every glass purchased, however, was less than this, and some tavern keepers served as little as four ounces! The experiment was a crude one, and many doubts can be raised as to its reliability, but it is the only evidence of the market price of liquor by the drink. Ellis' conversion of these prices per glass to price per gallon are summarized in Table 3.

Table 3

SALE PRICE OF ARRACK RENTS FOR SELECTED FARMS, 1859-60 to 1899-1900
(thousand rupees, one pound = ten rupees)

Year	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)	(11)	(12)
1859-60	230	55	90	6	10	14	12	50	116	---	---	467
1860-61	288	77	120	8	12	18	14	57	---	---	---	595
1861-62	269	61	123	8	10	10	10	51	---	---	---	570
1862-63	315	71	110	8	13	23	11	46	---	---	---	598
1863-64	355	87	127	11	10	19	12	60	---	420	20	681
1864-65	328	103	126	12	13	22	14	75	105	457	25	693
1865-66	408	201	156	14	28	29	17	112	165	532	28	865
1866-67	402	90	150	15	24	35	19	123	165	639	31	858
1867-68	402	77	152	14	15	36	17	66	112	478	20	780
1868-69	365	51	138	17	17	21	14	45	80	410	27	669

Table 3 - *Continued*

Year	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)	(11)	(12)
1869-70	353	38	103	20	17	27	12	27	—	429	31	597
1870-71	381	52	120	20	20	31	12	33	119	429	31	669
1871-72	490	67	140	24	24	36	14	39	—	442	36	834
1872-73	555	75	162	28	26	45	17	51	—	562	36	960
1873-74	471	95	160	25	31	40	15	48	—	434	45	884
1874-75	580	98	168	29	33	50	17	47	—	613	46	1023
1875-76	540	85	160	33	38	65	15	60	181	618	75	889
1876-77	387	95	181	36	39	91	18	58	197	799	112	1105
1877-78	570	100	208	36	38	93	14	51	184	762	104	1111
1878-79	505	85	181	31	30	80	16	41	163	640	83	970
1879-80	420	85	181	26	26	61	14	40	160	506	75	852
1880-81	400	76	170	23	20	53	13	30	143	395	57	786
1881-82	415	80	170	23	20	53	13	23	153	416	65	798
1882-83	461	83	152	21	22	46	14	19	123	404	59	818
1883-84	461	84	152	18	18	30	12	15	124	281	54	790
1884-85	462	85	155	20	14	26	17	20	176	251	59	799
1885-86	420	86	156	18	12	26	20	20	127	175	50	758
1886-87	468	76	131	22	15	23	24	20	146	216	43	779
1887-88	456	76	130	22	15	25	40	28	177	276	50	793
1888-89	476	88	143	29	17	28	42	32	166	357	55	854
1889-90	500	82	155	30	18	—	—	—	197	356	74	905
1890-91	551	93	162	38	18	—	—	—	210	380	60	971
1891-92	580	96	175	30	19	37	52	33	250	470	75	1023
1892-93	660	116	190	45	26	44	68	35	323	552	82	1185
1893-94	500	121	195	41	28	38	60	39	256	435	62	1021
1894-95	700	149	229	48	40	43	71	47	—	455	92	1327
1895-96	550	110	180	50	41	44	62	42	294	478	67	1079
1896-97	550	142	180	55	43	63	90	58	323	612	120	1180
1897-98	550	157	180	58	46	—	—	—	359	627	132	1221
1898-99	644	158	194	60	44	—	—	—	352	641	163	1345
1899-00	815	158	209	61	44	—	—	—	355	637	163	1584

SOURCE: Peebles, 1973, pp 361-362.

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|------------------------------------|--|
| (1) Colombo, Salpiti, Lansiyawatte | (7) Three Korales |
| (2) Siyane and Hewagam Korales | (8) Four Korales |
| (3) Negombo and Hapitigam Korales | (9) Seven Korales |
| (4) Kalutara and Pasdun Korale | (10) Central Province |
| (5) Panadura and Raigam Korale | (12) Badulla District/Uva Province |
| (6) Sabaragamuwa | (12) TOTAL Western Province
(inc. Sabaragamuwa) |

Silva estimated the amount of arrack sold in the 17 main arrack farms of the island, rounded off to 25 leaguers (2750 gallons).²⁷ If one accepts Ellis' figures for sale price and Silva's estimate of the amount sold, multiplying the two would give an estimate of the total receipts from arrack sales. In the only case which I have independent evidence directly from a renter's ledgers in that year, it corroborates the validity of this method. The estimate for the gross receipts of the rent of Three Korales for 1896-97, arrived at by multiplying Silva's quantity by Ellis' prices, is Rs. 253,004/38.²⁸ The correlation between the actual and the estimate seems too close to be spurious. There are two points to clear up before considering the profits of the renters: estimates by Silva that are lower than Ellis' figures rather than higher as one would expect, and Ellis' claim that most of the excess profits went to illicit retailers.

