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FOREWORD

Mr. Harasankar Bhattacharyya's book on Indian Economic History is the latest addition to the growing literature on this vitally important subject. There was time when economists in this country regarded the study of economic history as a subject not falling within their competence. Theirs was a world in which only pure theories were to be analysed, uncontaminated by any touch with the actual economic conditions prevailing in India. There were of course some economists who in those days concerned themselves with the study of what came to be known as 'Indian Economics'. But they were regarded as more or less like second class citizens in the economic state. The advent of economic planning marks an important departure from this line of thinking and stress has since been laid on the study of the important economic problems facing this country. I think that most of us would probably agree that it is essential to make a special effort to analyse the process of the development of the Indian economy, as a knowledge of this factor provides the necessary background for a proper understanding of the major economic problems of this country. A large number of writers have turned their attention to the analysis of the small amount of data that we possess with respect to the past events, and in this task the statisticians have taken the lead. The historians have also laid down the economists under a deep date of gratitude by turning their talents to the task of opening up the pages of the economic history of India. The result has been that we now possess a little more knowledge about the evolution of the Indian economy than we did before, say 1947.

Mr. Bhattacharyya has made a brave attempt to incorporate some of these researches into his book and as a more or less pioneering attempt I have nothing but praise for the hard work, and intensive study that he has shown in this volume. There may be differences of opinions as to the relative importance of some of the points raised by him in the different sections of the book. But that is inevitable when one has to write on a subject, which, though important, is still in an underdeveloped stage. Though primarily addressed to the students, I have no doubt that this book will stimulate many others to think on this subject and pursue further research to fill up the many gaps that exist in our knowledge, and to solve number of controversies that exist in regard to the different episodes in our economic history.

Department of Economics
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31. 1. 66

S. N. Sen

PREFACE TO THE SECOND EDITION

The revised edition of the book contains the fruits of recent research publications on different aspects of Indian economic history during the eighteenth and nineteenth centuries. Immense care has been taken to unify the results of all such research for the benefit of the students and general public. Author regrets the delay in bringing out the revised edition and the consequent difficulties experienced by the students and teachers for the absence of the book in the market.

The difficulties of printing and the urgency of bringing out the book have necessitated the use of two different printing houses resulting in two different sections with separate page marks.

Author is deeply indebted to Sri Suprokash Basu of Progressive Publishers for bringing out the revised edition with much competence and speed.

Immense help has been gratefully received from Sri Sandip Bhattacharyya, Statistician, Research Service Section, The University of Burdwan.

Dated : Calcutta
25th September, 1980.

Harasankar Bhattacharyya

PREFACE TO THE FIRST EDITION

Recent years have witnessed an increasing interest in the study of economic history of our country both by the students of economics as well as of history. The growing emphasis on planning for economic development in underdeveloped areas including India has necessitated a detailed study of the past socio-economic forces and their transformation through time. It is now being increasingly recognised that the students of economics and history should have a course of economic history in their curriculum of study to help them in their understanding of inner dynamics of social and political history and in their appreciation of the relativity of economic 'doctrines'.

It is a matter of regret that although such studies have progressed very far in other countries, India has lagged far behind. The pioneer in this discipline was late Ramesh Dutta who came out with two volumes of Economic History of India in 1906. Since then, no comprehensive study has been attempted by any scholar. Most of the attempts have been confined to the analysis of limited periods and they still remain in the form of monographs. Many periods and various aspects are yet to be analysed before the significant relations reveal themselves and an outline model of our past economic development takes shape. And, the model for the past is largely conditioned by one's assessment of the pattern of interacting factors governing the present state of the Indian economy. Economic growth being essentially a multivariate complex, such an assessment must take into account the whole range of variables, economic and non-economic, characterising the economic situation at particular points of time-past and present.

This treatise is a humble attempt to present, not a complete outline, but a few significant issues in the different stages of our economic development, from the supremacy of the East India Company to the political independence of the country. Although primarily meant for the students of history and economics in the

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'The economic laws which operate in India are the same as in other countries of the world ; the causes which led to wealth among other nations lead to prosperity in India ; the causes which impoverish other nations impoverish the people of India. Therefore, the line of inquiry which the economist will pursue in respect of India is the same which he adopts in inquiring into the wealth or poverty of other nations'.

RAMESH DUTT
Economic History of India
Early British Rule, p. viii.

ONE

The Wealth and Poverty of Nations

'The laws of wealth unfold themselves like the incidents in a well-laid plot.'—Francis W. Hirst.

1. The need for a 'theory' of Economic Development in Economic History

The study of economic history is not merely an enumeration of disconnected economic events. Neither it is a computation of statistical tables of time-series data. Behind the veil of apparently disjointed statistics, one can discern the broad outlines of a pattern, or one can hear what Kipling has (satirically) called 'the chorus of crystallized facts.' With the advancement of historical studies, and the growth of the comparative and inductive methods of study many similar events are revealed to have taken place in the past. Through the study of such similar events in different countries, or in the same country in different time-periods, many similar causes and situations have drawn the attention they deserved. Such symmetry of 'similarities' and 'dissimilarities' made possible necessary abstractions and building up of models containing within them the causes and their effects, or a system of interaction between the variables.

Adam Smith set the stage for the issues that were to dominate subsequent economic thinking when he named his book 'An Enquiry into the Nature and Causes of the Wealth of Nations'. Since then the economists devoted themselves to enquire why the different countries developed at different rates and why the rates of development varied in a particular country at different time-periods. The nineteenth century development of U. K., Germany, France and the U. S. A. posed many questions about the nature and causes of industrial capitalism. And at the same time that growth was in marked contrast with large areas of the world that remained in a condition of relative economic stagnation. The twentieth century, in its turn, has raised the question why the rate of development of the already industrialised countries has come down, and why socialist economic structure could attain a higher rate of growth for a longer period of time.

In India the emphasis on the study of the causes of the wealth of nations is a new orientation. And this necessitates a study of the past, of the causes of the poverty of nations too. Immense growth of population within unexpanding economic structure has posed this challenge for studying past economic development, for investigating the long period changes that have already taken place. Such a full interpretation of development requires considerations of non-economic factors also. An economy is not a mechanical system. And these economic forces do not operate as 'natural forces'; they must be considered within a socio-cultural matrix. This is particularly true for a model or an outline of development in which political, sociological and psychological factors are highly relevant. The form of Government, the legal system, the nature and content of education, the standard of health and efficiency, the constitution and motivations in a family, the human aspiration contained in the name of religion—all these naturally influence a country's economic development.

Inspite of the presence and influence of many non-economic factors, the development theory can be better understood primarily in economic terms. Leaving others for the time being in a 'temporary slumber' we can understand the economic aspects of the nature, causes and problems of development. It is said that economic development includes all economic history and economic theory. This seems to be vast and overpowering no doubt. But if we interpret development as a 'process', only then the various materials will begin to fall into their respective places and the common elements will emerge. This is because to view development as a process is to examine it as a form of progressive action, a working-out of certain main forces that lead to certain results. Only then this 'logic' or the coherent inner structure in the economic development would reveal itself. The attempt therefore is to get beneath the surface of particular events, to use the historical macro-eye in order to make the process of development intelligible. We cannot thus merely describe the organisation of an economy or simply present a descriptive narration of events in our economic history. We should therefore simultaneously deepen and widen our

understanding of particular events and follow the operations of the major forces determining economic development.

2. The Meaning of Economic Development

The term 'economic development' cannot be satisfactorily explained by a single definition. 'Economic growth', 'secular change' and 'economic development' all are used as interchangeable terms and *in essence* they are considered to be synonymous. Though many writers have tried to define these terms with different emphasis on some or other aspects of the development process, we would take up a definition which is more relevant when we analyse the economic history of a nation. This definition would thus include the useful and simple categories with which we can, with profit, recognise the deeper current, the broad trend which appears through the successive stages of economic changes which is known as economic history.

Economic development is 'the process within which the per capita real income increases over long time periods. By 'process' is meant the operation of certain forces, when these forces act, interact and themselves change over long period of time and generate changes in other variables too. The details of such a process vary under different situations in time and space but some basic common features assert themselves. The end result of this 'process' is the growth of national income. But within this process, before any end-result is reached many forces interpenetrate, one change leading to other changes, all tending towards the increase in output over the long period. This long period is not a fixed span set in a calendar and is itself shifting forward towards an ever-expanding time-scale. There is no particular length of this long period, though for the purpose of analysis and study a period may be chosen within which the process of change is taking place.

What are the important changes that take place within this 'process'? These can be suitably classified as (a) changes in fundamental factor supplies, and (b) changes in the structure of demand for products. The former consists of changes (i) in additional resources through discoveries, conquests, or annexations, (ii) in the knowledge and skill of the use of old resources for new purposes, (iii) in capital accumulation, (iv) in population, its volume and age-composition and even the race admixtures, (v) in techniques of production, and (vi) in institutions and human motivations. The latter consists of shifts in the structure of demand causing from changes (i) in size and composition of population, (ii) in the level and distribution of income, (iii) in tastes and habits, and (iv) in institutions and organisations. And when all these changes (crudely speaking, from the supply side and from the demand side) operate not individually but in an interacting manner, the end-result, at any point of time and in the longperiod, is increase in the real national income.

By 'real national income' we mean country's total production of final goods and services. This total output is expressed not in money terms but in real terms, in terms of the physical volume of goods and services with a definite period of time. If estimated in money terms it can show an incorrect picture. An increase in the money value of output without increase in the total volume of such output cannot mean development. We must include not only the output produced within the territorial jurisdiction of the country, but also its income (plus or minus) from foreign trade, foreign investments, foreign aid or gifts. If the money value of goods and services are used, then such money expression must be corrected by an appropriate price index of both consumer and capital goods. We must also deduct capital depreciation allowances in order to reach at 'net' figure. Thus by 'real income' is meant 'net national product corrected for price changes'.

By 'increase' we mean a consistent trend in its rise over long period of time. There may be short run fluctuations when real income declines. These may be due to say, business cycles, war and devastation—'a minor wave compared with the deep upsurge of a rising tide'. We thus talk not of years or five-year periods, but of decades, of twenty-five year periods and of centuries.

And lastly, by "per capita" we mean the real national income divided by the total number of population. If population growth surpasses the increase in national output, then income is just paralleled by an equal increase in population, the per capita income remains stationary. In order to 'grow' or 'develop',

therefore the rate of growth of national income must be higher than the rate of growth of population. The per capita real income may show a rise in such a situation. But in reality the fruits of development will reach the people only if the inequality in distribution does not widen. Such increase in the per capita real income over time means a rise in the standard of living or economic welfare, removes poverty and generates material well-being.

3. The Factors determining Economic Development

After we have decided upon the definition of 'economic development', let us build up a neat, simple and coherent 'model' with only the crucial factors leaving aside many other important factors but no so dominant. Let us build up this model in its barest possible outline.

If by development is meant 'the process of inerease in the per capita real income over time', the next question which obviously arises is how this increase can take place. Increase in real income means increase in the net volume of goods and services, and such process of increase is only possible if there is an increase in the capacity to produce. Thus, per capita real income can go on increasing over time if the productivity of labour employed in different sectors of an economy can grow at a faster rate than the rate of growth of population.

The basic cause of increase in the productivity of labour is the use of more capital in production. This capital may take the shape of increased or improved machinery, better skill and knowledge imparted to labour through technical education or helping the entrepreneurs with social overheads or external economies. Capital accumulation thus, is the very core of economic development. Whether in a predominantly private enterprise economy as U.K., or in a socialist economy as the Soviet Union, economic development cannot take place without capital accumulation; the construction of irrigation systems, use of fertilizers and better seeds or livestock, land reclamation, building dams, bridges, factories with machines, roads, railways and airports, ships and harbours, all these 'produced means of production' are associated with higher productivity.

A question can arise : can capital accumulation take place without technological progress and innovation ? The economy can go on building more transport facilities, more sources of power, more factories of the same sort. This process is sometimes called 'widening' of capital, in contrast with the 'deepening' of capital which means the use of more capital-intensive techniques. Productivity per labourer, it is obvious, cannot rise with the widening of capital ; another factory or another machinery of the same type will not raise the productvity of labour, only an improved machinery can do that. The 'deepening' of capital and the technological progress are synonymous. Thus capital accumulation is *possible* without technological improvement, but technological improvements are virtually impossible without prior capital accumulation.

Use of additional capital than before is called net investment. Such net investment can take place only if society's total output exceeds what is used for its current consumption and for making good the wear and tear on its productive facilities employed during the period of time.

And the volume and nature of this net investment taking place in a society, at any given time, depends upon the size, allocation and utilisation of the currently generated economic surplus or investible capital. Economic surplus means the difference between the society's current output and its current consumption. It is therefore, identical with current saving or accumulation. This finds itself embodied in assets of various kinds added to society's wealth during that period ; various productive facilities and equipment, stocks of goods, foreign balances and gold hoarding.

The more the surplus, the larger will be the net investment. But it is not only the volume or the generation of surplus that is important. If larger surplus or capital is generated, but wrongly allocated, the rate of growth will be naturally slower. Let an economy generate an amount of surplus and invest in the direction of improvement of textile factories. From such investment consumer goods production will rise and consumption also. If, on the other hand, that economy employs the same amount in the improvement of steel factories, then more steel will be produced in the economy, this steel will generate more machines, the machines will create either further more machines or more consumer goods. Thus the push is bigger if this surplus is allocated in the capital goods sector, or net investment is increased in the capital goods production.

After generation and allocation what is important is the proper utilisation of this surplus. The surplus can be utilised economically, in the best possible manner, with no wastage at any stage of its use. The rate of economic development will be high. Or, the contrary can take place, when for obvious reasons, the rate of development will become lower.

Now, the appropriate volume, the correct direction and proper utilisation of accumulated capital all depends, to a large or small degree, on (a) the degree of the development of productive forces, and (b) the corresponding economic structure. How much surplus a country can generate depends on the stage of the development of its productive forces, i.e., its past accumulated capital in the form of various physical capital goods and the stock of skill in the labour force. While Britain's productive forces are well developed, Nigeria's are underdeveloped ; the former's capacity to generate larger surplus is greater than that of the latter. But when accumulation is done, where and how it will be used depends upon the decisions taken by the owners of capital. Thus the allocation and utilisation of capital in a country naturally depends upon the ownership structure. He who owns capital has a right to use it in the direction of his choice and in the manner he prefers. He may use it for immediate return or for long term return. He may use it economically if he feels a threat of strong competition by rivals, or he may use it uneconomically if he continues to enjoy a monopolistic position. Changes in the economic structure which make it more suitable for accumulation, allocation and use are pressed forward by the owners of capital. Demands for political and social transformations are often supported or opposed by the owners of capital on the basis of their utility to facilitate changes in the economic structure suited to the needs of capital accumulation. Thus the socio-political matrix, to a large extent, conditions and is itself conditioned by the methods of capital accumulation, its allocation and use.

4. How the economies developed : the transition from feudalism to capitalism

If this is the 'model' incorporating, in barest minimum, the variables conditioning the rate of economic development, where-in lies its relevance in the study of economic history ? How this model can help us to unravel the mysteries of past economic changes ?

The manner in which capital is extracted, allocated and utilised sets a stamp on the nature of the economy itself, and a change in the mode of extraction, in the nature of allocation and in the methods of utilisation brings changes in the 'economic system' as a whole. Economic history means the successive changes in the economic system of a country, the previous stage germinating and leading to the next one, including changes in all the economic institutions within the economic structure in a country. How this change in the economic system comes about ? The owners of capital constantly press for suitable changes in the laws and conventions in state and society. They endeavour to remove the various difficulties which prevent larger accumulation, profitable allocation and wasteless utilisation of their capital. They attempt to build up necessary institutions for these purposes, including the organisation of the government or the power-constellation known as the state-structure. When all impediments to further progress of their capital are appropriately removed and all necessary institutions are properly built up, the economic system becomes fit for the purpose of generating higher rate of economic development than before.

The modern economic structure of the developed nations in the west is known as capitalism, the economic system is based on private ownership and use of capital. This system was preceded by the feudal system of economy and was developed through the destruction of feudal mode of production. In many countries, the disintegration and the decay of the feudal mode was not complete and such increase in output through factory methods of production could not come about. There might be local variations about the superficial outlines, but the main few tenets which characterised an economy as a feudal one were present in pre-capitalist socio-economic formations.

The changes undergone within the feudal economic structure or in the feudal economic system were brought about by changes in the methods of generation, allocation and utilisation of capital within itself. The changes in the feudal system are brought about by the progress of capital and were adapted to its necessities. Economic history has evolved out of these deeper changes within the economic system and the economic structure.

The era of feudalism covers a long period. In China, the feudal system (of a particular variety which differs from that of Europe, Russia or India) existed for more than two thousand years. In western Europe feudalism covers a number of centuries, from the time of the fall of the Roman Empire (fifth century) to the bourgeois revolution in England (seventeenth century) and in France (eighteenth century) ; in Russia from the ninth century to the peasant reform of 1861. In western Europe, feudalism arose out of the breakdown of Roman slave-owning society, on the one hand, and the decay of the tribal system of the conquering tribes, on the other ; it was established as a result of the interaction of these two processes. In those countries where there had been no slave-owning system feudalism arose on the basis of the breakup of the primitive community system. The clan aristocracy and military leaders of the tribes took into their hands a great quantity of lands and distributed them anong their followers.

The property of the feudal lords in land and their incomplete property rights over the peasant serf were the basis of the production relations of feudal society. The peasant serf was not a slave. He had his own holding. By the side of the property of the feudal lords there also existed the individual property of the peasants. The feudal lord allotted land to the peasants to 'hold'. The peasant 'holding' was the means by which the lord secured his labour force. With hereditary possession of his holding, the peasant was obliged to work for the lord, to till the lord's soil with the help of his own implements and stock, or else to give the lord his surplus product in kind or in money. Such a system of economy inevitably presupposed the peasant's personal dependence on the landlord—a system of extra-economic compulsion. His working time was thus divided into necessary time and surplus time.

The economic surplus which generated under feudalism in the hands of the feudal lords took the shape of *Land-rent.* There were three forms of land-rent : (a) labour-rent, (b) rent in kind, and (c) money rent. In the early stage of feudalism there was labour-rent, i.e., the peasant worked for a specified part of the week (or of the year) with his own implements on his master's estate (or *demesne*). In course of further development labour-rent was replaced by rent-in-kind. It might be a definite portion of produce or a definite quantity of grain, cattle, poultry and other agricultural produce. At a later stage of feudalism, when exchange had become comparatively widespread, money-rent arose. Money-rent is the characteristic of the period of the breakdown of feudalism and the appearance of capitalist relations. Various forms of feudal rent often existed simultaneously. There were also exactions by the Church, which received a portion of economic surplus. Sometimes the feudal Lords or Kings and the Church or the clergy fought each other for bigger slice of this fund, but mostly they combined together against the serfs to exact more from them.[1]

And, how this surplus was allocated and utilised ? The immediate lord kept a portion of it, the remainder was given to his superior feudal chief. He, in his turn, despatched a portion upwards. At the top was the feudal King. Generally, the king himself also maintained big demesne farms and directly received this surplus from the serfs. The whole surplus being utilised for unproductive consumption, royal pomp and grandeur, could never transform itself into capital.

Ground-rent was the predominant source of surplus no doubt, but it was not the only source in a feudal economy. There were handicrafts production in a feudal manner.

Towns had already arisen under the slave-owning system. Such towns as Rome, Florence, Venice, and Genoa in Italy ; Constantinopole and Alexandria in the Near East ; Paris, Lyons and Marseilles in France; London in England ; Samarkhand in Central Asia and many others were inherited by Middle Ages from the epoch of slavery. The slave-owning system fell, but the towns

1. "In all these forms of Ground-rent, whether labour-rent, rent in kind, or money-rent (as a mere change of form of rent in kind), the rent-paying party is always supposed to be actual tiller and the possessor of land, whose unpaid surplus labour passes directly into the hands of the landlord." Marx, *Capital*, Kerr Edition, Vol III, P 932.

remained. The large slave-owing workshops broke-down, but the crafts continued to exist.

In the course of time crafts became more and more profitable business. The skill improved. The feudal lords began to buy the product of handicrafts from the townsmen. He was no longer satisfied with the work of his own serfs. The more developed crafts were finally isolated from agriculture.

The growing town population mainly consisted of run-away slaves, pauperised serfs, craftsmen and traders. The town acted as the centre of commodity production, as distinct from the countryside where natural economy prevailed.[2] The growth of competition from the fugitive serfs who had crowded themselves into the towns, the struggle against exploitation and oppression by the feudal lords, caused the craftsmen to unite into ***guilds***.[3] The guild system existed in the feudal period in almost all countries.[4]

2. The economy of the early feudal lords, as of the slave-owning families in the past was basically a *natural* one. A *natural economy* is one in which the products of labour are not exchanged but consumed within the economy where they were produced. Each feudal estate, consisting of lord's demesne and the villages belonging to him, lived an isolated economic life, rarely engaging in exchange. Fairly large estates had a sufficient quantity of craftsmen, mostly among the household serfs. These craftsmen made clothing and footwear, made and repaired weapons, hunting equipment and agricultural implements, and erected buildings.

3. Guilds arose in Byzantium and Italy in the ninth and tenth centuries, and later in the whole of Western Europe and Russia. In the countries of the East Egypt, China) and in the towns of the Arab Khalifate guilds arose even earlier than in the European countries. The guilds united the town craftsmen of one specife trade or several similar ones. Only the master craftsmen were full members of the guilds. The master craftsman had a small number of journeymen and apprentices. The guild carefully preserved the exclusive right of their members to engage in that craft and regulated the process of production. They laid down the length of the working day, the number of journeymen and apprentices with each master, defined the quality of raw materials and finished products and their prices, and frequently purchased raw-material in common. Methods of work established by long tradition were obligatory for all. Strict regulation had as its aim the prevention of any single master from raising himself above the others. Apart from this the guilds served as mutual aid organisations.

4. In India, the craft-guilds were based on various castes, and thus they differed much from those in other countries.

ted wages from rising above the subsistence minimum and from eating into profits. Competition among the capitalists drove them madly for wasteless utilisation of capital, cost-minimisation and technical progress. Profit is the characteristic form in which economic surplus appeared in capitalist society. Under feudalism this surplus was lost in conspicuous consumption. Under capitalism the frugal businessmen and a band of humble clergy built up a State with *laissez-faire* as its philosophy. The State must not take a share of this surplus, it must refrain from accumulation.[5]

The 'allocation' and 'utilisation' of capital was also arranged in the best possible manner conducive to a high rate of growth. The drive for profits led to the most 'rational' allocation of funds as also its most 'efficient' utilisation. The 'economic' use of scientific improvements set the stage ready for constant and gigantic technological innovations.

The only dark cloud was the fear of 'diminishing returns' in agriculture. It would raise the cost of food, force up the level of subsistence minimum. It would result in a steady increase of the revenues of the landowning class, encroach upon profits, i.e. entrepreneur's principal source of capital accumulation. And Ricardo warned, 'the interest of the landlord is always opposed to that of the consumer and manufacturer.'

The prospect for accumulation, however, brightened when landlords themselves became transformed into capitalist businessmen and started operating his agricultural farms in the same way in which urban capitalists conducted their industrial undertakings. Agriculture became an manufactory and the system of wage-labour entered the countryside.