In most cases Silva's consumption figures are higher than Ellis'. For the Southern Province, however, Silva gave 71,250 gallons, while the renters themselves reported 118,221 gallons, and for the North-Western Province the figures are 120,000 and 141,593. This is puzzling at first since one would expect renters to underestimate sales, and casts doubts on Silva's figures. These Provinces had high ratios of reported consumption to sale price and to population (Table 2), however, suggesting the possibility that renters might have overreported the consumption in their farms. The most likely reason for overreporting would be to conceal the purchase of illegally distilled arrack, which could be resold at a profit to the more profitable farms of the Central Province and Uva. Both overreported provinces have large coconut-growing areas suitable for the clandestine manufacture of arrack. Renters and wholesalers could purchase this arrack illegally but they were subject to heavy fines if caught. Therefore, to protect themselves they could record the purchase as a normal one from a licensed manufacturer (who would also enter it into his own books). It then could be smuggled into the Central Province, recorded as a legal sale. All shipments from the still to the interior would be covered by receipts and waybills in case of inspections by government officials. In addition to providing profits from illegal arrack, this procedure affected the value of rents. Higher reported consumption in those two provinces would not affect their rents substantially, but underreporting the others might keep the price down. The inflated figures, therefore, can be explained as part of a device to circumvent government legislation.

Ellis rejected his own evidence that showed that arrack renters received more profit from the arrack farms than the government received in revenue.²⁹ He claimed that most of the arrack sold legally was not sold by the glass at seven or eight rupees a gallon, but was sold by the gallon at the legal rate of Rs. 4 80. The purchasers of the gallon then resold their gallon by the glass, he wrote, and most of the illegal profits went to them. This bit of specious reasoning was later ridiculed by Sri Lankan critics of the arrack renting system, since it concedes the point that arrack was sold at higher prices than legally allowed. Ellis never denied that all the arrack ultimately purchased by the glass was sold at far above the fixed price. He merely tried to absolve the renters, which is beside the point, Ellis' conclusion is inexplicable unless one considers it as a conscious or unconscious defence of Saunders' administration.³⁰ Accusing the renters would put part of the blame on the Government Agents who accepted the low bids and who were unable to prevent their illegal practices. It does raise the question of who received the returns from arrack.

I estimate the gross receipts for 1896-97 to have been nearly nine million rupees. At an arbitrary (but reasonable) figure of one rupee a gallon as the cost of producing arrack, the sale of the arrack farms that year for Rs. 2,709,000 left over five million rupees to be distributed among the renters and others. Transportation and distribution costs needed to be paid from this figure. Furthermore, at each stage the renter required the cooperation or acquiescence of many parties—mudaliyars, potential competitors, illicit distillers, police *vidanes*, and local elites, for example. These would have to be either rewarded or (in the case of illicit sales) punished, both costing money.

Illicit sales, in particular, were ubiquitous, due largely to the reduction in the number of taverns. Arrack was sold legally by retail in licensed taverns. In 1860 there were over 1600 of these throughout the island, but successive waves of temperance reform lowered them steadily to 1500 in 1870, and to less than 1000 in 1891. Further more, the taverns were unevenly distributed through the island. In Uva and the North-Central Province there were only one or two taverns for every 10,000 adult males, while in the Eastern and North-Western provinces there were ten.

Few villagers could afford to buy arrack in large quantities to keep at home. The most likely possibility would have been that a renter or tavern keeper would advance arrack in quantity (in the guise of a legal sale) to a villager for resale. The renter may or may not have lost some of his profits. One would expect the wealthier and more powerful renter to strike such a bargain on his own terms. That is, he would be in a position to require an additional payment from anyone who purchased arrack by the gallon to resell it by the glass—since that illicit retailer had no restrictions on his price. It would be reasonable to conjecture that renters would prefer such an arrangement in localities where the maintenance of a tavern would be too costly or where illicit sales were difficult to control.

On the basis of these considerations, I would estimate that half of the gross receipts after paying for the arrack and the rent would remain as the net profit. Thus the renters received as much from the sale of arrack as the government did in 1896-97. It remains to project these figures backward to the preceding decades when the fortunes of the renters were being established. It is important to realize that by this time the sale price of the franchises were shooting to new heights. In the 1880's, the revenue from arrack hovered around Rs. 1,500,000. In the period 1860-1890 the internal economy fluctuated in response to external conditions—primarily the transition from coffee to tea—and profits from arrack certainly varied widely also. The depression of 1866, for example, is reflected in the arrack rent sales of the following year and in the number of renters in default at that time. The transition from coffee to tea between 1878 and 1883 is the most dramatic change in the Sri Lankan economy in this period, but it has not yet received the microeconomic examination it deserves.

The revenue of the island from all sources fell from Rs. 17 million in 1877 to Rs. 12 million in 1882, after which it rose slowly. These figures represent severe economic dislocation among Sri Lankans.³¹ Many smallholders of paddy fields depended on the sales of coffee to pay their paddy tax, and then lost their fields when this source of income disappeared. For elites, however, this was as much a period of opportunity as of adversity.



Some Sri Lankan families are believed to have lost heavily from the decline of the coffee industry, but few of them had coffee as their primary investment. Resources were quickly diverted to other crops, particularly coconuts and paddy.

Arrack revenue fell steadily from 1877 to 1884, and in some districts continued to decline through 1886. Even then it rose more slowly than other revenue. Arrack fell from a peak of 15.7 percent of the total revenue in 1876 to a low of 10.4 percent in 1888. Superficially, therefore, arrack consumption was hit even harder than the rest of the economy. Saunders agreed. In 1880 he wrote, "There is perhaps no class which has suffered more from the present crisis than the arrack renters... every effort has been made to treat the renters with consideration, and not to force sales where it could be avoided."³² But this applies primarily to 1878 and 1879, when renters throughout the island defaulted on high bids made the previous spring. In the 1880's bids were only a fraction of what they had been in those years, and it is highly likely that profits actually increased during the period.

Figure 1, which shows the actual revenue collected and not the sale price of farms, graphically illustrates the point. The total rental of all farms for 1897, 2.7 million rupees, is well below the trend line established in the boom period 1850-1877. The steep decline in the late 1870's illustrates the crisis brought on by the failure of coffee. I submit, however, that the arrack revenue fell further than the renters' receipts. Estate laborers, for example, had increased in numbers drastically during the last years of the coffee industry, due to the influx of over 150,000 migrants from famine-stricken Madras in 1876 and 1877. There was also a great deal of labor involved in the transition to tea in the clearing of fields, planting and in the construction of tea factories. In the mid-1880's there were 20 to 25 thousand more adult male migrants in Sri Lanka than in 1875.³³ Yet the sale price of the Central Province and Uva farms fell from 811,000 Rupees in 1876-77 to only 225,000 Rupees in 1885-86. It is likely, therefore, that most of the decline in the arrack revenue was due to the ability of the renters to prevent competition and to convince the Government Agent that their profits were less than they actually were. There is independent evidence of this from the Colonial Auditor, W. H. Ravenscroft, who estimated in 1885 that arrack consumption from 1874 to 1884 averaged 1,034,860 gallons a year.³⁴ It is reasonable to assume, therefore, that consumption remained at a high level throughout the two decades before 1897. If this is so, the renters actually held a larger share of the gross returns for most of this time than they did in 1897. In round figures, receipts could have averaged Rs. 7 million each year, and profits could have averaged Rs. 3 million. If half of this amount accumulated in the hands of the renters, and sales and costs were comparable during the boom years of the coffee industry, their total profits may have been of the order of 50 to 60 million rupees from 1860-1880 equal to three or four years' government revenue. This amount was unequally distributed among the renters, as I show in the sequel to this essay.