5. "The advent of what Weber and Sombart called the 'Capitalist' spirit—to which in fact they ascribed the genesis of modern capitalism—accompanied by the prevalence of puritan ethics established a system of social values in which thriftiness and the drive to accumulate were elevated to the position of supreme merit and paramount virtue.' Paul Baran—*the Political Economy of Growth.* "The money cult implies its own asceticism, its own self-denial, is own self-sacrifice—parsimony and frugality, a contempt for worldly, temporal and transient satisfactions: it implies the striving for *everlasting* treasure. Hence the connection of English puritanism, but also of Dutch Protestantism, with money making." (Marx).

5. Why many economies did not develop.

The picture painted above is of highly developed countries overflowing with economic surplus and in the monopoly phase of their development. They are now quite incapable to rationally allocate and utilise them. These countries reflect the advanced sector of capitalism. But no less significant is the existence of a retarded sector, the underdeveloped countries of the contemporary world. The necessary question is why many countries did not develop as the others. Why, in those countries the per capita real income moved slowly and not at a faster rate? The question that immediately arises is, why is it that in the backward capitalist countries there has been no advance along the lines of a capitalist development that are familiar from the history of other capitalist countries, and why is it that in these countries, such a forward movement has been either slow or altogether absent?

Such a discussion may best be approached by recalling the condition from which capitalism evolved in both the nowadvanced and the now-underdeveloped parts of the world. These conditions were summarised under the name feudalism, a particular mode of production and the corresponding social and political order. The structure of feudalism was not everywhere the same. Just as Prof. Dobb says, "one would be right in talking, not of a single history of capitalism, and of the general shape which this has, but of a collection of histories of capitalism, all of them having a general similarity of shape, but each of them separately dated as regards its main stages"; so also one has to bear in mind the large differences between the feudal systems in different parts of the world. There were far-reaching divergences between the pre-capitalist structure of China, the society based on the village communities of India, and the social order rooted in serfdom as in pre-capitalist Europe.

Whatever may be the differences, this pre-capitalist order must have had entered in a state of disintegration and decay before it was supplanted by the new capitalist order. The transition from feudalism to capitalism surely had exhibited a few necessary features in all such economies, these are the pre-conditions of transition. First, either through natural increase in population or through papuerisation due to intensified feudal exploitation, there was an emergence of a potential industrial labour force. Secondly, there was extension of division of labour leading to the evolution of a class of merchants and artisans accompanied by the growth of towns. And lastly, there was certain degree of accumulation of capital in the hands of steadily expanding and rising class of merchants and wealthy peasants. It is the confluence of all these processes that forms the indispensable precondition for the emergence of capitalism. In the words of Marx, 'what enables money wealth to become capital is on the one hand its meeting with free workers ; is secondly, its meeting with equally free and available for sale means of subsistence, materials etc.' Yet it is the third i.e., primary accumulation of capital, which had the strategic significance. It was the scope and spread of the accumulation of merchant capital and of the rise of the merchant class that played the crucial role in corroding the structure of feudal society.

In Western Europe mercantile accumulations were large, and at the same time it was concentrated in few hands. This was due to, first, the geographical location which led to early development of navigation and with it maritime commerce. Secondly, Western Europe was poorer in natural resources. Hence the drive to procure tropical produce of all kinds (spices, ivory, tea, indigo etc.), the effort to import valuable products of oriental skill (high quality cloth, ornaments, pottery and the like), and wild scramble for precious metals and stones. 'The resulting far-flung trade, combined with piracy, outright plunder, slave traffic and discovery of Gold, led to a rapid formation of vast fortunes in the hands of Western European Merchants.'

'This wealth had the usual tendency to snowball. The requirements of navigation gave a strong stimulus to scientific discovery and technological progress. Shipbuilding, outfitting of overseas expeditions, the manufacturing of arms and other supplies required by them for protection as well as for the conduct of "negotiation" with their overseas trading partners—all provided a mighty impulse to the development of capitalist enterprise. The principle that 'one thing gives another' came in full operation, external economies of various kinds became increasingly available, and further development could proceed at an accelerated rate. Wealthy merchants entered manufacturing to assure themselves of steady and cheap supplies.

Artisans grown rich or in partnership with moneyed tradesmen expanded the scale of their operations- Not infrequently even rich landowners become involved in industry (particularly mining) and thus laid the foundation for large capitalist enterprises. But most important of all, the state, ever more under the control of capitalist interests, became increasingly active in aiding and advancing the budding entrepreneurs. As Marx has said, "They all employ the power of the State, the concentrated and organised force of society, to hasten, hothouse fashion, the transformation of the feudal mode of production into the capitalist mode, and to shorten the transition."

As western capitalism travelled beyond its boundaries and penetrated in other countries with pre-capitalist economic order, the effects it generated on the outside world were extremely complex and different. These effects depended on the differences in geographic location and climate, in political, cultural and religious background, in the degrees of cohesion and resilience of their respective per-capitalist political and social structures. In North America and Australia, Western Europeans entered more or less complete societal vacua, and *settled* in those areas establishing themselves as permanent residents. They came to the new lands with 'capitalism in their bones' and meeting no resistance worth the name they succeeded in a short time in establishing on virtually origin soil an original society of their own.

But in many other countries, like India, Near East and China they were faced by established societies with rich and ancient culture, still pre-capitalist or in the embryonic state of capitalist development. Here they could not *settle* as in America and Australia. They engaged themselves in outright plunder or in plunder thinly veiled as trade, seizing and removing tremendous accumulated wealth of centuries. Dobb has said : "In the cruel rapacity of its exploitation colonial policy in the seventeenth and eighteenth centuries differed little from the methods by which in earlier centuries crusaders and the armed merchants of Italian cities has robbed the Byzantine territories of the Levant." And as Marx has said, "the treasures captured outside Europe by undisguised looting, enslavement and murder flowed back to the mother-country and transformed themselves into capital."

This extraction of surplus and the methods in which it is done violently jolted their entire development and affected drastically its subsequent course. It tremendously accelerated the process of decomposition of their pre-capitalist structure. "By breaking up the age-old patterns of their agricultural economy, and by forcing shifts to the production of exportable crops, western capitalism destroyed the self-sufficiency of their rural society that formed the basis of the pre-capitalist order in all countries of its penetration, and rapidly widened and deepened the scope of commodity circulation. By outright—in many countries massive—seizure of peasant-occupied land for plantation purposes and other uses by foreign enterprise and by exposing their rural handicrafts to the withering competition of its industrial exports, it created a vast pool of pauperized labour enlarging thus the area of capitalist activities, it advanced the evolution of legal and property relations attuned to the needs of a market economy and established administrative institutions required for their enforcement. If only in order to expand and to tighten the economic and political grip on the areas of its domination, it forced the diversion of some of their economic surplus to the improvement of their systems of communication, to the building of raliroads, harbours, and highway, providing thereby as a by-product the facilities needed for profitable investment of capital.'

'This is, however, only one side of the ledger. Accelerating with irresistible energy the maturing of *some* of the basic prerequisites for the development of a capitalist system, the intrusion of western capitalism in the now underdeveloped countries blocked with equal force the ripening of others. The removal of a large share of the affected countries' previously accumulated and currently generated surplus could not but cause a serious setback to their primary accumulation of capital. Their being exposed to ruinous competition from abroad could not but smother their fledgling industries. Although the expansions of commodity circulation, the pauperization of large numbers of peasants and artisans, the contact with western technology, provided a powerful impetus to the development of capitalism, this development was forcibly shunted off its normal course, distorted and crippled to suit the purposes of western imperialism'.

'Thus the peoples who came into the orbit of western capitalis expansion found themselves in the twilight of feudalism and capitalisn enduring the worst features of both worlds and the entire impact c [illegible] to boot. To oppression by their feudal lord

ruthless but tempered by tradition, was added domination by foreign and domestic capitalists, callous and limited only by what the traffic would bear. The obscurantism and arbitrary violence inherited from their feudal past was combined with rationality and sharply calculating rapacity of their capitalist present. Their exploitation was multiplied, yet its fruits were not to increase their productive wealth; these went abroad or to support a parasitic bourgeoisie at home. They lived in abysmal misery, yet they had no prospect of a better tomorrow. They existed under capitalism, yet there was no accumulation of capital. They lost their time-honoured means of livelihood, their arts and crafts, yet there was no modern industry to provide new ones in their place. They were thurst into extensive contact with the advanced science of the west, yet remained in a state of the darkest backwardness.'[6]

6. What happened to India

From the fourteenth and fifteenth centuries certain new forces started coming into the picture of the Indian society, which were preparing the ground for the disintegration of feudal structure. Frequent intervention of the state in the village economy for extracting more and more surplus to meet the expenses of continuous royal feuds partially broke the protecting walls of the village republics. It led to the increasing pauperisation of the peasantry. The need for cash money was imperceptibly breaking the feudalities. Letter on in the Mughal period, under Sher Shah and Akbar, direct contacts with the peasants were made for the payment of revenue. Moreover, the payment of revenue in money, instead of kind made the commodity circulation in the villages an urgent necessity. During this period there started the Bhakti movement, analogous to Protestant movement in Europe, which tried to emancipate the rising classes of artisans and traders from feudal-Brahmanical scholasticism. This Bhakti movement endeavoured to break to a large extent the rigidity of the caste-structure and caste-ideology of the village community. Several towns were developed as trade-centres, they became populous and wealthy with money income derived from increasing internal and external trade. The court patronised the traders, helped them with royal protection and development of national highways and various

6. Paul Baran—*The Political Economy of Growth.*

trade routes. Coinage was reformed, transit duties on men and goods were abolished. The decline of the Mughal empire led to peasant uprisings and internal warfare, which also brought craks in the feudal structure.

It thus appears that the developments in India in this period were in many ways similar to those in Europe. Burke also mentions it, in his speech in the Parliament : "There is to be found......a multitude of cities not exceeded in population and trade by those of the first class in Europe ; merchants and bankers who have once vied in capital with the bank of England, whose credit has often supported a tottering state and preserved their governments in the midst of war and dissolution, millions of indigenous manufactures and mechanics..."

In the recent studies on the evolution of capitalist enterprise from the womb of feudalism two broad patterns are being distinguished from one another. On the basis of studies of the West European and specially British history, Prof. Dobb has arrived at the conclusion that the capitalism in Europe came in 'really revolutionary way.' This means that the capitalist class grew out of the ranks of the producers themselves, who had slowly accumulated enough capital and then started controlling the mode of production and acting as merchants too. These merchant capitalists came from within the existing mode of production, directly from within the system itself and so 'in the really revolutionary way.' On the other hand, in the indirect way, the merchants who had nothing to do in the actual production of goods and were mainly confined to taking the product from the producers to the market, later on after accumulating capital, started controlling the mode of production in which the producers were brought under one roof under the direction of the merchant. In other words, when this assemblage of producers under one roof was done by some prosperous one from the rank of producers themselves, it was the 'really revolutionary way' (Path I). And when it was done by someone doing middlemanship in taking the produce from the producer to the market, it was 'the indirect way' (Path II). The really revolutionary way was 'from within' and the indirect way was 'from above' the mode of production. Capitalism that came in Western Europe, and especially in England came in way No. I ; but the capitalism that evolved in Japan and Prussia was in way No. II.

Marx writes :[7] "The transition from the feudal mode of production takes two roads. The producer becomes a merchant and capitalist in contradistinction from agricultural natural economy, and the guild-encircled handicrafts of medieval town industry. This is the really revolutionary way. Or the merchant takes possession in a direct way of production. While this way serves historically as a mode of transition—instance the English clothier of the seventeenth century, who brings the weavers, although they remain independently at work, under his control by selling wool to them and buying cloth from them—nevertheless it cannot by itself do much for the overthrow of the old mode of production, but rather preserves it and uses it as its premise."

In India during the Mughal period *karkhanas* were started. There were *private* karkhanas, as well as *public* or royal karkhanas. The artisans worked on their own as well as in the royal karkhanas. The artisans who could accumulate some capital had their own karkhanas in which other artisans were working on wage basis. Inside the karkhanas during the Mughals the specialisation process had advanced to a great extent. Sri Radhakamal Mukherjee writes that,[8] "During the Mughal period there was in India considerable variety of arts and handicrafts which, indeed, exhibited a more advanced economic and financial organisation than the crafts in contemporary Europe. In the first place, in several handicrafts, the specialisation of task advanced to the extent that particular, groups of artisans came to undertake distinct processes in the chain of porduction. Such, integration and co-ordination of production (i.e. division of labour) were hardly reached in European handicrafts. Secondly, there were whole villages and muhallas of cities and towns which devoted themselves to production of specialised products, whether cotton or silk fabric gold, silver and brass manufacture, bidri work, or ivory to mention only a few that comanded both Indian and foreign markets. Thirdly, the foreign trade in products of Indian arts and handicrafts developed a corresponding organisation of production, under which master artisans or entrepreneurs brought together groups of artisans or who worked for them on the wage basis...Artisans worked on their own account as

7. *Capital* Vol. III.
8. R. K. Mukherjee, *The Econoimc History of India : 1600 1800 P. 81.*

well as in karkhanas, big and small, under master artisans, dealers and financiers."

From this description we can know how 'master artisans or entrepreneurs brought together groups of artisans who worked for them on wage basis.' This shows how in the Mughal period and upto 18th century the capitalism was growing in India in 'the really revolutionary way.' Prof. Dobb has described such process : "According to the first – the really revolutionary way—a section of the producers themselves accumulated capital and took to trade, and in course of time began to organise production, on a capitalist basis free from the handicraft restrictions of the guilds" [9]

We also know that from the sixteenth and seventeenth centuries there were rich and powerful merchants, banker and financiers dealing in Hundis and other credit instruments. Some of these names are quite well known, like Virji Vora, Shantidas, Nalpurias, Manik Chand, Fateh Chand and Jagat Seth. They were the Rothchilds of India, constituting the upper strata of merchant class mainly dealing with credit to lower and middle strata of the bourgeoisie These men, in the upper strata, who were termed as *hute bourgeoisie* by prof. Takahasi, financed the trade and commerce, but did not generally engage themselves with "putting-out" system of manufacture. This putting-out mode of production was carried out by the entrepreneurs lower and middle strata. They were master-artisans leaders of a group of artisans, securing orders for goods, paying wages and advances for raw materials, collecting the products and selling them. And when 'the producer becomes a merchant and capitalist' this becomes the 'really revolutionary way', the way No 1 of the development of capitalism.

The analysis is best described in the language of Prof. Takahashi : "'those who carried out the bourgeoisie revolution, who were the real vehicles of industrial capital (capitalist production) of that time, were to be found in the rising small and middle bourgeoisie, and that the centre of attention must be focussed on the contradiction between them and the merchant and usurer capitalists (*haute bourgeoisie*)". Such contradiction was very much present in England. This *haute bourgeoisie* or the upper strata of capitalists eventually became an obstacle to rapid industrial growth.

9. Studies in the Development of capitalism, P. 123,

They were big monopoly merchants, eager to maintain their monopoly control over existing trade channels. They sided with the royal forces. Cromwell was supported by the small and middle bourgeoisie, and the victory of Cromwell freed these people from the mercantile bonds of the monopoly upper strata of ***haute bourgeoisie.***

'In the Indian society, too, we had more or less the similar situation. The haute bourgeoisie of India before the British rule (represnted by Virji Vora, Shantidas and other Jagat Seths of Bengal) in the long run proved an obstacle to the further development of indigenous capitalism. They were dealing more and more in financial transactions, and less and less in actual production. They had no interest in developing new techniques in raising productivity, in influencing the mode of production itself. They collaborated with the *Dadni* merchants of the English, Dutch and French companies in India. And when the issue was finally to be settled by the middle and lower bourgeoisie, clustering around Siraj-ud-Daula, the *haute bourgeoisie*,represented by the Jagat Seths of Bengal...threw themselves on the side of Clive, the representative of the monopolist East India Company, which had already become an obstacle to the development of capitalism in the mother country, England. In England, it was the routing of the English *haute bourgeoisie*, merchant capital, in the English Revolution of 1699, in India it was the victory of the Indian haute bourgeoisie at Plassey in 1757, who had betrayed and sides with the monpolist East India Company. In England the triumph of Cromwell paved the way of the lower and middle bourgeoisie, and their final triumph in the 1681 revolution, which helped the development of industrial capitalism ; in India the triumph of Clive sent the lower and middle bourgeoisie to the walls.'[10]

The question naturally arises, why this indigenous capitalism could not burst forth the shackles of feudal order and bring an industrial era ? Why could not the native capitalism get through ? Many answers have been attempted. The most important of these causes was the nature of Indian feudalism based on self-sufficient village economy. These village communities, with strict caste divisions based on hereditary division of labour, were 'conservative and change resisting', 'extremely stable and inert.' Shelvankar writes[11] : 'Owing to the direct combination of domestic industry and

10. Shiv Prasad Jha—*Studies in the Development of Capitalism in India.*
11. Shelvanker—*The Problem of India.*

agriculture that it represented and the resultant economies, the village was able to preserve its equilibrium and offer the strongest resistance to disruptive influences. The manor it is true, was in some respects similar to the Indian village, but it was a less stable organisation. It was based on serfdom and ruled over by a feudal baron, and to serf and baron alike the development of urban trade and industry held out advantages, either of personal freedom or pecuniary gain. Hence when these forces came into play, the manor succumbed, not perhaps without a struggle but in a comparative short period. The village on the other hand, which had in general no room either for serfdom or baronial exploitation, was more firmly articulated in its inner structure and therefore succeeded where manor had failed in maintaining its distinctive character.'

Secondly, 'the merchants and the handicraftsmen, the bourgeoisie as a class organised in its guilds never attained the ascendency that its European counterpart won for itself when it seized political power in the towns. In Europe the towns were like islands, where rising bourgeoisie predominated. But in India the feudal state never lost control over these towns and the merchant class became politically impotent.'

And thirdly, the Indian merchants could not maintain their commercial supremacy as they gradually lost their naval supremacy vis-a-vis the English, the Dutch and the French. The Indian States did not develop as strong maritime powers as compared with those European nations whose mercantile bourgeoisie appeared in India from the last decade of the fifteenth century onwards. The Indian ships were not equipped with up-to-date arms, as the ships of the European bourgeoisie, with their superior technical and military equipment were This lack of up to date arms in the Indian ships tipped the balance in favour of European ships on the high seas. When naval superiority went to the Europeans, commercial superiority also passed on to their hands.

But the most important historical cause leading to the arrest of Indian economic evolution was the forcible extraction of accumulated funds from India by the British merchant State through plunder, illegal trade and political manipulation of currency mechanism. At the time of the British invasion, as M. N. Roy puts it, 'India stood at

the stage of social economics, which would have been the period of transition of her industry from manufacture to mechanofacture. But it did not happen; the machine could not come to India. She could not pass from mercantile capitalism to industrial capitalism. The social progress was obstructed.' Pandit Jawaharlal Nehru observes: "India was in a transitional stage. It was a manufacturing country and a bourgeoisie class was being evolved in these towns......In course of time this class will no doubt have grown powerful enough, as in Europe, to replace the feudal class. Just then the British intervened, with fatal results to India's industries."

How this destructive role was accomplished, can be analysed, as was done by Marx, by distinguishing between the ***earlier period*** of the monopoly of the East India Company upto 1813, and the ***later period*** after 1813, when the monopoly was broken and the invasion of industrial capitalist manufactures overran India and completed the work.

In the earlier period the initial steps of destruction were accomplished firstly, by direct plunder. It has been well-established by facts that "during the whole course of the eighteenth century, the treasures transported from India to England were gained, much less by the comparatively insignificant commerce, than by the direct exploitation of that country and by the colossal fortunes extorted and transmitted to England." William Digby, in his book 'Prosperous British India' notes that estimates had been made according to which between Plassey and Waterloo—a period of crucial importance for the development of British Capitalism—between £500,000,000 and £1, 000, 000, 000 worth of treasure was taken by Britain from India.[12]

Secondly, economic ruination was caused by the neglect of irrigation and publicworks, which had been maintained under previous governments and were now allowed to fall into neglect. Thirdly, the destruction of the Indian economy was also due to the introduction of English landed system, private property in land, with powers to sale

12. This transfer of accumulated capital led to the transformation of Mercantile Capitalism of England into Industrial Capitalism, while the budding industrial capitalism in India was thwarted and ultimately pushed back to merchant capitalism under the foreigners' leadership with subordinate shares and interests. See also Appendix I & II.

and mortgage, and of the whole English Criminal Code. Fourthly, the decline of the Indian economy was hastened by the direct prohibition or heavy duties on the import of Indian manufactures, first into England, and later also to Europe.

But the 'final blow' came during the later period, in the era of nineteenth century capitalism. The monopoly of East India Company on Indian trade was increasingly challenged by the English manufacturing interests. They carried on ceaseless agitation. But it was not until the completion of the Industrial Revolution had brought English manufacturing capitalism to the forefront that the monopoly was overthrown in 1813 and its final abolition completed in 1833.

R. P, Dutt writes, "It was only after 1813, with the invasion of English industrial manufactures, that the decisive wrecking of the Indian economic structure took place. The effects of this wrecking during the first half of the nineteenth cenrury Marx traced with formidable facts. Between 1780 and 1850 the total British exports to India rose from £386, 152 to £8, 024,000, or from one thirty-second part to one-eighth of British exports; while the cotton manufacture in 1850, for which the Indian market provided one-fourth of the foreign markets, employed one-eighth of the population of Britain and contributed one-twelfth of the whole national revenue."[13]

The decline of Indian handicrafts and cottage manufacture led to far-reaching changes in the Indian economy and perpetuated the poverty and stagnation for centuries. The village system had been built upon 'the domestic union of agricultural and manufacturing

13. To quote from Marx : "From 1818 to 1836 the export of twist from Great Britain to India rose in the proportion of 1 to 5,200. In 1824 the export of British muslins to India hardly amounted to 6,000, 000 yards, while in 1837 it surpassed 64,000, 000 yards. But at the same time populalation of Dacca decreased from 150,000 inhabitants to 20,000. This decline of Indian towns celebrated for their fabrics was by no means the worst consequence. British steam and science uprooted over the whole surface of Hindosthan, the Union between agricultural and manufacturing industry." (British Rule in India).

Again,

"The English Cotton Machinery produced an acute effect in India. The Governor-General reported in 1834-5 : "The misery hardly finds a parallel in the history of commerce. The bones of the cotton weavers are bleaching the plains of India." (Capital Vol. I. Ch. XV. Sec. 5.)

pursuits.' 'The handloom and spinning wheel were the pivots of the structure of the old Indian society'. And 'it was the British intruder who broke up the Indian handloom and destroyed the spinning wheel.' Thus Britain produced "the greatest, and, so to speak the truth, the only *social* revolution ever heard of in Asia.' This revolution not only destroyed the old manufacturing towns, driving their population to crowd the villages, but destroyed the balance of economic life in the villages. From this arose the desperate over-pressure on agriculture, which has continued on a cumulative scale right up to the present day. At the same time the merciless extraction of the maximum revenue from the cultivators, without giving any return for necessary expansion and works prevented agricultural development."[14]

APPENDIX I

Plunder in India and Britain's Industrial Development

(From Brooks Adams, *The Law of Civilisation & Decay, An Essay on History*.)

Upon the plundering of India there can be no better authority than Macaulay, who held high office at Calcutta......and who less than any of the writers who have followed him was a mouth-piece of the official class. He has told how after Plassey "the shower of wealth" began to fall, and he has described Clive's own gains : "we may safely affirm that no Englishman who started with nothing has

14. Marx Writes : "This rent may assume dimensions which seriously threaten the production of the conditions of labour, of the means of production. It may render an expansion of production more or less impossible, and grind the direct producers down to the physical minimum of means of subsistence. This is particularly the case, when this form is met and exploited by a conquering industrial nation, as India is by the English." (*Capital* Vol. III. Ch. Xlvii, Sec. 3.)

The "tribute" exacted by Britain from India is estimated by Marx in the following terms ; "India alone has to pay £5 million in tribute for good government', interest and dividends on British Capital, etc., not counting the sums sent home annually by officials as savings of their salaries, or by English merchants as a part of their profit in order to be invested in England." (*Capital*, Vol. Ch. XXXV., Sec. 4.)

ever, in any line of life, created such a fortune at the early age of thirty four! But the takings of Clive, either for himself or for the government, were trifling compared to the wholesale robbery and spoilation which followed his departure, when Bengal was surrendered a helpless prey to myriad of greedy officials. These officials were absolute, irresponsible and rapacious, and they emptied the private hoards. Their only thought was to wring some hundreds of thousands of pounds out of the natives as quickly as possible, and hurry home to display their wealth. Enormous fortunes were thus rapidly accumulated at Calcutta, while thirty millions of human beings were reduced to the extremity of wretchedness......The misgovernment of the English was carried to a point such as seems hardly compatible with the very existence of society. The Roman proconsul, who, in a year or two, procured the means of nearing marble palaces and baths on the shore of Campania, of drinking from amber, of feasting on singing birds, or exhibiting armies of gladiators and flocks of camelopards; the Spanish Viceroy, who, leaving behind him the curses of Mexico or Lima, entered Madrid with a long train of gilded coaches, and of sumpter-horses trapped and shod with silver, were now outdone......Very soon after Plassey the Bengal plunder began to arrive in London, and the effect appears to have been instantaneous, for all authorities agree that the "industrial revolution", the event which has divided the nineteenth century from all antecedent time, began with the year 1760. Prior to 1760......the machinery used for spinning cotton in Lancashire was almost as simple as India; while about 1750 the English iron industry was in full decline. At that time four-fifths of the iron used in the Kingdom came from Sweden. To the capitalist then, rather than to the inventor, civilisation owes the steam-engine as a part of daily life.

* * * *

For more than sixty years after the foundation of the Bank of England, its smallest note had been for £20, a note too large to circulate freely and which rarely travelled far from Lombart Street. Writing in 1790, Burke said that when he came to England in 1750 there were not twelve bankers's shops in the provinces, though then (in 1790) he said, they were in every market town. Thus the arrival of the Bengal silver not only increased the mass of money, but stimulated its movement; for at once in 1759, the Bank issued £10

and £15 notes, and in the country private firms poured forth a flood of paper.

* * * *

The influx of the Indian treasure, by adding considerably to the nation's cash capital, not only increased its stock of energy, but added much to its flexibility and the rapidity of its movement. Very soon after plassey, the Bengal plunder began to arrive in London, and the effect appears to have been instantaneous; for all the authorities agree that the industrial revolution, the event which has divided the nineteenth century from all antecedent time, began with the year 1760 Prior to 1760, according the Baines, the machinery used for spinning cotton in Lancashire was almost as simple as in India; while about 1750 the English iron industry was in full decline because of the destruction of the forests for fuel. At that time four-fifths of the iron used in the Kingdom came from Sweden.

Plassey was fought in 1757, and probably nothing has ever equalled the rapidity of the change which followed. In 1760 the flying shuttle appeared, and coal began to replace wood in smelting. In 1764 Hargreaves invented the spinning jenny, in 1776 Crompton contrived the mule, in 1785 Cartwright patented the powerloom, and chief of all, in 1768 Watt matured the steam engine, the most perfect of all vents of centralising energy. But, though these machines served as outlets for the accelerating movement of the time, they did not cause that acceleration. In themselves inventions are passive, many of the most important having lain dormant for centuries, waiting for a sufficient store of force to have accumulated to set them working. The store must always take the shape of money, and money not hoarded, but in motion. Before the influx of Indian treasure, and the expansion of credit which followed, no force sufficient for this purpose existed; and had Watt lived fifty years earlier, he and his inventions must have perished together. Possibly since the world began, no investment has ever yielded the profit reaped from Indian plunder, because for nearly fifty years Great Britain stood without a competitor. From 1694 to Plassey (1757) the growth had been relatively slow. Between 1760 and 1815 the growth was very rapid and prodigious.

APPENDIX B

On the nature of Village Economy

1

(*Karl Marx*: *Notes on India*)

These small and extremely ancient Indian communities some of which have continued down to this day, are based on possession in common of the land, on the blending of agriculture and handicrafts, and on an unalterable division of labour, which serves, whenever a new community is started, as a plan and scheme ready cut and dried. Occupying areas from 100 up to several thousand acres, each forms a compact whole producing all it requires. The chief part of the products is destined for direct use by the community itself and does not take the form of a commodity. Hence, production here, is independent of that division of labour brought about, in Indian Society as a whole, by means of the exchange of commodities. It is the surplus alone that becomes a commodity and a portion of even that, not until it has reached the hands of the state, into whose hands from time immemorial, a certain quantity of these products has found its way in the shape of rent in kind. The constitution of these communities varies in different parts of India. In those of the simplest form, land is tilled in common, the produce divided among the members. At the same time, spinning and weaving are carried on in each family as subsidiary industries. Side by side with the masses, thus occupied with one and the same work, we find the chief inhabitant, who is judge, police and tax-gatherer in one. The book-keeper who keeps the account of the tillage and registers everything relating hitherto; another official, who prosecutes criminals, protects strangers travelling through, and escorts them to the next village. The boundaryman, who guards the boundaries against neighbouring communities; the water-overseer, who distributes the water from the common tanks for irrigation; the Brahmin, who conducts their religious services; the school master, who on the sand teaches the childaen reading and writing; the calender Brahmin or astrologer, who makes known the lucky and unlucky days for seed time and harvest and for every other kind of agricultural work; a smith and a carpenter, who make and repair all the agricultural implements; the potter, who makes all the pottery of the village; the barbar, the washerman,

who washes clothes, the silversmith, here and there the poet, who in some communities, replaces the silversmith, in others, the school master. This dozen of individuals is maintained at the expense of the whole community. If the population increases, a new community is founded on the pattern of the old one, on unoccupied land. The whole mechanism discloses a systematic division of labour; but a division like that in manufacturing is impossible, since the smith and carpenter and etc. find an unchanging market, and at the most there occur, according to the size of the villages, two or three of each, instead of one. The law that regulates the division of labour in the community acts with the irresistible authority of nature, at the same time that each individual artificier, the smith, the carpenter and so on conducts in his workshop all the operations of his handicraft in the traditional way but independently and without recognising any authority over him. The simplicity of the organisation for production in these self-sufficing communities that constantly reproduce themselve in the same form, and when accidentally destroyed, spring up again on the spot and with the same name—the simplicity supplies the key to the secret of the unchangeableness of Asiatic Societies an unchangeableness, in such striking contrast with the constant dissolution and refounding of Asiatic States and never-ceasing changes of dynasty. The structure of the economic elements of society remains untouched by the storm-clouds of the political sky.

2

(From Charles Metcalfe's *Minute*, dated 7th Nov. 1830, printed in the *Report of Select Committee of House of Commons*, British Parliament, 1832. Vol. III.)

The Village Communities are little Republics, having nearly everything they can want within themselves, and almost independent of any foreign relations They seem to last where nothing else lasts. Dynasty after dynasty tumbles down; revolution succeeds to revolution; Hindoo, Pathan, Mogul Mahratta, Sikh, English all are masters in turn; but the village communities remain the same. In times of trouble they arm and fortify themselves; an hostile army passes through the country; the village communities collect their cattle within their walls, and let the enemy pass unprovoked. If plunder and devastation be directed against themselves, and the force employed be irresistible, they flee to friendly villages at a distance but when the storm has passed over, they return and resume their occupations. If a country remains for a series of years the scene of continued pillage and massacre, so that the villages cannot be inhabitated, the scattered villagers nevertheless return whenever the power of peaceful possession revives. A generation may pass away, but the succeeding generation will return. The sons will take the places of their fathers, the same site for the villages, the same position for the houses, the same lands, will be re-occupied by the descendants of those who were driven out when the village was depopulated ; and it is not a trifling matter that will drive them out, for they will often maintain their post through times of disturbance and convulsion, and acquire strength sufficient to resist pillage and oppression with success. The union of the village communities each one forming a separate little state in itself has, I conceive, contributed more than anyother cause to the preservation of the people of India through all revolutions and changes which they have suffered and it is in a high degree conducive to their happiness and to the enjoyment of a greater portion of freedom and independence.

TWO

The Theory and Practice of Mercantilism

'Accumulate, Accumulate ! That is Moses and the Prophets !'

K. MARX.

1. The Commercial Revolution in Western Europe : the background of Mercantilist Thought

The period of commercial capitalism is roughly taken as two and half centuries, from 1500 to 1750, when Western Europe emerged from the comparative stagnation of the Middle Ages, gradually discarded its feudal institutions, and acquired many characteristics of modern nationalism.

In 1500 the Western Europe had probably a population between 55 and 60 million. Most of them lived at a subsistence level tilling the soil, as serfs on the large estates of the feudal lords. Some of them were also independent peasant farmers. A small section were also employed as craftsmen, shopkeepers or servants of the nobles, higher clergy and well-to-do merchants who held the reins of economic and political power.

The productive system was mainly agrarian. There were few towns, which were mainly centres of foreign commerce. London, Paris, Naples and Milan were big towns (of about 200 thousand) ; Antwerp, Amsterdom, Lisbon, Seville, Rome, Palermo were middle-sized towns (of about 100 thousand) and there were also few small towns (of 40 to 50 thousand). The towns were widely scattered.

In these towns, manufacturing processes took place in the shop of the craftsman employing a few journeymen and apprentices. The goods produced were in the main furniture, kitchen utensils, pottery, candles, hardware and clothing. But in the manufacture of woolen textiles (which was the dominant industry of the thriving commercial towns of northern Italy or Flanders) the craft guild system had given way to more 'advanced' method i.e., domestic or 'putting out' system. In this system, the trader or merchant-capitalist purchased rawwool ; put it in the homes of spinners and weavers to be worked up with their own tools and implements : collected the crude cloth and put it out with other workers for dyeing and finishing and marketed the completed product. In some instances a still more advanced or more capitalistic method was employed ; the capitalist provided not only the raw materials but also the tools and a large building where he employed a few hundred labourers on various processes of textile manufacture. These capitalists arose out of two sources : master-craftsmen transforming themselves into employers of labour through previous accumulation or merchants turned capitalists in order to (i) ensure supply and/or (ii) to extract more from the artisans. But these cases were relatively few in number and the craft method of the middle ages was the dominant form.

Since the productivity of labour was low, the incomes earned were just sufficient to maintain physical existence, trade in the fifteenth century was small in volume. It was confined mainly in towns or immediately surrounding countryside. The long-distance trade was confined into few things, for example grains from the Baltic region and salts from the Baltic and Northseas to supplement the needs of the city-dwellers, and flow of luxuries for the rich. These included the movement of fine cloth,silk, perfumes, spices, drugs and dyes through the long established trade routes from the East, of wines and fruits of the Latin countries, of other products like armour, leather goods, Venetian glassware and furs, of the woolens of northern Italy, Flanders and England.

The turn of the fifteenth to sixteenth century was really a period of great transition. The birth of capitalism brought so many changes within so short a period and all changes are interlinked in such a manner that the search for the 'crucial' factor becomes rather difficult. Yet, two very important factors standout clearly during this period which joined together to generate changes in the previously described method of production.

There was, first, the growth of population. The increase in population of Europe by 17 million (nearly one third) within 50 years (from 1450 to 1500) had a number of effects helping this sudden transition. More people meant a more rapid migration from the country to the towns, thus furnishing more hands for the rising industries. It meant more hands to man the ships, more recruits to fill the ranks of the armies, more colonists to settle overseas. It meant, in turn, a larger demand for fish, grain and meat, for textiles, pottery and muskets, for shoes, knives and Bibles. It meant more profits for those who made and handled these goods, more capital

from the profits that were saved, and an increasrd demand for the luxuries that the profits made possible.

And, second, there were new geographical discoveries. The important among them were the Cape route to the orient (Vasco da Gama, 1498), the North America continent (Columbus, 1492), Brazil (Cabral, 1500) and Magallan's Circumnavigation of the globe (1522).[1] This discoveries led to (a) improved shipping (bigger and better ships and developed new navigation instruments) ; (b) new techniques (the widening of the market facilitated division of labour and led to technological improvements) ; (c) the influx of goods from America and the orient, including slave trade ; (d) emigration, which relieved population pressure, provided new raw materials and markets for finished goods and led to the need for 'inventions' for labour-saving capital-intensive techniques of production, (e) breakdown of the guild organisation as it could not cope with production on a larger scale which has become necessary ; and lastly, (f) the vast influx of gold and silver, which was the most important of all.

Why this influx of treasure was the most important of all ? During the 14th and 15th centuries, expansion of output led to declining prices which acted as a deterrant to expansion. The gold and silver which came first to Spain and Portugal was distributed throughout Europe through the Ricardian pricespec ie flow mechanism. Prices quadrupled, wages and rents lagged behind, giving an incentive to speculation, capital building, promotion of new industries etc.. Very large profits were made from the Oriental trade and the inflow of gold made possible the import from Orient without need to sell an equivalent value of European goods to the Orient. "Without it, the

1. Henri See and also Hamilton (*American Treasure and the Price Revolution in Spain, (1501–1650)*, usually stressed these new discoveries. Karl Marx recognised the existence of "sporadic" capitalism in the Mediterranean cities of the fourteenth and fifteenth centuries, but dated the "era" of capitalism from the sixteenth century. The Middle Ages contributed two kinds of capital : Usurer's capital and Merchants' capital. Exploitation of colonies, slave trade and monopolies added to the capital accumulation. But till the breakdown of feudalism this capital was prevented from being converted into industrial capital. Through enclosures and the breakup of feudalism 'a mass of free proletarians was hurled on the labour market.' This process of forcible expopriation gained new impetus from the Reformation and 'humbled' the innates of the monastries 'into the proletariat.'

'unfavourable' trade with the Orient could not have been continued. Much of the metal coming from America ended in the Orient."[2]

All these combined to generate what is known as 'commercial revolution' as distinct from 'industrial revolution' which is supposed to have started from the middle of the eighteenth century. The gap between two revolutions is thus considered to be one and a half century. This preparatory period was necessary for the rise of a bourgeois class and the breakdown of feudal economic structure. This does not mean that agricultural or industrial developments were not taking place during this incubation period. The quantitative changes were being increasingly multiplied to generate forces and motivations for the qualitative leap to the industrial age.

Yet, the dominant trend of this period was the enormous expansion of European commerce rather than her manufacture. New trade routes were developed, bringing in new commodities and new markets. There was a relative decline in the importance of the Italian Cities and the Hanseatic League in control of international trade. The commercial class from Spain, Portugal, Netherlands, and England were becoming increasingly important. The most marked technical progress occurred in the field of navigation. 'Ships were built larger and faster, with more decks and more masts and a combination of square rigged and lateen sails. Knowledge of currents and winds was enlarged. The science of astronomy advanced, the compass and astrolabe made possible more efficient navigation on long voyages. Maps and charts were improved, light houses built, and harbours cleared.'

The commercial bourgeoisie or the trading class gradually dominated the economic and social life. He also effected some changes in the mode of production. The stranglehold of feudal lords over the serfs was strong enough to prevent mechanisation of agricul-

2. In the appendix on mercantilism in his *General Theory*, Keynes provided another rationale for the relation between the 'price revolution' and the rise of capitalism. Keynes argued that, the important aspect of the gold inflow was not so much its effect on prices as its effects on liquidity and bank reserves. In a money-exchange economy the volume of bank credit depends on the size of the nations' reserves of precious metals. The influx of these metals, therefore, resulted in low interest rates and "easy money". This helped and accelerated the volume of private investment.

ture and the desire to improve agricultural implements was less strong. Changes were, therefore, possible in industry. The craft guilds were becoming obsolete, the putting-out system, or the large but unmechanised factory became the dominant mode of production not only in woolen textiles, armour and mining, but also in fire-arms, cutlery, hardware, shipbuilding, and many other industries. The merchant-capitalist became the lender and counsellor of ruling kings and princes.

The most highly developed capital markets were in the Mediterranean cities and in the Netherlands. Commerce was financed to a very large extent by borrowed capital. Capital might be provided under the various *commenda* arrangements, through the *societas*, or even through the *sea loan*. Straightforward loans on personal or commercial security were also made. Often shares were sold to raise capital for ships and cargoes. In Italy and in Spain banks of deposit existed and payments were made by bank transfers. In certain periods these banks also made loans. Foreign exchange transactions were carried on both as a means of making loans and to transfer capital. The operation of the fairs involved a great deal of sales credit, as did also the transaction of local business. Public finance involved the issue of government securities, state banks, huge international loans etc. The great financial houses like the Bardi, Peruzze, Medici etc. rivalled the Rothchilds and Morgans and Rockfellers of modern times.

In fifteenth and sixteenth centuries this financial centres shifted and England became gradually more important. She developed her own class of big financiers, such as Gresham. During the sixteenth century Antwerp was the most important international financial centre, over-shadowing the Italian cities of Venice and Genoa. 'Financial capitalism was perhaps more highly developed in Europe up to 1600 than any other form of capitalism'. It should be mentioned that in England, the birth of the East India Company with purpose to trade with countries of the Orient took place in 1600.[3]

3. "In this period there occurred the first modern crisis, based not upon famine nor plague nor invasion but upon over-extension of credit. The break came in 1556 and the panic reached its height in 1559. The depression in the financial market continued for several years afterward, and the capitalistic development of Europe was retarded as a result. The basis of the credit inflation was Spanish war finance, with

This period saw the rise of powerful Nation-States in Europe. Until after the middle of the fifteenth century, the terms 'England' 'France' 'Spain' and 'Netherlands' carried little political meaning. They had principally geographical or linguistic significance. There had been Kings and Queens in these countries but their power to command the loyalty of their subjects was constantly in dispute, always challenged by the strong feudal nobility and the church. But with increase in the accumulation of riches through expansion of commerce and the rise of commercial class, the bases of the power of feudal nobility gradually eroded.) The expansion of trade brought with it and was supported by an increase in the supply of money. Towns grew and multiplied, expanding the number and influence of the wealthy burgher class. (The use of money spread, invading even the institutions of feudalism.) Mutual feudal rights and obligations between Lord and Vassals got transformed into contractual payments in money. (With the spread of money economy the royal monarchs no longer had to depend on feudal levies of armed knights for military support, but could hire mercenaries, using the proceeds of the taxes in money payments that replaced contributions in kind.) 'And in the rising burgher class, they found men experienced in business and finance to administer their increasingly complex affairs and to provide, when needed, substantial loans. Finally, the introduction of gun powder from China, together with the introduction of muskets and cannon, destroyed the impregnability of the castle strong-hold and relegated chain mail and plate armor to quiet corners of museums '

the Fuggers and other large houses making huge loans to the King. Antwerp was glutted with obligations of the Spanish Crown. Gresham noticed signs of disturbance as early as 1553. In France, both King and Cardinal were borrowing constantly. In addition to these public loans, an unestimable amount of private credit was extended by merchants, financiers and bankers. In 1557, the war between France and Spain broke out. Philip was advised by the Church to repudiate, but he refunded and consolidated for fear of losing his credit altogether. Short term loans were converted into perpetual *rentes*. Security values fell accordingly. On the date set for payment, only a small part of the interest owed was paid, and the king announced the floatation of new loan. The market was unable to stand such a strain ; both France and Spain became bankrupt and were forced into peace. The 'wars of religion' completed the collapse of the international capital market. Thus the financial crisis which is a characteristic of the capitalistic system, makes its appearance in the sixteenth century." Summarised from Henri Hauser. 'The European Financial crisis of 1569, *Journal of Economic and Business History*, 1930 by Higgins, Economic Development. P 230-1.

(These were the chief elements which shaped the economic ideas of the sixteenth and seventeenth century. The growing volume of trade, of goods and of money, the rise in prices and profits supporting rapid capital accumulation, growing population, the rise of the merchant class, the reformation movement against feudal catholic church, the breakdown of the feudal nobles and strengthening of the Crown leading to the rise of the Nation-States—all these led to the much-needed philosophising which was later named as Mercantilism.)

2. Mercantilism

The enterprising merchants and craftsmen needed the Nation-State as much as the National State needed them. The Crown built, maintained and safeguarded highways and waterways and abolished private tolls on them. It encouraged groups of business-men by subsidies and grants of monopoly. It protected the infant industries against foreign competition for their products on the one hand and facilitated the import or forbade the export of their raw materials on the other. Its authority broke through the feudal restrictions on trade and accumulation of wealth and levelled the barriers of the conservative guilds against entry of new-comers into their lines of business of competition with their products.

The Nation-State must, therefore, be powerful, to increase the power of the state by all possible means must be a nation's primary objective. Military strength is, of course, an important component of national power. A large army is to be recruited, trained and armoured. A large navy was more important for the mines providing the vital flow of gold and silver lay overseas, and shipments of these precious metals had to be protected, also the merchant-vessels carrying profitable cargoes. Colonies are to be protected by the navy, they furnished an outlet for growing population and could supply varieties of raw materials to be processed and manufactured in the mother country.

All this is possible through money which consists of gold and silver. The precious metals are of paramount importance. Wealth considered above all else in gold and silver.) Was not these metals the most convenient and tangible form of wealth ? With it one could buy anything else, for it was acceptable throughout the world. It was durable and could be stored indefinitely until needed. Saving is the key to capital accumulation. It embodied large value in small bulk. Clement Armstrong, an English Mercantilist of the early sixteenth century, asserted that it is 'better to have plenty of gold and silver in the realm than plenty of merchants and merchandizes", and Monchretien, a Frenchman writing a century later, said, 'we live not so much from trade in raw materials as from gold and silver'.[4]

And how a country could accumulate riches ? If there were mines, there was no trouble. But, for instance, Italy had no mines, while Spain had direct access to gold and silver. Antonio Sera (1580—1650) in his 'A Brief Treatise on the causes which can make gold and silver plentiful in Kingdoms where There Are No Mines' mentioned, that manufacture was superior to agriculture for this purpose, since its products could more readily be sold abroad thus bringing in money. Agriculture was dependent on the weather, whereas labour applied in trades was 'sure to bring gain'. Crops were limited by the amount of land which could be devoted to them ; not so with handicraft operations. Farm produces were perishable and bulky and could not profitable be stored for long or carried great distance, but woolen cloth, linens, silk, arms, pictures, sculpture, printing, drugs, and the like 'may be exported with every facility to any distant country'. Moreover, they yielded great return.

The country with no mines could thus get those precious metals through foreign trade, only by engaging herself in trade, but if it could constantly maintain a favourable balance of trade, or an excess in the value of exports over imports. The gain arose from the fact that the deficit country had to meet this gap with gold and silver. Excess of exports over imports thus was the only way of acquiring specie for a country with no mines.

The "bullionism" and the "balance of trade theory" were the core of all Mercantilist ideas, from which followed logically the policies they prescribed or adopted. It followed that the government should forbid the export of gold and silver and should try to maximise import of bullion by strict regulation of international payments and the individual transactions that brought them about.

4. Quoted in Heckscher, *Mercantilism*. P, 187.

A foreign trader who sold goods for precious metals to be brought into the country was to be encouraged, but one who merely bartered one commodity for another, or built up his capital abroad, was evading his duty.