Although the British refused to admit officially that renters made such profits, their actions speak volumes to the contrary. By a variety of means, the Government Agents pushed up the arrack revenue steadily from 1885 onwards.³⁵ By 1892 the cooperation among Western Province renters had come to an end and serious competitive bidding began to appear. At the turn of the century rents were double of what they had been fifteen or twenty

years earlier. These, I believe, cut sharply into the profits of the renters because the other interested parties would continue to expect their share, if indeed they did not increase their share by playing one renter against another. The renters changed farms more frequently, causing additional expenses.

I have examined the system of arrack renting in this paper and concluded that the generation of arrack renters from 1860 to 1900 amassed profits of 50 to 60 million rupees. The major beneficiaries of these income were a highly unified group of *Karāva* caste entrepreneurs, many of them from Moratuwa. There has been an attempt to minimize the the sale of arrack renting in the formation of a *Karāva* elite in nineteenth century Sri Lanka³⁶ but the wealth of the *Karāva* capitalists was indeed distilled from the nectar of the coconut palm.

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- 2 There is a description of tax farming in early British Sri Lanka in University of Ceylon, *History of Ceylon*, Vol. III, from the beginning of the nineteenth century to 1948 (edited by K. M. de Silva; Peradeniya, Ceylon: University of Ceylon Press Board, 1973), p. 49.
- 3 The history of the *karāva* caste is given in detail in Michael Roberts, *Caste Conflict and Elite Formation. The Rise of a Karāva Elite in Sri Lanka, 1500-1931*. (Cambridge: Cambridge University Press, 1982), This book suffers from an unweildly and unconvincing theoretical perspective, and from a tendency to draw selectively from secondary sources with insufficient critical judgement. Cf also Michael Webb Roberts, "The Rise of the Karavas," *Ceylon Studies Seminar* 68/69 series, No. 5 (March 4, 1969). Cf also Stanley Jeyaraj Tambiah, "Ceylon", in *The Role of Savings and Wealth in Southern Asia and the West*, ed. by Richard D. Lambert and Bert D. Hoselitz, (Paris: UNESCO, 1963, pp. 44-125.
- 4 Great Britain, Public Records Office, Colonial Office Series 54, Despatches of the Governors of Ceylon to the Secretary of State. Volume 47 (hereafter cited as PRO, CO 54/47), Governor to Secretary of State, April 30, 1813, pp. 142-43; PRO, CO 54/77, Govrnor to Secretary of State, July 21, July 24, November 7, 1820, pp. 135-39, 155-56, 279-87; PRO, CO 54/134, Governor to Secretary of State, March 8, 1834, pp. 271-88.
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- 15 *Sess. Pap.* XXXI of 1897, p. 33.
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- 19 Where not otherwise cited, the information in this section is drawn from the reports in PRO CO 54/458, October 26, 1870; *Sess. Pap.* L of 1886; and *Sess. Pap.* XI of 1899.
- 20 This approach is characterized by Michael Roberts, "Elite Formation and Elites 1832-1931," in *Collective Identities, Nationalisms and Protest in Modern Sri Lanka* (Edited by Michael Roberts, Colombo: Marga Institute, 1979), p. 169.
- 21 *Administration Report* of the Assistant Government Agent of Kegalle District, 1869, p. 31.
- 22 In a subsequent publication I will examine the renters themselves and their careers.
- 23 *Sess. Pap.* XI of 1899, p. 1.
- 24 *Sess. Pap.* XXXI of 1897, p. 18.
- 25 *Ibid*, pp. 5-6, 12
- 26 *Ibid.*, Appendix A, pp. 23-28.
- 27 *Sess. Pap.* XI of 1899, p. 5.

- 28 I am indebted to H. Chitra Peiris for the use of H. J. Peiris' ledgers.
- 29 *Sess. Pap.*, XXXI of 1897, p. 4.
- 30 Ellis was considered by some to have been superior to Saunders as an administrator, although perhaps socially inferior. Cf. *Ceylon Morning Leader* (January 12, 1911).
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- 35 The government's tactics to drive up arrack revenue, coupled with a revival of the temperance movement produced a flurry of pamphlets about arrack and renting system. For Ceylonese viewpoints see (Gabriel de Silva), *Arrack Farming in Ceylon* (Moratuwa: Clifton Press, 1895); M. Anthony Perera, *The Arrack Question in Ceylon 1895-1896* (Moratuwa: Clifton Press, 1896); H. A. P. Sandarasagara, *The Drink Question* (Colombo: Capper and Sons, 1894).
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