Thomas Mun's treatise written in 1630, entitled as 'England's Treasure by Foreign Trade' stated : "the ordinary means therefore to increase our wealth and treasure is by foreign trade, wherein we must ever observe this rule : to sell more to strangers yearly than we consume of theirs in value." And, how to increase earnings from foreign trade ? Mun argued that, what could be exported was what could be spared by domestic population. Much could be done to restrict imports and to expand the exportable surplus. If England should use its waste land to produce hemp, flax, tobacco and other crops customarily 'imported' it would diminish the need to buy abroad. Purchase of foreign-made business could be decreased by enforcing laws against 'excesses' in consumption.[5]

The British Mercantilist also pointed out that it would be desirable to restrict the English ships, the carrying of English commerce, and so avoid the paying of freight to foreigners. Why buy fish from the Dutch when they are caught in English, Scottish, and Irish water ? Why not restrict purchase of fish to native fishermen ? Profit can be made by importing goods to be re-exported, and to do this warehouses for foreign merchandise are desirable.

Trade with distant places like the Indies brings in more money than trade with neighbouring regions, hence should be encouraged, even if the trader makes no more profit at it. For example, pepper sells London for two shillings (24 pence) a pound. It can be bought from Amsterdom for 20 pence—a profitable transaction. But if the merchant buys pepper imported from English by an English company, only 3 pence a pound need be paid the Indians. Even if the price of the pepper delivered in London is still 22 pence, the costs of transportation, insurance, and the like are paid to English rather than Dutch persons and are a mere transfer within the Kingdom.

Export duties should be reduced. On goods manufactured out of foreign materials they should be abolished entirely. This would

5. We shall see later on that not only import but wearing of Indian silk was also altogether prohibited in England,

enable English manufacturers to compete abroad successfully with Italy and the Netherlands and would lead to more employment. Likewise there should be no duties on goods brought in to be re-exported. But taxes on domestic consumption of imported goods should be raised, both to discourage payments to foreigners and to enlarge Kings' revenues.

Mercantilism was the name applied to this type of policies by its subsequent critics, notably Adam Smith ; the name was not adapted by its practitioners. They were not, indeed a self-conscious school of economists at all, nor did they pretend to outline a complete and scientific system of thought. They were rather practical politicians, statesmen, merchants who wrote in defence of favoured policies on interests which they were furthering in practice.

Critics on mercantilism were not wanting. It has been said that the mercantilists had an essentially static view of the world and its resources. There was no conception of expansion or outturn of wealth through technology and increasing productivity which all could reasonably share without fighting for the limited amount of gold and silver on the face of earth. Heckscher has described the situation in this way :[6]

"Within the state, mercantilism consequently pursued thorough-going dynamic ends. But the important thing is that, this was bound up with a static conception of the total economic resources in the world ; for this it was that created that fundamental disharmony which sustained the essential commercial wars. Both elements together implied that the position of a particular country could change and was capable of progress, but that this could only happen through acquisitions from other countries. This was the tragedy of mercantilism. Both the middle ages with their universal static ideal and laissez-faire with its universal dynamic ideal avoided this consequence. Without grasping this it is impossible to understand mercantilism either in theory or in practice."

3. The Nature of the Merchant Bodies

The human institutions built up in a country at a particular period of time originate from the needs felt for them by the makers of these

6. Heckscher, *Mercantilism*, vol. II. pp. 25-6.

bodies. These bodies are obviously organised in a manner so that the group of men bound up by a common interest can pursue their goal through them.

The diverse interests of the merchant capitalists of England were propagated by different English pamphlet-writers. The central tendency in economic thought from the close of the sixteenth to the middle of the eighteenth century, as revealed in the writings and preachings of these pamphleteers is commonly known as mercantilism. The leading features of the mercantilist outlook are wellknown : bullion and treasure as the essence of wealth ; regulation of foreign trade to produce specie inflow ; promotion of industry by inducing cheap raw material imports ; protective duties on imported manufactured goods ; encouragement of exports, particularly finished goods ; and an emphasis upon increasing population and low wages. The core of the thought is the doctrine of national power through a constant favourable balance of trade. Why such ideas developed in that period has been answered by Adam Smith : mercantilism is nothing but a tissue of protectionist fallacies foisted upon a venal parliament by 'our merchants and manufacturers', grounded upon 'the popular notion that wealth consists in money.'

Thus the money making goal or the mercantile pursuits of the group of merchants was the basis of unity which led them to build up the East India Company. From its inception, this company started activities which can properly be explained with reference to the then prevailing mercantilist ideas. Ideas are put into practice and experience from practice generates new ideas or sharpen the old ones. The common self interest of the merchants expressed itself through various threads of mercantilist notions. And the institution, the body, the company which was built up to achieve that selfish group interest in material terms, in terms of pound, shilling and pence, must by obvious logic or necessity continue to be guided by those 'ideas'. The East India Company was, therefore, a 'typical' of such mercantile companies in Europe. If in mercantilism was revealed the philosophy of the merchant bourgeoisie of that period, the East India Company worked as the body to practice that theory into real concrete shape. Its name and fame was due to its phenomenal success in building up biggest empire the world has ever seen. Its early successes were due much to favourable constellation of historical forces and its later successes were due to its early successes. Shown of its 'successes', it revealed all the characteristics common for the mercantile companies of the period.

What were the essential characteristics of these mercantile bodies of the merchant bourgeoisie ? The main concern of these companies was for the maintenance of a profit-margin between the price in the market of purchase and the market for sale. Obviously they needed monopoly rights of both buying and selling. Without monopoly of selling rights, there would be competition leading to a fall in the price and reduction of the profit-margin. Not only that, without the monopoly of buying cheap and enlarged profit-margin cannot be maintained, and thus, these companies were interested in having monopoly of buying rights too. When they purchase from foreign lands, it necessitated substantial control over the buying country. These monopoly rights or privileges could be granted by the state power, and from the beginning, these companies were sanctioned by Royal Charters. Because of the Royal Charter they were allowed to function not merely as trading bodies, but to a considerable extent as military and political authorities in their spheres of trade. Also, not everybody could secure admission to these privileged companies at any time he desired, these were maintained as highly exclusive bodies. This was restricted by a limitation of apprenticeship and by entrance fees which generally grew heavier in course of time. For instance, for the East India Company the entrance fee was £50 for a merchant, £66 for a shop-keeper, and for a gentleman "such terms as they thought it." Moreover, the craftsmen were generally not allowed to become members of these companies, which was 'one common feature which characterises the whole of the charters.' The leading members had a power of veto in the admission of new members. Thus, patrimony was the main channel of getting a place in such companies, just like inheriting a vast property.

Besides restricting the fortunes of their enterprise to narrow circles, the quantities traded by these companies were carefully regulated, presumably in the interests of price maintenance, by the control of shipping that the company exercised. Minimum selling prices and maximum buying prices were enforced on members.

The East India Company, the most powerful representative of British merchant capital, had all the above characteristics. 'To obtain

and maintain exclusive political privileges in England, it combined bribery with protestations of honesty, intrigues with outward submission, plunder of foreign lands for the small clique with declarations of serving the British interest of promoting trade ; and later, rapine of India with the martyrdom of bearing the 'White Man's burden' in the colony. To obtain mastery of Eastern waters (and particularly India) vis-a-vis its European rivals, it alternated between truce and treachery, peace and war, as the occasion demanded. And with the same governing objective of acquiring fortunes irrespective of scruple or any such accepted virtue, in India, so long as the Indian powers were strong, it used flattery, bribery and court intrigues ; played with guile and ostentation of friendship and alliance ; alternated acquiescence to the Indian rulers and sudden attacks ; and after it became the political power in India, it let itself loose on this proverbially rich land to make hay while the sun shines'.

4. The European Companies in India

Long before the advent of the European merchant companies in India, her wealth and splendour were quite known to Europe. The Greeks and Romans were well acquainted with Indian merchandise. In those times, direct commerce developed between Europe and the western sea-ports of India but 'the weakness and distractions of the Roman Empire, and subsequently the rise of the Mohammedan power cut off the nations of Europe from all direct communication with India.' Henceforth, the trade between India and Europe was taken over by the 'Moors of Egypt and Arabia.' They used to collect the merchandise from Indian border towns and ports and hand them over to the European traders in the Mediterranean ports, to the enterprising Merchants of Venice and Genoa.

This merchandise went by the sea-route—by the Indian Ocean and Red Sea—to Egypt and Syria, to Greece and Turkey, and also by the Persian gulf to Persia and to the Middle East. Some goods also trickled to places like Bokhara by the overland routes which were rather inaccessible. In later times also, the European merchants contacted India mainly by the sea. India had 5000 miles of sea-frontier as compared to about 4000 miles of land-frontier of the Himalayan peaks. And also, her sea-frontier was never well-guarded by the Indian rulers. Sea route was thus convenient for them.

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By the fifteenth century, the riches of India 'violently attracted the attention of Europe', and the cupidity of all maritime nations in Europe was roused, and all of them set about establishing direct 'trade relations' with India.[7]

The Royal powers and merchant lobbies helped to finance the sea-voyages of the explorers and the great geographical discoveries were made in the last quarter of the fifteenth century affecting the commercial relations of the different countries of the world. In 1498, Vasco-da-Gama discovered the sea-route to India via the Cape of Good Hope, and on 27th May of that year landed at Calicut. 'Perhaps no event during the Middle Ages had such far-reaching repercussions on the civilised world as the opening of the sea-route to India.'

Europe's main food was meat, which must be properly cooked and protected from putrefaction. Thus the most coveted commodities from the Orient were spices. And the Portugese found them in plenty. By the beginning of the sixteenth century, they established themselves in India as a trading body. A number of Portugese settlements grew up near the sea, such as Goa, Diu, Daman, Salsette, Bassein, Chaul and Bombay at the west coast; San Thome near Madras at the South-east; and at Hugli in eastern India.

But the Portugese, instead of confining themselves within the limits of legitimate trade, took to robbery and piracy and endeavoured to establish their supremacy in the eastern seas. This inevitably led to conflict with the ruler of Calicut, whose prosperity depended upon Arab merchants. The decline of the Portugese were due to many causes: (a) their religious intolerance provoked hostility of the Indian princes; (b) their clandestine practices in trade unpopularised them; (c) the discovery of Brazil shifted their interest away from the East; and (d) they failed to compete successfully with other European companies.

Next to the Portugese came the Dutch. In spite of Portugese opposition, the Dutch were bold enough to send four ships to trade

7. "The commerce of India, even when confined to those narrow limits which a carriage by land had prescribed, was supposed to have elevated feeble states into great ones; and to have constituted an enviable part in the fortune even of the most opulent and powerful; to have contributed largely to support the Grecian monarchies both in Syria and Egypt; to have retarded the downfall of Constantinople; and to have raised the small and obscure Republic of Yenice to the rank and influence of the most potent kingdoms."—James Mill, *The History of British India*, P. 3.

with India via Cape of Good Hope. This experience led to the incorporation of The United East India Company of the Netherlands for trading in the East by a Charter granted by the Dutch States General on 20th March, 1602. This also empowered the company to make war, conclude treaties, acquire territories and build fortresses. It was thus made 'a great instrument of war and conquest.'

Though the Dutch paid more attention to the Far Eastern areas, such as Sumatra, Java and Borneo, they also built up "factories" (the trading depots of these merchant companies were generally called by this name) in Gujerat, in West India, on the Coromandel coast in South-eastern India and in Bengal, Bihar and Orissa. By supplanting the Portugese, the Dutch practically maintained a monopoly of spice trade, central Indian indigo, and raw silk, textiles, salt petre, rice and Gangetic opium from Bengal, Bihar, Gujerat and Coromandel. Although newly arrived in the field, the Dutch became a much stronger rival to the English than the Portugese. The military superiority of the English in India and a shift in the European balance of power in favour of England led to the ultimate downfall and subsequent withdrawl of the Dutch company during the middle of eighteenth century.

The English mercantile bourgeoisie did not lag far behind. Since Portugese penetration they had an eye on this very lucrative commerce and had made several exploratory voyages. In 1599 the English East India Company was formed and in 1600 it secured a Royal Charter granting them 'the monopoly of commerce in eastern waters.'

The Danes came to India in 1616. But they were interested only in small scale and often 'clandestine' trade. Not only that, the 'British capital played a large part in their operations', and 'the Danes never had any pretensions to empire on a large scale'.

The French East India Company was sponsored under State patronage in 1664 by the famous French statesman Colbert, the great exponent of mercantilism in France. His aims were to serve the power and glory of the State rather than to increase private wealth. But the enhancement of national power and seeking of gain were almost indistinguishable in the minds of those who favoured the mercantile regime. The "Compagnie des Indes Orientales" established the first French factory at Surat in 1668. Next year another factory was established at Masulipatam. Thus came French settlement at

Pondicherry and Chandernagore (1690-92). The European rivalries between the Dutch, the English and the French had their repercussions in India and also the conflicting and imperial interests of these companies here, embittered their relations in Europe. For nearly twenty years (1740—1765), the Carnatic (the Coromandel coast and its hinterland) became the scene of a long drawn contest between the French and the English, out of which the English came out as victorious.

The Ostend Company, organised by the merchants of Flanders and formally chartered in 1722 had but a brief career in India. A Swedish East India Company was formed in 1731, but its trade was confined almost exclusively to China. And Mr. Holden Furber concludes: "In 1770's and 1780's, Copenhagen, Ostend, and Lisbon became the centres of Indian trade which was for the most part British in all but name."[8]

5. The East India Company

The history of the East India Company is no doubt a most fascinating study for the students of economic history. The story of its birth, its conflicts and struggle inside and outside, its expansion and ultimate decay reveals in a nutshell the whole dynamics of British capitalism, especially the phase of its mercantile capital. The laws and motions of three centuries of economic history, its passions and guiding force, all are contained within the short compass of the life history of a Joint Stock company.

When in 1600, the East India Company received a charter from Queen Elizabeth granting it the monopoly of eastern trade for fifteen years, the turn of the century was really the sharpest turn in the course of world economic history. In 1599, a group of London merchants, under the direct auspices of the Merchant Adventures floated the East India Company: 'an association was formed, and a fund subscribed, which amounted to 30, 133 *l*, 6s. 8d., and consisted of 101 shares: the subscriptions of individuals varying from 100 *l.* to 3000 *l.*' The company was named as "the Governor and company of Merchants of London, trading to the East Indies." Of the many exclusive privileges obtained by the company through the Royal Charter, the most important ones were:

8. Holden Furber, *John Company at Work* Pp. 110-159.

(a) 'prohibiting the rest of the community from trading within limits assigned to the company, but granting to them the power, whenever they please, of bestowing licenses for that purpose';

(b) power to 'export in each voyage 3,000 *l.* in gold and silver; also English goods for the first four voyages exempt from duties, and to re-export Indian goods in English ships under the same privilege to the end of the charter';

(c) validity of the charter for fifteen years, 'but under condition that, if not found to be advantageous to the country, might be annulled at any time under a notice of two years: if advantageous, it might if desired by the company, be renewed for fifteen years.'

A particular incident in the early life of company will reveal the tensions and passions of mercantile capital in the early days of the company's life. It was the natural assumption of the merchants, rulers and thinkers of the time that the accumulation of money or the metals out of which it was chiefly made—gold and silver—must be the chief objective of national policy. Spain had led the way in becoming rich by accumulating gold and silver. Other nations sought, with whatever resources available, to follow the example set by Spain.

The sure way of accumulating bullion was constant export surplus. And the logical inference of the 'bullionists' therefore was that government should forbid the export of gold and silver and should try to maximise import of bullion by strict regulation of international payments. England forbade the export of specie. Under the environment of such mercantilist passion, in 1613 one of the East India Company's ships was wrecked, giving rise to the discovery that it was carrying a large amount of bullion out of the country. A spirited controversy arose out of this incident.

Among the defenders of the company was Thomas Mun, son of a London merchant. He joined the East India Company in 1615 and acted as what would now be called a public relations expect—certainly one of the most noted in history. His defence of the company took the shape of a mature contribution of the theory of foreign trade, written about 1630, and has become one of the classics of economic science. It was entitled "England's Treasure by Foreign Trade." Mun argued that "ordinary means therefore to increase our wealth and treasure is by Foreign Trade, wherein we must ever observe this rule: to sell more to strangers yearly than we consume of theirs in value." If, argued Mun, this rule is observed, the net result will be to bring money into the country, even if in the process of enlarging foreign trade some gold and silver have to be spent in foreign lands.[9]

Since the birth of the company, it was motivated by three guiding principles : (1) Preservation of its monopoly rights and privileges with regard to Eastern Trade vis-a-vis other English merchants ; (2) Execution of plans to oust rival mercantile interests from the eastern theatre ; (3) Securing special and exclusive privileges for itself from the oriental governments in order to receive goods from the buying countries at the least possible expense.

Now the first principle was difficult to maintain in practice. Though, from the beginning, the company remained closely linked up with the monarchy (Queen Elizabeth being one of its shareholders), those merchants who could not manage to secure admission to the privileged ranks of export companies came into acute conflict with trading monopolies. The East India Company soon became the greatest eye-sore to them, for it developed as the most important foreign trading company in England, its clear profits were 'hardly ever below 100 per cent, being in general more than 200 on the capital of the voyage.'[10]

While reaping great fortunes, the small clique of the company's shareholders endeavoured to maintain their privileged position by proclaiming how the company was serving the interests of the British Nation. Naturally the havenot merchants were not pleased with the 'national service' rendered by the East India Company. They, therefore, conducted a vigorous campaign against the monopolist

9. "Indeed," continued Mun, keeping too much money within a country is bad, since "plenty of money in a kingdom doth make the native commodities dearer, which as it is to the profit of some private men in their revenues, so it is directly against the benefit of the Public in the quantity of the trade ; for as plenty of money makes wares dearer, so dear wares decline their use and consumption. It is a true lesson for all the land to observe ; lest when we have gained some store of money by trade, we lose it again by not trading with our money."

10. "Independently of the fact that whole fleets were sometimes leden with captured goods, trade was often carried on by compulsory means, calculated to ensure a profitable return only to the stronger party. These first voyages, in short, exhibit the profits of trade combined with the produce of piracy." Hugh Murray, *History of British India*, p. 42.

companies in general. But the influence of the monarchy was on the side of big chartered companies. Yet there were 'weak' rulers, causing inconvenience to the East India Company, when sometimes other rival companies were also granted charters encroaching upon the goods or the territorial limits already granted to it. In order to resolve the difficulties created by the Royalty, the King and other 'great men' of England were occasionally to be 'appeased' by 'bribery' or loans for very longterms, mostly uncertain'.

When the power was transferred from the Royalty to the Parliament, the fight of the deprived section of the English merchant bourgeoisie took the parliamentary form, of movement for dissolution of all royal monopolies ; antipathy to particular restrictions, damaging to sectional interest, became transformed into a general movement against monopoly. To quote Maurice Dobb : "together with its denial of the right of arbitrary taxation and imprisonment, the challenge by Parliament to royal grants of economic privilege and monopoly can be said to have formed the central issue in the outbreak of the seventeenth century revolution."[11]

All these dealt severe blows to the royal prerogative and all the monopoly companies except the East India Company weakened to a large extent. The small clique of about forty persons closely connected with the court cornered the majority shares and continued to rule. Yet the "Free merchants" or the "Interlopers" were causing anxiety to the company. In 1690, these free merchants formed themselves a society, subscribed a fund, and petitioned the Parliament to throw open the Indian trade. This led to an agitation against the East India Company and in 1694, Parliament passed a resolution that "all subject of England have equal rights to trade in the East Indies, unless prohibited by the act of Parliament." The Act of the Parliament recognised the New or English East India Company in contra-distinction to old East India Company or London Corporation. The rivalries started causing financial loss to both. At last in 1702, the end was reached. By the Instrument of Union of that year the financial issues were readjusted, the old company received seven years' grace in which to wind up its affairs, and after that the two bodies were to merge into the "United Company of Merchants of England

11. *Studies in the Development of Capitalism*, p. 192.

Trading to East Indies." Thus the newly organised East India Company began to represent more broadly the interests of British merchant capital.[12]

The history of East India Company is also studied with innumerable minor and major political conflicts throughout the seventeenth century and up to the middle of the eighteenth. They had to reckon with the Portugese first, and then with the Dutch. In the seventeenth century, the French were more or less in the background. In the eighteenth century, the British had to contend with the French, whom they ultimately subdued and ruled the subcontinent without rivals for more than a century.[13]

Taking advantage of the political disorders in the country, it began to come out more openly to establish its position by territorial acquisitions. Marx wrote: "The paramount power of the Great Moghul was broken by the Moghul Viceroys. The power of the Viceroys was broken by the Mahrattas. The power of the Mahrattas

12. That is why Marx wrote about the East India Company: "The true commencement of the East India Company cannot be dated from a more remote epoch than the year 1702, when the different societies, claiming the monopoly of the East India trade, united together in one single company. Till then, the very existence of the original East India company was repeatedly erdangered, once suspended for years under the protectorate of Cromwell, and once threatened with utter dissolution by parliamentary interference under the reign of William III. It was under the ascendency of Dutch Prince when the whigs became the farmers of the revenues of British Empire, when the Bank of England spring into life, when the protective system was formally established in England, and the balance of power in Europe was definitely settled, that the existence of an East India Company was recognised by Parliament. That era of apparent liberty was in reality the era of monopolies, not created by Royal Grants, as in times of Elizabeth and charles I, but authorised by the sanction of Parliament. This epoch in the history of England bears, in fact, an extreme likeness to the epoch of Louis Phillippe in France, the old landed aristocracy having been defeated, and the bourgeoisie not being able to take its place except under the banner of *moneyocracy* or the '*haute finance*'. The East India Company excluded them from parliamentary representation. In this, as well as other instances, we find the first decisive victory of the bourgeoisie over the feudal aristocracy, coinciding with the most pronounced reaction against the people a phenomenon which has driven more than one popular writer, like Cobbett, to look for popular liberty rather in the past than in the future."

13. In the words of Marx: "No longer conquering, it had become *the* conqueror. The armies at its disposition no longer had to extend its dominion, but only to maintain it. From soldiers they were converted into policemen."

was broken by the Afgans, and while all were struggling against all, the Briton rushed in and was enabled to subdue them all."

That the political conquest of India is "a matter of coincidence," or "a historical accident," by the "peaceful traders with no designs on India territory" as put forward by the British intellectuals, cannot be accepted in the face of facts. As early as 1687, the court of Directors wrote to the chief of Madras, "to establish such a politie of civil and military power, and create and secure such a large revenue to secure both......as may be the foundation of a large, well grounded, secure English domain in India for a long time to come."

The struggle for effective political power in India by the East India Company is based on neither religious nor ideological, but hard economic reasons. It was the logical culmination of the mercantilist policy of the merchant bourgeoisie. The Magna Carta of English trade in India was obtained in 1717 by the company from Emperor Farrukhsiyar. It conferred, among other permissions, rights to trade, free of duty, subject to the payment of a small tribute, to issue *dastaks* exempting goods from customs check, to acquire a sizeable area around Calcutta and mint coins at Murshidabad.

These rights given by this Moghul *firman* contained germs of future conflict. It meant a sharp reduction in Government's revenue, particularly in Bengal, for in that province most commodities had to be fetched from inland and so inland duties for trading were an important source of revenue to the Government. 'The trade of the English, which accounted for the bulk of the region's commerce, was exempt from customs duties. Their control over the market forced many Indian merchants out of their hereditary occupation. The privileges granted to the company exclusively with regard to the items of export and import were extended surreptitiously to the inland trade. The *dastaks* guaranteeing exemption from customs control were granted illegally to private merchants. Coins minted at Madras were imported into Bengal, affecting the income from the Bengal mints.' Thus the violent outbursts of the conflict between the company and the Bengal Nabab was the result of opposite economic interests. A monopsonistic and, to a limited extent, a monopolistic control of the company over the local market preceded and no doubt facilitated the establishment of its political authority.

In the major political conflict of the eighteenth century which established the company's political control over Bengal and ultimately over whole of India, the company found in the native financial interest an important ally. In the twenties and thirties, the mutually complementary relationship between the native financier and the European merchant was not yet fully developed. The Jagat Seths, with their lucrative control over Murshidabad Mint,—their estimated income from batta alone was in the region of 7 to 8 lakh of rupees,—checkmated all British effort to use the mint notwithstanding the firman of 1717. As the chief purchaser of bullion imported by the foreigners, they had an additional interest in retaining exclusive control over them. Their hold over the bullion market was decisive enough to enable them to dictate prices. By the thirties, the English company, therefore, started winning favour of these big financiers and developing and alliance with them. In the early days of Alivardi's reign the basis for a political and economic alliance was already well laid. The reduction of the interest rate from twelve to nine per cent on all loans offered to the company indicates the changed relationship.[14]

It will not be a digression if we put a little more thought on the nature of this upper rank of native Indian financiers of the time. This

14. "........at the beginning of Alivardi's reign the Setts preserved a capital of ten crores of rupees. Soon they established a virtual monopoly if in banking over the whole province and all the bankers in Bengal were their factors not members of their house...........During their first invasion of Bengal the Marathas carried from their *Kuthi* two crores of rupees in Arcot coin only, but this did not curb their enterprising spirit, or affect their resources appreciably. They continued their custom of issuing *Darsani Hundis* of one crore of rupees. Towards the end of Alivardi's reign they had become........pro-British. In 1749 when the Nawab blockaded the factory of Cossimbazar the English got off by paying him Rupees Twelve Lakhs through the Setts. In the conspiracy to dethrone Siraj the Setts were among the ring-leaders.........Another merchant Omichand who gained notoreity in the conspiracy against Siraj.........was the principal contractor of the E. I. Company in Bengal and was so solvent and enterprising that in 1748 he proposed to undertake a third of the company's whole Investment. By presents and services he had acquired so much influence with the chief officials of the Nawab that the Fort William authorities used him for mediation in times of difficulty. He was......held in esteem by the Marathas since the English tried in 1748 to recover their plundered goods through his intercession." Nirmal Chandra Sinha, *Studies in Indo-British Economy Hundred Years Ago.*, p. 17.

section of financiers may be termed, in the words of Takahashi, as *haute bourgeoisie*. They were not directly related to the 'putting-out' system in which manufacture was carried on at that time. The artisan caste-guilds were provided with finance in the shape of advances for goods by the lower or middle rank of traders, who ultimately collected the goods and sold them to the companies. The prosperous artisans, who turned out merchant-capitalists, constituted this lower or middle rank. In case of need they approached the higher ranks for loan capital. The haute bourgeoisie collaborated with the *Dadni* merchants of the English, Dutch and French companies in India. "And when the issue was finally to be settled by the middle and lower bourgeoisie, clustering around Siraj-ud-Daula, the *haute* bourgeoisie, represented by the *Jagat Sets* of Bengal,...threw themselves on the side of Clive, the representative of the monopolist East India Company which had already become an obstacle to the development of capitalism in the mother country, England. In England, it was the routing of the English haute bourgeoisie, merchant capital, in the English Revolution of 1688, in India it was the victory of the Indian haute bourgeoisie at Plassey in 1757, who had betrayed and sided with the monopolist East Indian Company. In England the triumph of Cromwell paved the way of the lower and middle bourgeoisie, and their final triumph in the 1688 Revolution, which helped the development of industrial capitalism ; in India the triumph of Clive sent the lower and middle bourgeoisie to the walls."[15]

This conflict was very much real. Up to 1950, the English company's investment (or goods purchased) in Bengal were provided by *Dadni* merchants of the country. They received advances and contracted to deliver the goods at the principal settlement. But after that date a new measure was adopted to provide the investment by direct agents of the company who were also Indians but employed for this purpose as servants of the company. It was reported that *Dadni* merchants worked against the English company in the court of the Nawab of Bengal during these crucial years which resulted in the emergence of the company as the ruler of the subah of Bengal, and then of the whole of India.

15. Shivaprasad Jha, *Studies in the Development of Capitalism in India*, p. 95.

Henceforth, the activities of the company consisted of taking the wealth out of India. This economic drain from India in the first stage after the battle of Plassey took the character of indiscriminate loot and plunder. This loot took the shape of monopsonistic trade on the one hand and 'tributes' gained by the company and its servants from the puppet Indian rulers on the other. Various guesses and estimates of total plunder are attempted at, one estimate places it at £5940498, which does not take into account the figures of direct plunder from the people. And this money went to England to industrialise that country while leading India to destitution. The company gradually became conscious to stop this reckless vandalism, as its employees have become too rich to keep them under control (Clive himself attempted to get into the court of Directors of the company); and secondly, it would now affect the company directly as the revenue collection will fall and trade will suffer. Clive was sent to India again in 1765, and on arrival in India he obtained a charter making the East India Company the Dewan or civil administrator of the subah of Bengal.

From then onwards, there started a period of "organised" economic drain. Land-tax was increasing, collections were made much more efficiently than before, terms of trade between Indian exports and British imports were manipulated, "invesments" were made from land revenue itself. During this period the company began to penetrate further into Indian territory as a political power. Its effect was at once felt in England; the East India Stock rose to £263 and dividends were paid at the rate of 12½%. So, there appeared "a new enemy to the company, no longer in the shape of rival society but in the shape of rival ministers and rival people."[16] In 1773 Lord North's Regulating Act was passed. It attempted to establish sovereignty of the British Parliament on the conquered territories of India. By this Act, the office of the Governor general for India, his

16. Marx further wrote: "It was alleged that the company's territory had been conquered by the aid of British fleets and British armies, and that no British subjects could hold territorial sovereignties independent of the crown. The Ministers of the day and the people of the day claimed their share in the 'wonderful treasures' imagined to have been won by the last conquests. The company only saved its existence by an agreement made in 1759 that it should annually pay £400,000 into the National Exchequer."

council and a supreme court was established. The next was the attempt of Mr. Fox in 1783 to abolish by his India Bill the courts of Directors and Proprietors of the Company to vest the whole India Government in the hands of seven commissioners appointed by Parliament. Failure of this Bill, 'by the personal influence of the imbecile King over the House of Lords', was made 'the instrument of breaking down the then coalition government of Fox and North, and of placing the famous Pitt at the head of the Government.'

This trend for control of the company by the Parliament reflects the growing influence of the industrial bourgeoisie of England, who were making themselves increasingly felt with the Industrial Revolution accomplished in England in the second half of the eighteenth century. The governing object of the East India Company, as the typical aim of monopolist companies of Merchant capital, had been 'not the hunt for a market for British manufactures'. So from the beginning, the British manufacturers were opposed to such a policy, they led agitations against the company, and obtained some redress to their 'grievances'. By 1720, the British manufactures had succeeded in securing the complete prohibition of the import of Indian silks and printed calicoes into England, and increasingly heavy duties were imposed on all Indian manufactured cotton goods. Wearing of Indian silk was prohibited by law: But the merchant capital has done its job. The accumulated funds after the battle of Plassey led to big technological innovations and the Industrial Revolution began. The rapidly mounting manufactures needed a suitable outlet. What was necessary was 'a revolution in the economic system from the principles of mercantile capitalism to the principles of free-trade capitalism. And this in turn involved a corresponding complete change in the methods of the colonial system.'[17]

The offensive of the industrial manufactures bore tangible result in 1769, when Parliament decided that 'the company should during each year of the term, export British merchandise, exclusive of naval and military stores, to the amount of 380837 *l*.'* And while British industries were being promoted at the expense of Indian industries, the ideological offensive was taken up by no less a person than Adam

17. R. P. Dutt, *India Today*, p. 109.

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Smith, 'the father of the classical political economy of free trade manufacturing capitalism.' In his 'An Enquiry into the Nature and Causes of the Wealth of Nations,' which came out in 1776, Adam Smith mercilessly attacked both, the mercantilism as a theory, and the mercantile practices of these companies. He noted, 'Such exclusive companies, therefore, are nuisances in every respect ; always more or less *inconvenient* to the countries in which they are established and *destructive* to those which have the misfortune to fall under their government.'

The era of industrial capitalism has thus emerged. The decisive stage came in 1813., when during the renewal of the charter of the company, its monopoly of trade with India was abolished. The stage for the decline of the company was thus set. Still it lingered on for a while, and the company ruled India until 1858, when by an act of Parliament India passed under the rule of the British Crown. The monopolist company of British merchant capital thus died, under historical necessity, a natural death.

APPENDIX A

(From *Karl Marx* : Capital Vol. III)

Historical Data Concerning Merchants' Capital

"The rule that the independent development of merchants' capital is inversely proportioned to the degrees of development of capitalist production, becomes particularly manifest in the history of the carrying trade, for instance, among the Venetians, Genoese, Dutch, etc, where the principal gains were not made by exportation of the products of the home industries, but by the promotion of the exchange of products of commercially and otherwise economically undeveloped societies and by the exploitation of both spheres of production.

Here the merchants' capital is pure, separated from the extremes, the spheres of production, between which it intervenes. This is one of the main sources of its formation. But this monopoly of the carrying trade disintegrates, and with it this trade itself, in proportion as the economic development of peoples advances, whom it exploits

at each end of its course, and whose backward development formed the basis of this trade. In the carrying trade, this appears not only the disintegration of a special line of commerce, but also as the disintegration of the supremacy of purely commercial nations and of their commercial wealth in general, which rested upon this carrying trade. This is but one of the special forms, which expresses the subordination of the commercial nations and of their commercial wealth in general, which rested upon this carrying trade. This is but one of the special forms, which expresses the subordination of the commercial capital to the industrial capital with the advance of capitalist production. The manner in which merchants' capital behaves wherever it rules over production is drastically illustrated, not only by the colonial economy (the colonial system) in general, but particularly by the methods of the old Dutch East India Company."

"Since the movement of merchants' capital is M–C–M' the profit of the merchant is made, in the first place, only within the process of circulation, by the two transactions of buying and selling ; and in the second place, it is realised in the last transactions, the sale. It is a profit upon alienation. At first sight, a pure and independent commercial profit seems impossible, so long as products are sold at their value. To buy cheap in order to sell dear is the rule of the trade. It is not supposed to be an exchange of equivalents. The conception of value is included in it only to the extent that the individual commodities all have a value and are to that extent money. In quality, they are all expressions of social labour. But they are not values of equal magnitude. The quantitative ratio, in which products are exchanged, is at first quite arbitrary."

* * *

"It was the separation of the raw material from the craftsman and the craftsman from the consumer at this period, and the fact that the resources in the hands of the producer were so meagre and their meagreness so straitly bounded his horizon in space and time which formed the source of commercial profit. It was the very coexistence of local gluts and local famines on which merchant capital thrived. Moreover, in conditions of primitive communications the existence of narrow local markets, each separate from others meant that any small change in the volume of purchases or in the quantities offered for sale tended to exert a disproportionately large effect on the market price, so that the temptation to enforce regulations in the interest of those trading between these markets was very great. So long as these primitive conditions continued, so did the chances of exceptional gain for those who had the means to exploit them ; and it was only natural that the perpetuation of such conditions, and not their removal, should become the conscious policy of merchant capital For this reason monopoly was of the essence of economic life in this epoch."

While discussing, as quoted above, the arbitrariness of the "quantitative ratio, in which products are exchanged", Marx noted :

"They assume the form of commodities in as much as they are exchangeable, that is, in as much as they may be expressed in terms of the same third thing. The continued exchange and the more regular reproduction for exchange reduces this arbitrariness more and more. But this applies not at once to the producer and consumer but only to the mediator between them, the merchant, who compares the money-prices and pockets their difference. By his own movements he establishes the equivalence of commodities." (Hence to retard this levelling tendency, the corporate bodies of merchants developed into commercial monopolies.)

* * *

"...While the influence of commerce as a dissolvent of feudal relationships was considerable, merchant capital remained nevertheless in large measure a parasite on the old order, and its conscious role, when it had passed its adolescence, was conservative and not revolutionary. Moreover, once capital had began to accumulate, whether from commercial profits or from urban land-values, a further vista of prosperous increase opened before it. This capital could now be fattened on the fruits of usury : usury practised on the one hand against the petty producers and on the other against decadent feudal society—against needy feudal knights and barons and the even less satiable needs of the crown."

* * *

"While the country exploits the towns politically in the Middle Ages, wherever feudalism has not been broken down by an exceptional development of the towns, the towns, on the other hand, everywhere

and without exception exploits the land economically by its monopoly prices, its system of taxation, its guild organisations, its direct mercantile fraud and its usury."

APPENDIX B

On Mercantile Companies

From Adam Smith's Wealth of Nations

"When a company of merchants undertake, at their own risk and expense, to establish a new trade with some remote and barbarous nation, it may not be unreasonable to incorporate them into a joint stock company and to grant them, in case of their success, a monopoly of the trade for a certain number of years. It is the easiest and most natural way in which the state can recompense them for hazarding a dangerous and expensive experiment, of which the public is afterwards to reap benefit. A temporary monopoly of this kind may be vindicated upon the same principles upon which like monopoly of a new machine is granted to its inventor, and that of a new book to its author. But upon the expiration of the term, the monopoly ought certainly to terminate ; the forts and garrisons, if it was found necessary to establish any, to be taken into the hands of government, their value to be paid to the company, and the trade to be laid open to all subjects of the state. By a perpetual monopoly, all the other subjects of the state are taxed very absurdly in two different ways : first, by the high price of goods, which, in the case of a free trade, they could buy much cheaper ; and, secondly, by their total exclusion from a branch of business which it might be both conveninent and profitable for many of them to carry on. It is for the most worthless of all purposes, to, that they are taxed in this manner. It is merely to enable the company to support the negligence, profusion, and malversation of their own servants, whose disorderly conduct seldom allows the dividend of the company to exceed the ordinary rate of profit in trades which are altogether free, and very frequently makes it fall even a good deal short of that rate......The East India Company, upon the redemption of their funds, and the expiration of their exclusive privilege, have a right, by act of parliament, to continue a corporation with a joint stock, and to trade in their corporate capacity to the East Indies in common with the rest of their fellow subjects. But in this situation, the superior vigilence and attention of private adventurers would, in all probability soon make them weary of trade."

THREE

Mercantilism, Physiocracy and the Indian Economy

'Poor peasant, poor king, poor country'.—*Quesnay.*

'Without private property there can be no Public revenue.'

—*Sir Philip Francis*

1. Indian Feudalism

Before the growth of capitalism the socio-economic formation through which an economy has to pass is generally known now-a-days as feudalism. Though there is perhaps no general agreement in the details of the dynamics of the feudal economy, the broad features of this economic structure are generally now agreed upon.

Following Bloch and Pirenne, Dobb has tried to characterise Feudalism as "virtually identical with what we generally mean by serfdom ; an obligation laid on the producer by force and independently of his own volition to fulfil certain economic demands of an overlord, whether these demands take the form of services to be performed or of dues to be paid in money or in kind..." According to him the 'classic' form of feudalism contains the following characteristics, (1) "a low level of technique in which the instruments of production are simple and generally inexpensive, and the act of production is largely individual in character ; the division of labour...being at very primitive level of development" ; (2) "production for the immediate need of the household or village community and not for a wider market" ; (3) "demesne-farming : farming of the lord's estate, often on a considerable scale by compulsory labour-services" ; (4) "political decentralisation" ; (5) "conditional holding of land by lords on some kind of service-tenure" ; (6) "possession by a lord of judicial or quasi-judicial functions in relation to the dependent population."[1]

1. M. Bloch, *Feudal Society* ; Pirenne, *Economic and Social History of Mediaeval Europe.*

Paul. M. Sweezy argues that feudalism is a system of production for use, and that in such economic formations "no boundless thirst for surplus labour arises from the nature of production itself."

The origins of feudalism in India can be traced to Kushan times, but 'Gupta period marks the beginning of some feudal practices which became well established in the reign of Harsha'. Indian feudalism had the law level of technique. In India also production was 'for the immediate need and not for a wider market'. But demesne-farming was not present in India. There was of course political decentralisation in Indian feudalism. There was grant of lands to the Brahmins and these land grants 'with transfer of all sources of revenue, and the surrender of police and administrative functions' gradually became more frequent in India. These land grants led to the growth of a class of intermediaries in our country. Not only the Brahmins or temples used to get these land-grants with accompained administrative and political autonomies. From the Gupta period the warrior class also received such grants from the king. Independent chiefs or small kings, subdued by emperor, agreed to pay annual or regular tribute. The conquered feudatories, (like Samanta, Mahasamanta or Samanta Maharaja) used to supply soldiers to the emperors and in exchange used to enjoy rights over his area of control. 'In the moslem period when the military associates were endowed with the grant of *jagirs*, they resembled more the European feudal *fief* holders.'

Despite these semblances of the 'classic' characteristics of feudalism in India Indian feudalism had two important distinguishing marks, the presence of self-sufficient village community system and the absence of the demesne-farming of European pattern. According to Shelvankar, 'Indian feudalism remained fiscal and monetary in character, it was not manorial.'

In Europe the lord was intimately associated with the manor ; he had a direct interest in the agricultural processes of the village ; and his own lands, the demesne, could at first only be cultivated with the forced labour of the peasantry. There was a long struggle between the lord and the villagers. The villagers wanted to get the full value of labour themselves and the lord wanted to pressure the customs and traditions which gave them the right of ownership over the human beings. From the position of a serf to the position of a tenant was a long path the cultivators had to travel. The growth of money economy and the shortage of labour (in England due to Black Death) helped, along with other factors, to transform the obligation of personal service into money rents. The serf, thus gradually became a tenant.

But here in India things were different. Shelvankar writes, 'on the plane of theory, the difference is rooted in different conceptions of monarchical power.'[2] The king under European feudalism combined in himself authority over all persons and things in his kingdom. When the king's dominium was delegated under vows of allegiance to a number of barons and fief-holders of different degrees, and a hierarchy of authority was created, the power and the rights that were passed on from superior to inferior were power and rights over things (i.e., over the land of a given area) as well as over the persons connected with it.

In India there was nothing analogous to the Roman conception of dominium, and the sovereign's power was not, until a late period, regarded as absolute and unlimited over the agricultural land of the kingdom. The king did not, in theory, create subordinate owners of land because he himself was not in theory the supreme owner of land. What he delegated to the intermediaries was not even his sovereignty understood in this restricted sense, but only the specific and individual rigts of *Zamin*, the revenue collecting power.

When there was a conflict it was over the share of the agricultural produce to be retained by the peasant of surrendered to the lord. The foundations of agriculture themselves were not affected. Nor was there any such widespread and general rise in prices or the temptation of greater income by turning arable into pasture, to lead the baronage to assert their power in a mannar capable of introducing fundamental changes in the rural economy. Even as late as the eighteenth century there was an abundance of land, the hard-pressed peasant could always abscond on the open plains of the Ganges. The lord therefore was in general satisfied to exact his utmost from the peasant in the shape of produce without concerning himself with the economic and technical questions of increasing production.

2. A note on the Indian Village Community

At the base of the Indian agrarian system there was the more or less collective or co-operative village. Within this village individual

family claims and obligations are determined by the force of custom and tradition. This village community system in India gave a particular imprint to Indian feudalism. The village consisted of a number of families each of which had a plot of land for its residence and a plot of the arable land for its further limited use. There was a common wasteland for grazing purposes and for gathering firewood etc. The rest of the cultivable land was tilled in common and its produce was distributed in the village. Land is the main source of wealth and each village had usually its own weavers, potters, carpenters, blacksmiths and oil pressers. The artisans resided in the village owning a plot of land like others for their residence, but worked to cater the needs of the village, getting in exchange foodgrains and services from the men in the village. The nature of exchange was predominantly barter. The villagers met periodically to consider matters of common concern and for the settlement of disputes and the administration of justice.

The 'jurisdiction of village authorities extended over houses, street, bazars, burning grounds, temples, wells, tanks, waste lands, forest and cultivable lands.' The village council 'looked after village defence, settled village disputes, organised works of public utility, acted as a Trustee for minors, and collected the government revenues and paid them into the Central Treasury.' Even the Central Governments 'could eventually reach the people and discharge their functions mainly through these bodies.' 'Almost all functions of the government, except that of organising the army, determining the foreign policy and declaring and conducting a war, were discharged through the agency of the local bodies, where the representatives of the locality had a powerful voice.' The village communities were such independent and powerful societal units that 'kings may impose any number of taxes; eventually those only could be realised which the village could agree to collect.'

By detail study Marx also pointed out vividly the most important characteristics of the Indian Village Community system. They are 'based on possession in common of land, on the blending of agriculture and handicrafts, and unalterable division of labour'; 'the chief part of the products destined for direct use by the community itself, and does not take the form of commodity'; 'the simplicity of the organisation for production in these self-sufficing communities that constantly reproduce themselves in the same form, and when accidentally destroyed, spring up again on the spot and with the same name'; 'the secret of the unchangeableness of Asiatic societies, an unchangeableness in such striking contrast with the constant dissolution and refounding of Asiatic States, and the neverceasing changes in dynasty.'

This economic set up based on an occupational structure sanctioned by religion in the name of hereditary caste-differences became more conservative and change-resisting than the European village community. Paul Sweezy finds European village community very 'conservative and change-resisting' but Prof. Takahashi correctly argues that European village community was more brittle than the Indian village community system. Shelvankar writes that, 'the two sets of conflicts : (a) between the baronage and the King, and (b) between the baronage and the peasantry, which were so settled that proprietory rights over independent and separate tracts of land, farms, came to be lodged in separate and independent individuals, the conflicts which shattered the precapitalist agrarian systems of the West, never took place in India.'[3]

3. "The rights based on custom and the rights based on political and military power continued to run side by side, without leading by their interaction, as in England, to any important changes in rural organisation......None of the major conflicts in Indian History had for its object the exercise of rights within the village, but the exercise of rights over the village. There were conflicts between overlords of various grades for the right or power to get a payment from the peasant, not to seize his land. European history, on the contrary reveals a conflict between the peasantry and the manorial lords because the latter not only demanded a share of the produce, but desired to retain a particular method of cultivation—by forced labour—or to introduce new methods of cultivation (enclosures, large-scale farming). The Indian conflict was one between lords who were concerned not at all with methods of cultivation, but only to draw an income from the peasantry. If all ownership of land rests ultimately either on the claim of the sword or the claim of the plough, the issue in India was never fought out between the claimants of the plough and claimant of the sword. The issue was always between different claimants of the sword, the village and the peasantry remaining throughout the passive subject of conflict, the booty over which rival powers fought each other." 2. Shelvankar, *The Problem of India*, p. 79.

"Government according to the natural order"

3. A note on Physiocracy

The body of economic principles to which the name 'physiocracy' is given developed in France in the eighteenth century. Quesnay and Mirabeau were two leaders of the Physiocratic school, their relationship was that of a master and a disciple. In contrast to the Mercantilists, these writers did not believe that wealth and its increase were due to exchange only. To the mercantilists wealth is generated through trade or exchange, to the physiocrats wealth comes from agricultural production, from the power of land for creating wealth and a surplus for accumulation. The central point in their analysis was the search for this surplus, the celebrated *produit net*. Having discovered the origin of this surplus or net product the physiocrats also discovered the circulation system of wealth and this surplus among the different classes of society.

The Physiocrats assumed that their main purpose was to analyse the system of market exchange. The system was subject to certain objective economic laws, which operated independently of the will of man and which where discoverable by the light of reason. There are many forces or variables which act and interact on one another to develop a particular mutual interdependent system. If these laws were to be discovered, it was necessary to put these variables in an orderly form ; in other words, to construct an abstract theoretical model of an economy.

The main aim of the Physiocrats was to illuminate the operation of the basic causes which determine the wealth or poverty of a nation, i.e., its general level of economic activity (its level of income and employment). For this purpose, they believed that it was useful to conceive all economic activities as interrelated, taking the form of a 'circle'. In modern times we call it the circular flow of economic activity. In this circle of economic activity production and consumption were mutually interdependent variables. Within this circle, there must be a key variable, movements in which could be regarded as the basic factor causing an expansion or contraction in the 'dimensions' of the circle, i.e., the general level of economic activity. This variable, according to the Physiocrats, was the *net product*, the capacity of agriculture to produce a surplus over necessary cost of production. Anything which increased this net product would cause an expansion in the level of economic activity, anything which decreased this net product would reduce this level.[4]

The main point of the Physiocratic theoretical system was that this net product was yielded in agriculture, and by agriculture alone. Agriculture was superior to all others because it only could yield a disposable surplus over necessary cost. It was 'productive', i.e. productive of a net product. By contrast, manufacture and commerce were 'unproductive' or 'sterile', i e. incapable of yielding a net product.

The classification of basic social groups could be understood with reference to the relation in which each group stood to the net product. The men engaged in agriculture were 'productive class', and those engaged in non-agricultural activities constitute the 'sterile class'. In between these two classes lay the 'class of proprietors,' the landowners, the king and the clergy who received the value of the net product in the form of rent, taxes and tithes respectively.

The circulation of the net product between the different classes took place through transactions which the three basic social classes entered into with one another in the course of a year. This circulation process was shown in Quesnay's 'Tableau œconomique' first printed in 1758. It was regarded at that time to be most penetrating piece of economic thinking. Let us discuss a simplified model as provided by Quesnay. For the sake of simplicity we would follow Quesnay's presentation in the early versions of the ***Tableau*** and leave the king and the clergy out of the picture, so that the net product can be assumed to take the form of land rent alone. We start with an annual gross product to five thousand million *livres*. Of this, two thousand million are at once deducted in kind as the necessary expenses of reproduction (the farmer's food, the seed etc.). The ***produit net*** is three thousand million, of which we assume two thousand million to consist of food and one thousand million of the raw materials of

4. "The discovery of the *net product*, which we owe to the venerable Confucious of Europe, will one day change the face of the world……The whole moral and physical advantage of societies is summed up in one point, an increase in the net product ; all damage done to society is determined by this fact, a reduction in the product. It is on the two scales of this balance that you can place and weigh laws, manners, customs, vices and virtues".—Mirabeau, *Correspondence with Rousseau*. Quoted in Ronald Meek, *The Economics of Physiocracy*, p. 19-20.

manufacture. In addition to this ***produit net*** in kind the farmers also hold the total amount of the nations' money, say two thousand million. The proprietors hold nothing, but have a claim upon the farmer for rent to the amount of two thousand million *livres* : while the sterile class possesses two thousand million *livres*' worth of manufactured goods produced in the preceding period.

The farmers now pay the proprietors their thousand million *livres* as rent. The proprietors buy one thousand million *livres*' worth of food from the farmers, who thus receive back half the amount of money they had paid out. The proprietors then spend the second half of their rental revenue on the purchase of manufactured goods from the sterile class, who spend the money thus received on buying food from the farmers. The farmers now spend one thousand million *livres* in buying manufactured goods from the sterile class, who send the money back in return for raw materials. The process is now completed. The farmers are left with two thousand million *livres* of money, which will serve to set the whole process going again in the next period. The food part of the ***produit net*** has gone to the proprietors and to the sterile class, the raw material part to the latter alone. The manufactured goods originally held by the sterile class have been divided among proprietors and farmers. And in return the sterile class has one thousand million *livre's* worth of food and the same amount of raw-materials, which combine to create for the next period manufactured goods to the value of two thousand million.

Now the general level of economic activity, according to the physiocrats, was largely determined by the level of agricultural output which again depends, upon the magnitude of the net product. An increase in the net product means (1) that the landowners will spend more on agricultural produce, they will also spend more on manufartured goods the makers of manufactured goods will spend their increased income on agricultural produce, thus agriculture will be stimulated with a further rise in the net product. (2) An increase in the net product means that more would be available for investment. More was available to land owners for improving land, to expand their fixed and working capital. Such increase in investment would raise the net product still further. Thus the strategic variable was the magnitude of the net product, and the government's policy should be primarily directed towards increasing this net product. The magnitude of the net product depended upon total output and price of corn, the governments' policy should be to increase the both. The encouragement of investment in agriculture and the stimulation of demand for agricultural produce must therefore be the main aims of government policy.[5]

3. A short history of the Bengal Revenue system vis-a-vis the East India Company (up to the introduction of Permanent Settlement)

A probe into the history of Bengal is necessary to correctly assess the early revenue policy of the company. Bengal completely passed under the Mughals in 1576 during the reign of Akbar and from 1576 up to 1707 when Aurangzeb died, Bengal developed as a Province of Mughal Empire under the control of Governors,[6]

From 1697, Bengal, Bihar & Orissa were finally united under one Governorship. The Governor was called *Nawab-i-Nazim*, or *Nazim* in short. Since the days of Akbar, another important administrative post was created, who was called *Dewan*. *Nazim* was the overall

5. Adam Smith had this to say about the theories of the Physiocrats : "This system, however, with all its imperfections, is perhaps, the nearest approximation to the truth that has yet been published upon the subject of political economy...... Though in representing the labour which is employed upon land as the only productive labour, the notions which it inculcates are perhaps too narrow and confined ; yet in representing the wealth of nations as consisting, not in the consumable riches of money, but in the consumable goods annually reproduced by the labour of society ; and in representing perfect liberty as the only effectual expedient for rendering the annual reproduction the greatest possible, its doctrine seems to be in every respect as just as it is generous and liberal."

6. Raja Todar Mall was the Governor from 1580 to 1582 and Man Singh from 1587 to 1604. The period from 1605 to 1707 marks the period of consolidation under the rule of 19 Governors, whom three were the sons of reigning Emperors such as Shah Jahan (1622-1625), Sultan Muhammad Shuja (1639-1660) and Sultan Muhammed Azam (1678-1680), and four others were related to the Imperial House of whom the most famous was Sayesta Khan (1664-1677 and 1680-1689). Other notable Governors were Islam Khan (1608-1613) and Mir Jumla (1660-1664). Some of these Governors were not loyal to Delhi. Shah Jahan himself revolted in 1628 against his father Jehangir, and conquered Orrisa, Bengal and Bihar for himself. In 1657, Shuja rebelled and become a menace to Delhi.

ruler maintaining law and order, and *Dewan* was the collector of revenue and controller of trade and finance. The *Dewan* was subordinate to *Nazim*. But later, under Aurangzeb, with his increasing demand of revenue to pay for his wars, the position of the *Dewan* grew in importance. The *Dewan* also had an added importance as the authority to grant trade licenses to a body like the East India Company. In 1713, on the accession of Farrukh Siyar as Emperor in Delhi, Murshid Kuli Khan secured for himself the double post of *Nazim* and *Dewan* of the three Provinces.

British power established its foothold in India by establishing trading factories. The English first came to Cuttack in 1632 and in 1633 established two factories, one at Harishpur and other at Balasore. By the year 1676, on the basis of licenses granted by the Bengal Governors, Shuja and Sayesta Khan, the company established three main factories at Hughly, Kasimbazar and Balasore, together with subsidiary factories at Patna and Dacca. In 1696 the company was given permission to build a fort at Calcutta. It was not, however, the building of this fortress but the acquisition in 1698 by the company of the tenure on terms of Mughal Revenue Law of the three villages of Calcutta, Sutanati and Gobindapur, that really laid the foundation of British rule in Bengal. "By the acquisition of these three villages the East India Company obtained for the first time a legal position within the Mughal Empire and thus brought into existence a working theory in the development of which the acceptance of the *Dewani* is the final logical completion (Firminger's '*Historical Introduction to the fifth Report*,' page ixv.)"

Thus the Permanent Settlement and Zemindari system were already established as the integral parts of the Mughal Revenue system. This is illustrated by the terms and conditions under which the East India Company first acquired its position as a Zemindar. The English got three Zemindari rights, (1) to collect the rent from ryots ; (2 to dispose of the waste lands in any way they liked ; (3) to impose petty taxes, duties and fines. Under (1) the company was empowered to collect from the Ryots the rent of Rs. 3 per bigha as a maximum. After paying the land revenue, the average monthly balance to the credit of the company amounted to Rs. 480 in 1704. In 1732 the Company tried to raise the rent from the ryots of its

Calcutta Zemindari but received a peremptory Perwannah from the Governor forbidding them. The Governor told them that they were presuming to do a thing which they had not power to do ; and if they persisted they would by the laws of the Empire, forfeit their lands. This shows that the rent of the *Khud-Khast* ryots could not be raised in those days beyond the established rate or *Nirikh*.

In 1715, the company tried to improve its position further in Bengal by sending an appeal to the Emperor for the purchase of Zemindari rights in thirty-eight additional villages on payment of the same rent as was fixed with previous Zemindars. The Emperor, Farrukh Siyar, granted this application but the powerful Governor of Bengal, Murshid Kuli Khan refused to give effect to the Emperor's order in allowing the English Zemindari rights in more towns. This gave the English the ground of a standing quarrel with the Local Government of Bengal under the Nawab. Indeed this was one of reasons put forward by Clive in breaking with Siraj-ud-daula. Later, however, Siraj-ud-daula, by a treaty of February 1757, consented to the company's acquisition of Zemindari rights in these thirty-eight villages. Inspite of that, Clive entered into a secret treaty on 3rd June 1757 with Mirjafar for the transfer of the entire Zemindari of 24 Parganas in case of Siraj's defeat. The battle of Plassey was fought and won on 23rd June 1757. After their Victory at Plassey, the company lost no time in giving effect to the terms of this treaty and securing their promised Zemindari.

The company was granted *Dewani* of the whole Province in 1765. Before this grant of *Dewani*, between 1757 and 1765, further eight years of Zemindari was conducted by the company. For the first sixteen months after acquiring this new Zemindari of 24 Parganas, the company kept the collections of revenue in their own hands. In May 1759, however, they decided to let out the revenues to a term of three years and on the following among other conditions.

(a) "That rent be not increased on the Ryots of the present tenanted Ryotty grounds except where jungle grounds are cleared".

(b) "The Farmer is not to turn out any Ryots that duly pay their rents agreeable to their Pattahs".

(c) "No tree is to be cut down without leave".

(d) "The Farmer is to collect and receive rents from the Ryots as usually have been collected by the former *Ijaradar*".

(e) "He is also to repair all Banks, Dams and Drains as customary".

In June 1759, Holwell, the then collector of revenues of the Company Zemindaries, remarked that "keeping the lands in our hands will never lead us to the knowledge of their real value." He therefore, proposed to put them up to public auction by single Parganas under the restrictions already stated above. The "*Ijaradars*" or the Revenue Farmers in those days whom the English found in possession objected to their removal strongly.

The choice of the company lay between the following methods :

(a) Collection of revenue directly from the cultivators or their representatives, i.e. ***ryotwari*** methods.

(b) Collecting it through the local agents or lessees used to such collection, i.e. through *Ijaradars* :

(c) Letting out the collections to ***speculattve capitalists*** to farm.

In 1759, the company decided in favour of the third method under the advice of Clive who agreed with Holwell. The Parganas were thrown into fifteen lots each of which was farmed out for three years to the highest bidder at public auction. When this arrangement expired in 1762, the company proposed to keep the Parganas in its own hands for the year. The committee that was appointed in charge of the new lands doubted Holwell's theory that the putting up of the revenues to farm afforded the simplest means of ascertaining the value of the farms. It was found that bids of revenue farms made at public auctions were as a rule of the nature of speculation. Such speculation led to rack-renting of the cultivators, and consequently to the farmer's absconding or ultimate bankruptcy.

Thus it is seen that the British rule in Bengal had itself been founded upon the Zemindary system under Permanent Settlement. And parallel to the Company's Zemindari there were other big Zemindars in this Province The descendents of the Barabhuiyas, the Rajas of Natore, Rajshahi, Bishnupur were big Zemindars or hereditary revenue farmers. There were Rajas of Burdwan, of Birbhum, Ranbir Khan of Naldanga, Raghab Sidhantabagish of

Kusadaha, Luxmi Kanta Majumdar of Subarna Chaudhuries of Barisha, the Zemindars of Dinajpur, Laskarpur and Putiya.

It was as early as 1758 that the Mughal Emperor first proposed the Dewani to the company, so that he might receive payment more regularly of the revenue due to him from Bengal. The offer was repeated in 1761 and 1763, till it was accepted by the company in 1765.

Under the terms of the *Diwani*, the East India Company was to pay an annual sum of Rs. 26 lacs to the Mughal Emperor and to appropriate for themselves all excess over the above sum in the collection of the total revenue from Bengal, Behar & Orissa, after paying all the establishment of *Nazim*. The company now took all Revenue administration and absolute financial control of these three provinces.

Ramesh Dutt has pointed out how, after this *Diwani* the new system of land settlements introduced by the company's servants brought untold miseries on the people. 'From very ancient times the soil of Bengal was held by zemindars or hereditary landlords, armed with quasi-feudal powers, paying revenues and rendering military service to the Nawab in times of need and virtually ruling the people within their own estates. They were recognised as Rajas by their subjects and tenants; they maintained law and order, settled disputes, and punished crimes; they encouraged religion and rewarded piety; they fostered arts and learning, and were the patrons of letters.' But the company's servants introduced a new system; they disregarded the customary rights of the zemindars, and sold their estates by public auction to increase the revenue The lands were let by public auction for the short term of three years. The system, first experimented in Burdwan and Midnapore, was subsequently extended all over Bengal by Warren Hastings. Throughout the administration of Verelst and Cartier the land revenue was exacted with utmost rigour in order to meet the East India Company's demands. The land revenue realised from the cultivators through the auction-bidders, were partly spent on administration, partly "invested" in trade to finance exports to London and the rest was remitted to England as profits of company. Money was being increasingly needed in London for 'technological innovations' which started appearing earlier under the

impact of Plassey plunder. Bengal land revenue collections went into financing the industrial ventures in British islands. This vigorous collection of land-tax led to the great famine in 1770, but Warren Hastings wrote to the Court of Directors on 3rd November 1772: "Notwithstanding the loss of at least one-third of the inhabitants of the province, and the consequent decrease of the cultivation, the nett collections of the year 1771 exceeded even those of 1768... .."

But it is not only the question of ever-increasing volume of land revenue, the real issue was the nature of land settlement or the new property-relations introduced in India by the rulers of the East India Company. According to Ramesh Dutt, "Englishmen in the eighteenth century were familiar only with the English land system, under which the soil belonged to landlords, was let to farmers, and was tilled by labourers. The Bengal system was entirely different......The State was in no sense the proprietor, but was only entitled to a revenue from the soil. The Zemindars held their estates from generation to generation; were virtually feudal lords armed with civil and criminal power; and were entitled to customary *rents* from the cultivators. The cultivators or ryots were not mere labourers, but had rights to their holdings, which they transmitted from father to son, paying the customary rents to the landlord....The State was entitled to a revenue; the Zemindars were entitled to customary rents, paying a revenue to the State; the Ryots had a hereditary right to their holdings, subject to payment of customary rents to landlords"

After a great debate raging for more than twenty years about the nature of rights enjoyed by the Zemindars and what ought to be the final land revenue settlement in Bengal, the traditional system of permanent settlement was put to practice in 1973 with a new form by Lord Cornwallis. The old form rather appeared with a new content. There were Zemindars as before, but their rights of revenue farming were added with full proprietory rights of purchase and sale All the traditional rights of the cultivators were conditioned by or made inferior to, the private proprietory rights of the Zemindars. The sons of the soil were made the serfs of the Zemindars.

The transition was much deeper than it appeared at the surface. It was a conscious attempt to project the British experience on

Indian soil and thereby leading to a silent revolution in Bengali society.

5. **Mughal Land Revenue System : A short of Summary**

The revenue system and administration in India before the British rule had been developed by the Mughal rulers. The fundamental principles of the Mughal land revenue system was that the sovereign or the State was entitled to a certain proportion of the annual produce of every 'Bigha' of land. The precise share of the produce to be taken was not laid down by Islamic Law. The actual claim was decided by the ruler in accordance with local conditions making allowance for variations in the cropping pattern and in the sources of irrigation. But the need and discretion of the sovereign was tue decisive factor.

The two most important aspects of the Land Revenue administration are the methods of assessment of Land Revenue and the machinery of collection. Under the Mughal rulers, there were mainly three methods of assessment. Moreland described them as (i) estimation, (ii) measurement, and (iii) contract or revenue-farming method.

In estimation, the amount of the State's share was determined by the inspection of the growing crop and the peasant's liability was fixed before the produce was ripe. From this estimate made by observation of crop in the fields the share of the peasantry was deducted. The remaining quantities representing the State's share was commuted into cash at stated prices. Irfan Habib called this method of assessment as the 'Kankut' method of assessment.

The second method of assessment was called measurement by Moreland. It developed as '*Zabti*' system in Akbari reign. Under the Zabti system the land under cultivation of different crops was actually measured for purposes of assessment. To it was then applied a schedule of rates (or, *Zabt*) prepared on the basis of average yield per unit of land for each crop. One-third of the total produce thus assessed was regarded as the State's share, and this share was commuted into cash on the basis of average prices for different prices prevalent in the area. The total amount of revenue thus estimated on the basis of average yields and average prices provided the basis for the formation of average revenue rates per unit of area for different qualities of soil and

for different crops. In actual practice the revenue rates per unit of area were fixed for a number of years and these were not revised frequently. Consequently, the annual fluctuations in the gross produce did not strictly affect the amount of revenue from year to year. No crop rates were separately prepared for cash-crops as indigo, pun, sugarcane etc. Revenue rates were directly calculated in terms of cash by converting the average production of foodcrops on these lands into their average money value.

In later years, particularly during the second half of the 18th century the use of these rates was seriously undermined due to the method of assessment by the contract method which had grown considerably and become widespread. According to this system the state contracted with certain individuals, its own officials or the others to receive a stipulated sum of money annually as its revenue from an area. The amount was determined on the basis of past collections, the state's requirements, irrespective of the actual produce or actual collections made by the contracting party. This system was also known as Revenue-farming.

The machinery of revenue collection under the Mughals consisted of several layers of intermediaries, bearing different names, and designations. There were ***Rajahs, Taluqdars, Zemindars, Muqaddams, Jagirdars, Chaudhries, Qanungos*** etc. According to Irfan Habib, the imperial territory was divided into two distinct parts, ***Khalisa*** and ***Jagir***. In ***Khalisa***, the assessment and collection of revenue was made directly by Government officers, while lands in ***Jagir*** were assigned to persons designated as ***Jagirdars***. The holders of these ***Jagirs*** were usually '***Mansabdars***', holding definite ranks bestowed on them by the emperor. They received their emoluments either in cash from the Government treasury, or, more commonly they were assigned particular areas as ***Jagirs***. The ***Jagirs*** were constantly transferred after short periods. For each pargana or ***Mahal*** a standing assessment or ***Jama*** was prepared. This ***Jama*** was used for purposes of assessment of a ***Jagir***. In ***Khalisa*** land, there were Imperial officers like ***Amil*** or ***Amalguzars***. There were also ***Amins*** who used to carryout the survey or measurement of land. Two other direct officials of the administration, posted in each pargana independent of ***Amil*** were the treasurer (***Khajnadar***) and the Accountant

(*Karkun*). Their functions were mainly to manage the treasury and maintain the revenue accounts properly.

6. Currents and Cross Currents behind Permanent Settlement

From the point of view of economic history the fascinating interest of the new permanent settlement evolved by the British lies in the great debate which preceded the final proclamation of its acceptance by Lord Cornwallis in 1793. This debate shows on one hand the academic interest and attitudes of its promoters, the economic and intellectual environment in England, the currents and cross currents in English ideas and the needs of the new rulers in India. This debate reflects a rare and temporary fusion of ideas and thoughts of two opposite viewpoints, of the mercantilists and the physiocrats. It shows that, sometimes in matters of policy decisions, the interest of the mercantile capital and that of rising industrial capital could unite and peacefully coexist. It finally demonstrates that while, generally speaking, the prevailing institutions generate ideas corresponding to them, yet sometimes the ideas generated from a different institutional set up may also be shaped into institutional patterns on a new soil and thereby influencing the course of history of the peoples.

It is well-known that the central theme of Permanent Settlement 'assessment forever', and the main idea behind it was to create a landed aristocracy on the English model by conferring a right of private property in the soil on the Bengal Zemindars. This right of private property vested in the Zemindars was almost similar to the rights and privileges over their undertenures as enjoyed by a landed proprietor in England. The Zemindar received the right of collecting rent, and also the right of regulation of occupancy of all other tenures existing of land. And this right was transferable : the Zeminder could sell, mortgage or gift this right, and the state (due to arrears in revenue) could transfer it by open auction in the market. The State revenue of the land included in the Zemindari estates was declared as fixed in perpetuity. On the other hand, the demands of the Zemindars on the cultivators were kept undefined and unspecified in the belief that these will be regulated by laws of demand and supply operating on land, labour, and capital. A mild provision was included for the intervention of the Government, if and when necessary, to ensure this security of the rights and privileges of the cultivators. But this provision was never used in their favour until 1822. In fact, all laws passed between 1793 and 1822 sought to strengthen the rights of landlord over their tenants.

According to the famous utilitarian James Mill, the Permanent Settlement was adopted on the basis of 'abstract theories, drawn from other countries, and applicable to a different state of things.' Its main provision were derived from the context of English institution and English Political economy. Its main architects were 'English aristrocrats' and their 'aristocratic prejudices' shaped its basic features.

Who were its main 'architects', its promoters in England and what were the stages of its adoption ? It was first formulated as a recommendation by Alexander Dow in 1770. It was the thesis of Henry Pattullo's *Essay* published two years latter. In 1776, Philip Francis made it the very basis of his famous revenue plan and he went on arguing for its acceptance during the rest of his term in office, until 1781. The idea was incorporated in both Fox's bill which did not pass and in Pitt's India Act of 1784. During the second half of the debate it was adopted by Thomas Law for his *mukurari* experiments in Bihar, given legal sanction by Cornwallis in his rules for a decennial settlement issued in the winter of 1789-90, and finally entered into the statue book as Regulation I of 1793. Dow, Pattullo, Francis, Law and Cornwallis were thus the leading champions of Permanent Settlement, its chief advocates, the leading characters in the drama.[7]

It is seen that in spite of all doctrinal differences between themselves, these promoters had between them two common points of agreement : (a) that a break from the revenue policy of the company in the recent past was essential, and (b) the permanent settlement was indispensable and only measure to ensure the right of private property in land. Agreement in these two points only united them in a common objective, inspite of their divergent, even opposing intellectual viewpoints. Dow was a mercantilist ; Pattullo and Francis were Physiocrats, Law, and to a lesser degree Cornwallis, free traders. 'In spite of these differences their ideas came to converge on one common and irresistible solution for Indian policy, it was because

7. Ranajit Guha, *A Rule of Property for Bengal*, p 12.

they lay on the same axis as what was indeed one of the most forward moving trend of the age—the transition from Mercantilism to Free trade, a movement which had reached its final phase in the last quarter of the eighteenth century. ......Thus the idea of Permanent Settlement, relayed from stage to stage during two decades, passed through the whole gamut of contemporary economic thought, but never lost its direction. It was this that gave it a driving force which was expressed in its extreme form by Francis in terms of what read like a dogma, and by cornwallis in terms of what looked like overbearing authority. Pioneers seldom make a virtue of patience.'[8]

How this system of Zemindari Settlement with permanent land revenue assessment was introduced in Bengal and adjacent areas is a long story. In 1772 Warren Hastings introduced various reform measures for the collection of land revenue. The settlement of land with highest auction-bidders, mostly speculators and money-lenders, and settlement of land with them for a period of three or five years spelt disaster in the country-side. Due to temporary settlements, their only objective was maximum collection of revenue and minimum investment for the improvement of land. A permanent settlement became a necessity to save agriculture from utter ruin. During 1776 and onwards, discussions followed: Warren Hastings and Barwell proposed that estates should be sold by public auction and settlements with purchasers be made *for life*; Philip Francis, a member of the council of the Governor-general recommended that the land revenue demand of the State should be *permanently fixed*. Both those proposal were not accepted by the directors of the company in London.

Pitt's India Bill became law in 1784. It placed the administration of the company under the control of the crown, and thus compelled some reforms. Lord Cornwallis succeeded Warren Hastings. The directors of the company expressed their disapprobation of the frequent changes in the revenue system of Bengal, and advised a permanent settlement, which was carried out by Lord Cornwallis, assisted by Sir John Shore. After inqiuries lasting for three years, a settlement was made with Zeminders, who were declared full proprietors of the areas over which their revenue collection extended,

8. Ranajit Guha, *Op. cit.* p. 18-19,

so that they might have some legal status which would enable them to fulfill their obligations to the government and to induce them to take an interest in their estates. The assessment was fixed approximately at ten-elevenths of what the Zemindars received as rents from the ryots, the remaining one-eleventh being left as the return for their trouble and responsibility. In 1793, the settlement was declared permanent and assessment unalterable forever. The primary object of the East India Company was to safeguard the punctual receipt of the land revenue.

7. Problem of Overassessment and its Effects on the Settlement

The Regulating Act of 1784 officially mentioned the idea of a permanent settlement of land revenue with the land owning classes of India. The back ground of such a measure was stated in Sec. 39 of the Act itself.[9] It asked the company to take serious considerations of the complaints made by the Zemindars and suggested that for future guidance 'Permanent rules' must be laid down upon principles of moderation and justification to regulate company's demand for land revenue.

Little had been done to alleviate the prevailing distress. Within three years of the auction settlement of 1769 the Zemindars had run with an enormous debt of over £3 million at high rates of interest to meet government demand. Gupta mentions that, "By 1786-87, the revenue demand of estates whose management had been directly assumed by the government, represented about half of the total assessment amounting to more than a crore of rupees."

However, the British Parliaments directives to the company about fixing principles of revenue assessment they should adopt, had an immediate and profound effect. The question was: What were to be standards of assessments on the land owning classes of India? Following the Act of 1784, the company's officers started investigations to collect materials in a more thorough manner than they had done previously.

9. It was mentioned that "Complaints are prevailed that diverse Rajas, Zemindars, Polygars (a class of feudal landowners in Madras), Talukdars and other native landholders within the British teritories in India have been unjustly deprived or compelled to abandon...their respective lands, jurisdictions, rights or that...rents and services required to be paid or performed by them to the company become greivious and oppressive."

Major Reunell (1787) had already made a survey of Bengal under directives from Warren Hastings and his maps were published under the authority of British Parliament in 1781. James Grant made an 'analysis' of available materials concerning revenue in his well-known minute of April, 1786. Later, in the same year, i.e. 1786, Came Lord Cornwallis with instructions to make a permanent settlement. Further investigations followed and interrogations were sent to the collectors, John Shore, on a famous minute in June 1789, refuted Grant's analysis and other materials and recommended his own formulae for revenue assessment.

The contemporary documents provide the following data :

1.	Total area of Bengal with Midnapore of which land assessable to revenue	57·6 million acres
2.	Land assessed for revenue	53·0 million acres
3.	Lakheraj, Chakeran etc.	4·6 million acres
4.	Of assessable land the area cultivated	11·5 million acres
	(A) Average yield per acre	13 mds.
	(B) Average Price per md.	Rs. 0·5
	(C) Total value of gross produce	11·5×6·5 = 7·48 or 7½ crores.

If rent is one-third of gross produce then the rental is 7·48/3 = 2·49 = 2·5 crores. John Shore estimated the value of gross produce at 6 crores only.

Both Grant and Shore estimated that in the Bengal districts the incidence of ryoti rents was about Rs. 2 per acre on an average. Only in 24 Parganas the rate was about Rs. 3 per acre. The total rental value of the cultivated area came to 2·35 crores. If 10% be added for uncultivated land possibly included in ryoti holdings the total rental would not be more than 2·58 crores. Grant had an exaggerated idea about the ryot's capacity for payments and suggested that their rents throughout the province be raised to Rs. 3 per acre as in the 24 Parganas. But neither Lord Cornwallis nor Shore could agree to this suggestion. Shore could not also justify even an assessment of Rs. 2 crores for the zemindars without assuming that the ryots pay as much as 50/60 per cent of the produce they derive from the lands.

Shore's idea about alliance to the Zemindars and Talukdars of all grades was that they should get a margin of ⅓rd of the rent they

derived from the ryots for their own upkeep. If Rs. 2·5 crores be taken as the approximate amount of the ryoti rental at the time, an assessment on the Zemindars of more than Rs. 167 lakhs could not be justified. Grant pleaded that the Zemindars and Talukdars be allowed to retain 25% of the ryoti rental. Even on this basis the assessment could not be more than 188 lakhs. Any higher assessment meant that Zemindars were pushed to extract from the ryots more than the estimated amount of the ryoti rental, *i. e.*, Rs. 2·5 crores.

Yet the directors of the East India Company insisted that the assumed net land revenue from Bengal (including Midnapore) and Bihar must not be less than Rs. 2·60 lakhs. In effect, they wanted more than Grant's estimated ryoti rental. Lord Cornwallis was confronted with an extremely awkward situation. How could be impose an assessment which exceeded even the estimated gross rental assets of the Zemindars ?

The solution that he found to his dilemma was to base the assessment, not on existing assets, but on what might be expected in course of time if a long period or perpetuity was assured to the Zemindars. It was the only solution that appeared to Lord Cornwallis. He was strong in his view that if payment was to be assumed forthwith on considerations of prospective assets the Zemindars must be assured that the assessment should remain fixed forever. Increased profits from improvements and extension of cultivation in their respective estates would not be claimed by the State at any time in the future. Thus the need to stabilise a high level of revenue demand, not properly payable in terms of assets, led to the fixation of revenue on a permanent basis, or the settlement was made permanent. In other words, the future was mortgaged to the present. The point of high revenue demand must not be overlooked in the assessment of Decennial settlement in 1789 which was eventually declared permanent. The existing assets from the rents of the ryots was ignored. The basis adopted was high assessment which were being carried down with modifications from the auction settlement of 1969-70. The first rule for the assessment of the Decennial settlement in Bengal was that the "jumma" of the preceding year was to be the standard.

8. Structure of the Permanent Settlement

Settlement of land revenue was made with the Zemindars. They became liable to pay revenue to the government at fixed rate at fixed intervals, no remission and reduction in the floods and famines were to be allowed. If the Zemindars paid their revenue they were assured of no enhancement of revenue at any time in future and no resumption of Zemindar's land by the government. Hence the settlement was called permanent.

How the Permanent Settlement affected the Zemindars ?

The proclamation of 1793 declared that the Zemindars and independent Talukdars with whom the Decennial settlement (1789) had been made were the propreitors of land. There were some controversy raised by Shore whether Bengal Zemindars could be termed as absolute proprietors. However, Lord Cornwallis opined in favour of the idea of proprietorship because of the practical necessities of the British rule. It was, however, stressed that these proprietorship was gift of the Government, and not any restitution of ancient rights. The rights and obligations of Zemindars as absolute proprietors are enumerated below.

In the first place, full and free rights to transfer of land by sale, gift or otherwise, of the whole or any part of their estates without prior sanction from the government was recognised. (*ii*) Further, the Zemindari right would also pass on by succession according to the law of inheritance of the individual Zemindar concerned. (*iii*) Lastly, for the untenanted lands, which comprised the bulk of the wasted jungles, the Zemindar were to be free to let them out in whatever manner they liked subject to a certain time limit.

Restrictions : (*i*) The Zemindars were strictly required to pay the government revenue *punctually*, without any claim for suspension or remission on account of draught, floods, or any other calamity of the season. In default, their estates were liable to be sold forthwith or acquired by the government, either entirely or in part.

(*ii*) It was also declared that the rents of a class of the existing ryots—the resident or khudkhast ryots were not to be raised. It was definitely laid down that their rents could not be enhanced beyond the consolidated rate (consisting of their *Asal Jumma* and *Abwabs* already imposed). Their pattas showing their consolidated rents

could not be cancelled while imposition of new abwabs was forbidden.

(*iii*) As regards lands which were not let out to ryots at the time of permanent settlement, the right of the Zemindars or the Talukdars to let them out was restricted to a period not exceeding 10 years at the first instance. After that the rent was not to exceed the established pargana rates from similar lands.

(*iv*) Where there were intermediate holders and they held land for a turn of years, the Zemindars were made bound to respect their existing engagement with them. Where these intermediaries were permanent tenure holders, their respective rights of inheritance and fixed rate were also to be respected.

(*v*) While imposition of abwabs was forbidden, prevailing practice by which Zemindar proposed internal duties and takes on merchandise was also stopped. Their police function was also taken away. In this manner their organic relation with the state was snapped under alien rule.

(*vi*) The Zemindars were also forbidden to assess for their benefit invalid lakheraj land within their respective Zemindaries as also the police on lakheraj lands.

On realising rents, the Zemindars were required to grant receipts when the rent was paid. Secondly, they were required to employ *Pattawaris* in every village for keeping the current accounts of the ryots such as was done under the Kanungo system. Thirdly, *Pattawaris* were made liable to produce his books in the Dewani Adalat or the collector for inspection when called to do so. The Zemindars could seize the crops and other goods of his tenants for nonpayment of rent but could not detain him physically. He was to approach Dewani Adalat when the tenant failed to pay rent.

The government retained with itself the full power for what is called protection and welfare of the tenantry by legislation as occasions might demand. Lord Cornwallis observed at the time of regulations that in future more regulations would have to be passed limiting the rights of absolute proprietorship of the Zemindars. He stated that Zemindars should not have a right to enhance 'ryots' rents unilaterally, for such a situation would make the ryots absolute slaves of the Zemindars. He did not want that situation to develop. His tacit understanding about rent was that the rates such as then existed would be respected.

How the Permanent Settlement affected the Ryots :

Very substantial changes were affected in the position of the ryots by the regulation of the permanent settlement. The paikast or non-resident ryots were not mentioned in these regulations but as regards Khudkhast ryots, the general intention was that their rent should not be increased. These rents were comprised of rent proper (Asal Jumma) and other surcharges (Abwabs) already imposed. The total was to be consolidated in one specific sum for which the Zemindar or any landholder subordinate to him must grant a patta (record of rent and rights) to the ryots. This patta could not be cancelled ordinarily. It could be cancelled only if it were proved that the rent charged was less than the usual rate prevailing in that pargana.

Imposition of new abwabs or levies under any pretensions in addition to the rent mentioned in the Patta was forbidden on penalty of three times the amount for the entire period of exaction. Provision was also made that the landlord should fix the instalments for next payment "according to the time of reaping and selling the produce." It was also to grant receipts when rent was paid, the penalty for failure being double the amount paid The Zemindars were also to employ the pattawaris in each village and that every pattawari was liable to submit its accounts to court of collection for inspection when required. It has already been mentioned, that the Zemindars could sell the tenants' crops but could not detain him in person.

As regards the ryots in respect of land taken by them after the Permanent Settlement there was material difference. The Zemindars were permitted to let out these "remaining lands" in whatever manner they thought proper subject to "prescribed restrictions". Among these restrictions was the following : No landholder was to "grant pattas to ryots or other persons, for the cultivation of lands for a term exceeding 10 years" or to renew such a patta till after the end of the term. Gupta mentions that the authority seems to have been anxious lest too low rates were fixed to the detriment of the security of the state revenue. At any rate, these provisions left a lot of confusions about the intentions of the authority.

Whether or not the ryots could be dispossessed of their lands after 10 years if they had paid rent according to the pargana rates was never clarified. Even if something was implied by the authority in the Regulation 4 of 1794, there is no doubt that they did not make it explicit, to guard state revenue.

In short, for the resident ryots rent was kept fixed, and in the case of non-resident paikast ryots' rent might be raised up to the "established pargana rates for similar lands". Gupta maintains that according to the original term of the Permanent Settlement, both classes of ryots were to be allowed to acquire, but the latter subsequently came to be known as occupant ryots. This is doubtful. Gupta appears to take a lenient view of the intention of the Permanent Settlement with regard to the ryots. Section *V* of regulation 44 of 1793 contains that whenever the whole or a portion of the estate of a Zemindar is sold away for the discharge of the arrears of revenue, all the subordinate tenancies of whatever descriptions "shall stand cancelled from the day of sale".

It was left to the option of the purchaser to let an existing tenant continue to hold or not, and no exception was made for the ryots. Ryoti rights were then completely disregarded whenever government revenue was threatened. And because in the next 20 to 25 years about half of the Zemindar of Bengal were knocked down at sales for arrears of revenue, the ryoti rights were reduced to nothing. The trend of future legislation, the non-issue of patta rights, the non-employment of pattawaris, all tended to strengthen the tendencies of setting the rights promised to ryots at naught. This process is called the corrosion of Permanent Settlement.

9 Corrosion of the Permanent Settlement

Corrosion of the Permanent Settlement refers to the *non-implementation* of the provisions relating to the ryots' rights promised in the settlement, combined with the laws or regulations meant for the ryots that were put into effect almost immediately. Non-implementation refers to the facts that (*a*) pattas were not issued to the ryots, (*b*) when issued, the rents were illegally raised, and (*c*) the *pattawaris* were never employed in the villages to keep village accounts although all these features were promised in the settlement.

According to Gupta, both Shore and Cornwallis intended that ryots should be granted pattas specifying the net sums of the rents they are to pay. (Sec. 58 of regulation VIII of 1793). It was required that the terms of the patta or recorded rights in each district should be approved by the collectors apparently because they were expected to know the rates prevalent in the districts. However, in 1794, the responsibility of the executive authority to fix patta rates were sharked altogether. For khudkast ryots it meant a civil suit, which is dilatory, difficult and expensive, leading to social tensions and conflict. Later it was declared that a mere motivation by the Zemindars of what they considered to be the rates of their parganas and estates was sufficient for the regulation of 1793. The question of peasants being given the record of rights was simply thrown overboard. In Gupta's opinion, patta plan of Lord Cornwallis was allowed to lapse.

As with pattas, so with pattawaris without pattas or rent-records, the village accountants became unnecessary. And thus Lord Cornwallis' plan of a pattawari in every village liable to keep correct accounts and submit them to the collector or the court for inspection though elaborated by regulation 12 of 1817 was allowed to become a dead letter.

In 1815, the Court of Directors referred to the patta regulation again "as a measure......contemporaries with the Permanent Settlement considered as an essentially necessary branch of the system" and admitted "that the patta resolution has been suffered to become a a dead letter,... . much to the discredit of the executive authorities". It was a routine regret which did not in any way affect the course of policy.

The policy was given by the trend of agrarian legislation. Under the regulations the rights of all tenants stood automatically cancelled when an estate was sold for non-payment of government revenue. Ryots' rights were always of secondary importance ; realisation of government revenue having primary importance in the scheme of things.

Now, though the regulation of 1793 granted the Zemindars the power to distrain and selling the crops and other movables of the tenants without having recourse to government authorities, the tenants could go to the Dewani Adalat disputing a claim and demanding a trial. Distrain could thereupon cease. This provision, according to Zemindars was an obstacle to the prompt realisation of their rent. Since the Zemindars were the instruments through whom the government realised its exorbitant revenue demand, the point raised

by the Zemindars was immediate removal of all restrictions to collect it from the ryots and to give them a completely free hand. They demanded removal of such safeguarding provisions, especially the Section IX of regulation 35 of 1795. Thus followed regulation 7 of 1799, known as notorious "Haptam." Its worst feature was that it abolished the provisions which required that the landlord must first satisfy the judge that the arrear claim was really due and the defaulter was likely to abscond ; before the tenant or its surety could be arrested and put into confinement.

It became only necessary for Zemindars to notify a minor official of the district court that in his view the defaulter could abscond. Then the alleged defaulter could be arrested and the prisoner would not be released unless the landlord stated in writing that he might be released ; and the tenant could not claim release on the ground that he disputed the arrear so long as it did not appear that "a considerable proportion of demand is not justly due." Attachment of the tenants' crops and personal effects and their seizure and sale could continue simultaneously without any previous notice of demand on the tenant specifying the amount. In the process of distrain state power was given to the landlords including their employees and agents to break open the doors of houses to seize the personal properties of the tenants for their purpose. The police were required to assist the landlords The plain fact was what Philip Francis noted long befroe : protection of peasants' rights could not be a part of the programme of a government bent upon realising the maximum revenue from land. Hence it was not even in 1885 that provision was made in law for a record of rights in the permanently settled areas ; it was not till about 20 years later that any action was taken in Bengal districts. Cadastral survey first started in Bengal in Barisal district in 1905.

10. Permanent vs. Temporary Settlement

The widespread famines which visited India towards the close of the last century, and the great distress from which people suffered in India attracted the attention of historians, economists and administrators to the land revenue policy of the government. This policy was criticised generally and province by province by R. C. Dutt, who along with certain retired European members of the Indian Civil Service, presented a memorial on the subject to the Secretary of State. A few years before this (1900) R. C- Dutt has also addressed his open letters to Lord Curzon, whose Government published an important resolution in 1902 replying to the criticisms and outlining their general policy after considering the reports submitted by the provincial Governments.

Merits

(Historians like Romesh Dutt, Jadunath Sarkar and their British counterparts described in detail the beneficial effects of such permanent settlement in Bengal.[10] (i) It has saved the land revenue of the state from annual fluctuations and uncertainty of collection. (ii) It avoids the expense and harassment to tenants which attend every periodical of settlement. (iii) The Zemindars have greatly *extended* cultivation by bringing large areas of wasteland under tillage, though they have not attended to *intensive* cultivation. (iv) The Zemindar is the only channel through which new knowledge and the comforts of civilisation can reach the cultivators, 'his manor is oasis of culture amidst a dead level of ignorance and poverty.' (v) It has created a rich and loyal body between the government and the people. (vi) The Parmanent Settlement, co-operating with the law of equal inheritance of all the sons, has created a large middle class with a secure income, which is the cause of the social, literary and educational advancement of Bengal.

Dutt vigorously argued that if Permanent Settlement had been introduced 40 years previously, that is, when its extension was proposed by Lord Canning in 1860, India would have been spared the 'dreadful and desolating famines' of the close of the nineteenth century. Dutt attributed to the Permanent Settlement the prosperity of Bengal ryots, their resourcefulness and greater resisting capacity in years of bad harvest, the promotion of agricultural enterprise, investment of private capital and its accumulation and devotion to useful industries, public institutions and works.)

10. "Since 1793 there has never been a famine in permanently settled Bengal which has caused any serious loss of life. In other parts of India, where the land-tax is still uncertain and excessive, it takes away all motives for agricultural improvements and prevents saving, and famines have been attended with the deaths of hundreds of thousands, and sometimes of millions. If the prosperity and happiness of a nation be the criteria of wisdom and success Lord Cornwallis's Permanent settlement of 1793 is the wisest and most successful measure which the British nation has ever adopted in India."—*R. C. Dutt.*

Defects

Not all these arguments, however, were accepted by economists and historians and they pointed out to the various defects and disadvantages of the system which impeded the increase of savings and investment in the rural sector of India, caused de-industrialisation and perpetuated stagnation. (i) The revenue liability was fixed in a rough and ready fashion without any survey or record of landed rights and interests, or any investigation into the productive capacity of the different classes of soils. Baden-Powell remarks : "The fact that the Permanent Settlement was made without any survey, and without any record of landed rights and interests, has proved more fraught with consequences than perhaps any other feature of the settlement." (ii) It failed to safeguard the rights and interests of the ryots, who suffered a double injustice, first by losing proprietory rights, and secondly, by being left almost entirely to the mercy of the Zemindars, who proceeded to rack-rent them. Here is a sacrifice of all the community rights to an individual, a sacrifice by merging all village rights, whether of property or occupancy, in all devouring recognition of the Zemindars' permanent property in the soil. (iii) The most obvious and the most important argument against the Permanent Settlement, as advanced in the Report of Bengal Land Revenue Commission (1938—40) is that it has frozen the land revenue at a figure which is far below the fair share which the government ought to receive from the produce of the land, and is substantially less than the share received by the government in the temporary settlement areas. It made state revenue inelastic and thus put a handicap to the government activities directed towards welfare and development. The community has thus been deprived of its legitimate right to share in the increasing prosperity of the Zemindars, which is due not so much to the direct effort of landlords themselves as to the social factors beyond their control, such as growth of population, improved communications, rises in prices, etc. It has deprived the Government of any share in the increment in the value of land due to increase in population and the extension of cultivation ; and it has perpetuated an assessment which has no relation to the productive quality of land, which varies widely from district to district and which becomes more uneven as time goes on. The advantages of fixed and stable revenue is secured at too great a cost. Moreover, the Permanent Settlement has involved the government in a loss of revenue from minerals and fisheries, etc. (iv) Thus the discrimination in respect of taxation in favour of land created a bias in favour of investment in land rather than in industrial enterprises and has contributed to the over-capitalisation of rent-receiving as opposed to productive purposes in either agriculture or industry. (v) The evils of absentee-landlordism, of management of estates by unsympathetic agents has failed to develop agriculture as expected by the originators of the system. (vi) Owing to the margin between the fixed land revenue and the economic rent of land, there developed an unhealthy system of subinfeudation. 'In one estate in Bakarganj there are as many as thirty intermediate tenures (between the proprietor and the cultivator) one under another.[11]

The Report of the Bengal Land Revenue Commission (1938-40) also pointed out : "The promise given by the East India Company never to alter the assessment [in Bengal] followed as it was by the gradual growth of the Zemindar's profits, encouraged sub-infeudation and brought into existence a body of tenureholders vastly out-numbering the original Zemindars." This growth of a long chain of middlemen has severed the connection between the Zemindars and the ryots and have defeated the intention of Lord Cornwallis to establish a landlord and tenant system in Bengal on the English model. Due to fragmentation in proprietory interests in land, 'the land is no body's concern...the responsibility for agricultural welfare cannot be fixed at any particular link in the chain between the Zemindar and actual cultivator.' The Zemindari system, the Bengal Land Revenue commission pointed out, contains features of the landlord, tenant and peasant proprietorship systems, and shows most of the advantages and few of the advantages of any of them.[12]

11. The Retreat from Permanent Settlement

The British were primarily concerned with securing the largest possible revenue, and for this purpose, two major types of land revenue systems were devised each of which shook the older structure

11. *Report of the Bengal Banking Enquiry Committee*, para 17.

12. For a discussion of some of the consequences of Bengal Permanent Settlement, (a) *Report of the Indian Statutory Commission*, paras 381-2, (b) M. A. Haque, *The Man behind the Plough*, Ph. 224-67, (c) *Report of the Land Revenue Commission, Bengal*, Vol. I, paras 72-93.

of village economy in India. In Bengal and adjacent areas, beginning in 1793, the British converted the tax-farmers and revenue collectors into private property in land. This land revenue system is known as Zamindari system. An entirely different land system was devised for large parts of Bombay and Madras, and later applied to areas in north-eastern and north-western India. Here the British, instead of creating private landlords, dealt directly with the individual peasants on the land for they hoped thereby to be able to obtain more revenue than under the Zemindari system. Each peasant was recognised as holding the particular plot or plots he occupied, but his right to the land depended upon annual payment in full of a heavy money-rent to the State. Because it dealt directly with the peasant or *ryot*, the new system was called the ryotwari settlement. Whereas the Zemindari system made the landlords masters of the village communities, (where they did exist) the ryotwari system cut through the heart of the village communities by making separate arrangenments between each peasant cultivator and the State.

Retreat from Permanent Settlement was due to various forces acting simultaneously. The climate during the turn of the century was surcharged with ideas of French revolution, which was a movement specially directed against landed aristocracy, which was the main pivot of Bengal Permanent Settlement. Secondly, there was the development of Ricardian theory of Rent. This theory emphasised the permanent cleavage between the interests of landed aristocracy and all other classes of society. The then prevailing idea that the landlords gain while others lose seriously challenged the Zemindar's capacity for bringing agricultural prosperity. Thirdly, it was also believed by the rising theoreticians of English classical Political Economy that Permanent Settlement would lead to investment in land and reduce investment in industries which can regenerate Indian economy and prepare it as an expanding market for British manufactures. Fourthly, the utilitarian conception of greatest good of the greatest number emphasised large number of peasant proprietors on the one hand, and appropriation of the entire rent by the State for paternalistic benevolent administration on the other. Fifthly, Bengal system grew up to a large extent from the conditions then existing in Bengal, while situation prevailing in other regions were rather different. In other regions, the self-sufficient village communities were strong enough. The developed from the breakdown of old tribes, aryans and non-aryans. The relics of tribal sentiments and pastoral or agricultural clan mentality prevailed more strongly in regions other than Bengal. In Bengal, such sentiments were weak. Being colonised mostly by immigrants from other regions, removing jungles and improving waste land, their loyalty to the tribal or clan 'brotherhood' or 'unity' was less than that of the ancient settlers of older habitations. Old Bengal Zemindars also sometimes worked like explorer-entrepreneurs.

Such was not the case in other areas. Neither the Bengal Settlement nor the Ryotwari Settlement of Madras, however, could be used as a model in the north, in the Ceded and Conquered Provinces, for various reasons. The existence of large and strong agricultural village fraternities, in which most members were both proprietors as well as cultivators of their own small pieces of land, made it imperative that a shift from Bengal pattern must be made. The introduction of Ryotwari settlement gave new experience to the administration, it also raised larger revenue. This induced the Company to give up Bengal system altogether. Ultimately the system adopted in the Ceded and Conquered Provinces (present Uttar Pradesh) was neither Bengal system nor the Madras one, but something unique than both of them.

Let us probe further into it. There had been a significant relationship between economic changes in India under the British rule and the formative influences in the English society and its economy. With the spread of industrial revolution in England during the end of the eighteenth century, the need for direct plunder of land revenue ceased to a certain extent. The problem that haunted the rising manufacturers of Britain was market. As merchants, the East India Company now needed not direct plunder but trade profits also. The rising British Industrial class wanted India to 'rise rapidly into prosperity as a market for British manufactures and source of raw-materials'. The steady fall in the purchasing power of an impoverished and partly unemployed population led to a conscious quest for means to vitalise Indian agriculture. The demands, therefore, were for a simplified land tenure encouraging investment of capital in agriculture, for a light permanent assessment on the soil, for a 'rule of law'

reaching out to the remotest village, so as to break up the immemorial communal tenures.

Why such Permanent Settlement was not further extended to other parts of India can also be understood with reference to the relationship between English utilitarians and the management of the East India Company. The impact of Ricardian theories of rent on Indian land revenue system is sometimes clearly visible. By 1820, James Mill became the chief executive officer of the East India Company and Bentinck became the Governor-general. The historical situation in nineteenth century Britain did not favour experiments with utilitarian ideas. In India, the situation was different. 'It is you that will be Governor-general', said Bentinck to Bentham before leaving for India, and throughout the greater part of the nineteenth century, the spirit of Bentham remained a determining influence in the administrative policies of British India.

James Mill preferred the ryotwari system to the Zemindari system, and his suggestion was to apply the theory of rent to revenue practices in India. According to theory, rent was a suitable source of taxation ; because a tax on rent does not reduce the supply of land and does not encroach upon the normal profit, wages or the prices of necessities and hence cannot retard economic growth. Rent being a surplus over the cost of production, a tax on it cannot influence the course of output. And the entire class, being unproductive, does not help the process of capital accumulation in any way.

Now, according to Mill and other utilitarians, as the State was entitled to the full rent since it is the landlord in India, no settlement could be granted permanently. It was equally necessary to keep the revenue within the limits of rent, and also to remove the intermediaries who reduce the State's share. Thus the State should remain as a landlord directly in touch with the cultivator, granting lease for twenty or thirty years to provide incentive and security for capital investment, but continually revising its assessment on the renewal of the leases in order to appropriate the unearned rental increment.

This physiocratic product net criterion was applied with varying degrees of doctrinaire inflexibility in the North Westen Province and Bombay Deccan. The systematic way in which the aristocratic classes were set aside after 1822 owed a great deal to rent theory, with its doctrine of the parasitic nature of rent-receiver. Fear of social effect of a sudden dissolution of co-sharing village community inhibited drastic breaks with the past and too vigorous an enforcement of individual proprietory role. The right of preemption consequently granted to village communities, when the interest of any member had to be sold up, hampered the transferability of land and restricted individual enterprise. The commercialisation of agriculture on the other hand, accelerated the movement towards individual property rights. By 1850's, with the steady increase in the mortgageable value of land, the transfer of land to the money-lending-classes had already reached dangerous proportions. The champions of individualism, private enterprise and utilitarianism accepted this phenomena as a sign of progress.

It is seen that the most unfortunate consequence of utilitarianism in India was the excessiveness of State demand, for it encouraged an attitude which saw no harm in taking a very high proportion of rent. In Bombay it led to mass desertion of cultivators and extensive tracts thrown out of cultivation. John Stuart Mill, later on, doubted the applicability of rent theory in India. He considered the Indian ryot as a type of cottier-farmer, raising his subsistence from the soil by his own labour and capital. Cottier-rent, Mill acknowledged, was regulated not by competition of capitals, but by the competition of tenants for land, bringing 'the principle of population to act directly on the land, and not, as in England, on capital.' Thus unlike the capitalist farmer, paying surplus over profit as rent, the cottier is forced to cultivate land as the only means of livelihood, and pay the entire surplus over bare subsistence as rent. Yet, attempts to regulate revenue with the rent theory continued down to the twentieth century. And the consequences of this policy were no doubt disastrous for the primary producers in our country.

We can now conclude. It is generally believed that private property of the British type was introduced into India by the rulers of the East India Company, who transformed the tax-gatherers of the defeated local dynasties into near-replicas of English landed gentry, and the actual cultivators into their tenants. But, if we re-examine the record a bit more closely, we will agree that this (the establishment of private property in land) was precisely what

Cornwallis and his successors *did not do*. Like the Mughals before them, and the Guptas and the Mauryas before the Mughals, the British insisted on the right of the imperial power to the first share of the fruits of the soil. With physiocratic ideas on the one hand, and the pressure of population on land due to "de-industrialisation" on the other, almost entire surplus from cultivation was taxed to the fullest extent. But this type of claim by the State on land was already centuries out of date in England itself where capitalism has advanced far in agriculture. Such a claim belongs properly to a stage of economic development where there is, in effect, no other source of State revenue. The key fact about all the British land settlements of the eighteenth and nineteenth centuries, whether zemindari, ryotwari, mahalwari, talukqdari, or malguzari, whether permanent or temporary, was that the new rights in the land were made invariably subordinate to the rights of the State. To no holder was granted the exclusive right to occupy, enjoy, and dispose of land which, in practice, is the hall-mark of western private ownership. Without this quality of exclusiveness, real private property cannot be said to exist. This is the main contradiction involved in the new system.

Some of the rights normally associated with private property in land (e.g. transferability, mortgageability, inheritability) were indeed accorded to the new 'owners'. But their privileges were restricted by the simultaneous recognition of rights both superior and inferior to their own in the same land. The State, as a super-landlord, claimed a share of the rents ; while the actual tillers continued to exercise a traditional claim to occupancy[13].

12. The Agricultural patterns in England and France : the Nature of Physiocratic Policies Advocated

While the English model of landlordism was the basis of Bengal Permanent Settlement, and the French model of peasant proprietor-

13. Marx wrote : "If any nation's history, then it is the history of the English management of India which is a string of unsuccessful and really absurd (and in practice infamous) experiments in economics. In Bengal they created a caricature of English landed property on a large scale ; in south-eastern India a caricature of small allotment of property ; in the North-West they transformed to the utmost of their ability the Indian commune with common ownership of the soil into a caricature of itself."

ship was the basis of Madras Ryotwari settlement we should make a rough study of those two patterns. The structure of British agriculture in the middle of the eighteenth century is quite well-known. As a result of enclosure movements the capitalist farmers established themselves as the agricultural entrepreneurs. The feudal lords gradually removed the serfs and enclosed large land-areas with stone walls and started their own cultivation with wage labour. England's chief export was wool, when its price rose, many lords saw a chance to get a bigger money return by converting farm-land into sheep pasture[14]. Sometimes the lord merely enclosed the common lands. This means also the ruin of the poor tenants as his cattle had no place for pasture[15]. The raising of rents also impoverished the tenants who were forced to give up their lands.

In Physiocratic times, France was mainly an agricultural country. The main feature which distinguished French agriculture from that of England at this time was the relative lack of enclosures and the

14. 'The law locks up the man or woman
Who steals a goose from off the common ;
But leaves the greater villain loose,
Who steals the common from the goose.'

Arther Young in his tour through Shropshire in 1776 pointed out : "Rents by the enclosures are generally doubled......Three miles from Daventry came to Bramston an enclosure only a year old······The open field let at 6s. to 10s. an acre : but now it is (on lease) 20s. to 30s.

15. Perhaps the most infamous example of the sweeping from off the land of the wretched labourers who had always been on it is that of the Dutches of Southerland in Scotland. The story is told by Marx : "where there are no more independent peasants to get rid of, 'the clearing' of cottages begins ; so that the agricultural labourers do not find on the soil cultivated by them even the spot necessary for their own housing...As an example of the method obtaining in the nineteenth century, the 'elearing' made by the Dutches of Southerland will suffice here. This person, well instructed in economy, resolved...to turn the whole country, whose population had already been, by earlier processes of the like kind, reduced to 15,000 into a sheep walk. From 1814-20 these 15000 inhabitants, about 3000 families were systematically hunted and rooted out. All their villages were destroyed and burnt, all their fields turned into pasturage. British soldiers enforced this eviction, and came to blows with the inhabitants. One old woman was burnt to death in the flames of the hut which she refused to leave. Thus this fine lady appropriated 794,000 acres of land that had from time immemorial belonged to the clan."

consequent survival of very large numbers of small peasant proprietors. These small peasant proprietors, who although they were normally subject to heavy seigneurial dues, had the right to transfer their property or pass it on to their heirs. A small minority of these peasants who possessed relatively large pieces of land were well off, but the great majority, possessing very small pieces lived miserably at a subsistence level. The privileged classes, i.e., the nobility and the clergy, besides rights over the peasants' land also owned their own plots. The privileged classes, again unlike England, were not 'improving landlords', and in majority of cases the land was cultivated by the share-croppers (*metayers*). The implements were poor, as were the cultivators. Some land belonging to the privileged classes, particularly in the northern provinces was let out on lease to *fermiers*, i.e. farmers who were more or less agricultural entrepreneurs. These *fermiers* sometimes possessed large capital, their methods of cultivation was superior to those of *metayers* and the poor peasants. The general picture was one of poverty-stricken agriculture.

The physiocrats pinned their hope on *fermiers*, who were considered to be the agents of agricultural reform. Apart from land revenues the farmers were also burdened with all sorts of tolls and taxes. The physiocrats therefore, suggested a bold policy, an *impot unique*, or a single tax on land-rent. Any financial disadvantage to the proprietors, the physiocrats claimed, would ultimately be much more than balanced by consequential increases in agricultural investment and productivity, and therefore in the magnitude of future net products.

13. The Classical Economics, the Doctrine of Rent and the Land Tax

The core of the utilitarian philosophy, its professed scientific foundation, was the new political economy developed by Ricardo.

The system of Land Revenue was at the heart of Indian administration. James Mill was master in this field. Himself an expert on political economy, he was from 1819 until 1830 immediately responsible for drafting the revenue despatches to India. James Mill fiercely attacked the Cornwallis settlement. Much of his anger was no doubt due to attempt to create in Bengal a replica of English aristocracy which would not bring property in the hands of many for 'greatest good of the greatest number." But the wrath was due to something more than that. What Mill denied was the assumption that the sole method of establishing private rights in land was by permanently limiting State's share. According to him, the state should remain as the landlord and that each peasant should hold land directly from State as its own tenant.

The East India Company was quick enough to visualise the importance of the science of political economy and its college at Haileybury had been the first institution to establish a chair in the subject to train up the young civilians for Indian administration. The first holder of this chair was Malthus who continued to occupy it from 1805 to 1834. In this company establishment, in the course of preparing lecture notes for young civilians, Malthus 'discovered' the law of rent in 1815. This law, refined gradually by the criticisms made by Ricardo and J. B. Say, wanted to show that rent was a special portion of wealth, distinct from profits or wages and determined in an exact scientific method. Rent originates due to the fact that, increasing population puts pressure on the limited supply of land, bringing the inferior grades of land under the plough. The most inferior grade which is cultivated yields no rent, as here the total outlay is just returned back, leaving no surplus. The superior grades of land yield differential surplus varying due to differences in fertility. The rent element can be calculated by deducting from the total output the cost of wages and the normal rate of profit. This surplus over the cost of production can also be termed as ***net produce.*** Due to free competition among the cultivators, the whole of this surplus is to be given away to landlord as rent.

Malthus regarded this surplus as a special bounty of Providence, as it makes possible the existence of a leisured class, civil freedom, art and culture. But Ricardo considered rent to be a monopoly value which arose because land was limited in quantity and variable in quality. Unlike air, it also could be appropriated as private property. And with economic progress in general, the food-prices rise, the rents continue to increase. But the need for capital accumulation keeps the wages low, and increasing accumulation leads to a falling rate of profit. According to Ricardo, who was a personal friend of James Mill and a builder of the utilitarian economic doctrine, these landlords performed no productive service and lived like parasites

on the community. While Malthus contented that 'the interest of the landlord is strictly and necessarily connected with that of the State,' Ricardo replied that 'the interest of the landlord is always opposed to every other class in the community.'

Ricardo also pointed out that the course of economic progress would benefit only the landlord at the expense of every other class. In the early stages of society population was small, fertile land was abundant, rent was practically non-existent. With the growth of population, rents of the superior grades would continue to rise as more and more inferior grades come under the plough, while the law of the falling rate of profit would continue, till a 'stationary state' was reached where profits and accumulation had ceased. The demand for food however, would continue to rise along with its price.

These Ricardian considerations governed the utilitarian doctrine of taxation. Justice demanded the taxation of rent which is an unearned increment Economic reasons also demanded taxation of rent. Every other tax tended to check production, either directly or indirectly. A tax on rent does not affect the supply of land, or the rate of profit or the price of corn.

This view of rent and a single land tax as the physiocrats desired, was put into practice on Indian soil. In his ***History of India,*** Mill discussed the importance of rent theory for India. He took up the position that the British power in India should not renounce but maintain the traditional right of an oriental sovereign to the ownership of the soil.[16]

From this theoretical position, the practical conclusions were that no permanent settlement should be made. By denying itself the future increment of rent, the State would ultimately have to resort to taxes which fell upon capital or profits and so checked accumula-

16. In his evidence before the Commons Select Committee of 1831, Mill argued : 'Nineteenths probably of the revenue of the Government of India is derived from the rent of land, never appropriated to individuals, and always considered to be the property of government, and to me that appears to be one of the most fortunate circumstance that can occur in any country becase in consequence of this the wants of the state are supplied really and truly without taxation. As far as this source goes the people of the country remain untaxed. The wants of government are supplied without and drain either upon the produce of any man's labour, or the produce of any man's capital.'

tion. The collection-agencies or the revenue farmers like Zemindars or Taluqdars or village brotherhoods all impinge upon the rightful share of the state. A detailed ryotwari settlement was therefore essential. Mill's plan for India was State-landlordism with cultivators as its direct tenants. The State would grant leases for twenty to thirty years. This would provide sufficient incentive and security of capital, but State could not forego its right to revise assessment during renewal of the leases so as to appropriate the unearned rental increment.

The law of rent thus provided a clear criterion of assessment. While Munro's system professed to adopt the traditional Indian principle of taking a fixed proportion of the gross produce, Mill suggested taking away the whole or the large portion of the net produce. The newly emerging British political economy showed that Indian tradition was wrong. If a fixed share of the gross produce is taken as rent, only the superior soils would be cultivated and the inferior grades would not. Any tax taking indiscriminately a fixed proportion of the crop, without regard to the fertility of the soil, could only be met out of profits. Such a tax would discourage the employment of capital on the poorer land and raise the cost of production. In chain reaction, it would lead to a general rise in price of corn, in the money wages of labour, and in the level of rents. The correct principle, therefore, was the assessment on rent or the surplus, or the net product.

14. The nature ot Private Property in Land evolved by the British

British policy in India moved within an orbit of ideas primarily determined in Europe, the tide of British policy in India moved in the direction set by the development of the British economy.

When Britain conquered India, the main revenue of the State consisted of a large portion of the produce of the soil. The years of anarchy, the uncertain demands, irregular collections, grossest corruption and oppression—all led to deterioration in agriculture and consequently the revenue resources of the State. It was generally agreed upon by the promoters of Permanent Settlement since 1770 that certainty and regularity could be restored only by some formal

definition of the demand made by the State. This formal definition must draw a clear line of distinction between public and private rights. Hitherto rights on land were hazy, complex and non-definable. There were relics of several broken tribal forms of common ownership and unwritten customary laws of the agricultural communities in the newly colonised areas. All these tribal or semi-tribal customs and unwritten conventions had been constantly modified by the arbitrary rulers to determine the shares of the State on the one hand, and of the agency of collection on the other. There was no clear definition of rights, no body could say clearly who owned which plot, who could sell or mortgage a particular plot of land. The promoters of permanent settlement were eager to define the portion of State demand in perpetuity, so that the remaining portion of the agricultural surplus might be recognised as private property in the full legal sense. Cornwallis was unable to reduce the then existing demand, but he declared it unalterable, and left the great Zemindars, whom he recognised as proprietors, to obtain a private rent from opening up the vast tracts of cultivable waste within their domains. According to them, absolute precision and security for private property were obtainable if the fiscal demand of the State were to be guaranteed against all future enhancement, and if the tax were to be levied as a definite monetary sum on the land and not as a fixed share of the produce.

The weight of the land-tax also affected the property rights. If the tax is high, the land looses saleability, private property cannot effectively exist. Only the State exists as a landlord. Thus only by limiting land-tax so as to leave a private rent could saleable property rights be really established. Such was the chain of argumentation of the promoters of Permanent Settlement in Bengal, who were eager to apply the English whig philosophy. It was essentially a whig conviction that political power is generally corrupting and inevitably abused. Cornwallis believed that the function of the government should be reduced to the bare task of ensuring the security of person and property. And this, he believed, could be achieved by permanently limiting the State revenue demand on the land ; only thus the executive arm of the State can be paralysed. Cornwallis believed that everything depended upon the recognition of the proprietory rights of the Zemindars in the great landholders. And indeed, landed property resources to England without providing her with 'any equivalent return'. This has been characterised by the Indian historians and economists of the early twentieth century as 'the economic drain' on India. Modern discussions on the 'crucial factor' leading to take-off to self-sustained growth also point out to this shiphonning-off of generations of savings of India as the root cause of the arrest in the next leap forward of the Indian economy, i. e., the transition from feudalism to Capitalism. They also point out the close relation between this large capital accumulation in few British hands, the energising effect of this liquid capital and its relation to technological innovations in England leading to rapid and farreaching changes known as Industrial Revolution.

The writers have pointed out that this drain is a post Plassey affair. Before Plassey, the impact of English trade on Bengal's economy was on the whole not prejudicial. There were several European companies, though the East India Company was the strongest, and therefore none could establish completely a monopsonistic control over the market. Bengal producers, spinners, weavers and such other artisans could get more or less reasonable price. The 'Coast and Bay' received a steadily increasing share of the company's fast expanding oriental commerce. In 1708-59, out of a total of 10 ships (about 300 tons each) sent to the east, only four were bound for Bengal and the neighbouring regions. In 1739-40, out of 39 ships (of about 490 tons each) so despatched, 19 were bound for eastern coast of India. The bullion imports into Bengal during 1718-27 amounted to £1,331,529 as compared to £722,500 in the preceding decade. Gradually when other European companies reduced their trade and exclusive or monopsonistic control of the East India Company developed, the terms of trade grew adverse and producers' bargaining power became reduced.

The economic drain, therefore. started after 1757, and for convenience in understanding could be said to have taken place in two stages : unorganised and organised. In the first stage after Plassey it took the character of indiscriminate loot and plunder. This direct loot took the shape of tributes to the company and its servants by the puppet Indian rulers.[17] Various guesses and estimates of total

17. When in 1757 Mirjafar became the Nawab of Bengal, in addition to a million pounds to the company, half a million to the "English inhabitants

plunder are attempted at, one estimate places it at £5940498, which does not take into account the figures of direct plunder from the people. Writers like Montgomery Martin, Brooks Adams, and WIlliam Digby refer, in very general terms to the immensely large quantity of 'Indian plunder'.[18]

But, the total amount of drain cannot possibly be estimated with accuracy as (a) no full statistical informations are available, and (b) no equanimity as to what were the forms and items of such economic drain. According to Verelst, during the five years following the grant of the Diwani, goods and bullion of the total value of 4,941,611 million sterling went out of the country. Dow, who wrote sometimes about 1770, estimated this drain to be was 1,477,500 pounds sterling. Prof. J. C. Sinha thinks that during the period 1757 to 1780 the amount of drain on Bengal's resources was something like 38 million pounds sterling in the important items only and to the exclusion of some others.[19] James Grant in his 'Analysis of Finances of Bengal' calculated it in 1786 to be 18 millions excluding the amount of not less than twenty lakhs sent annually to the other Presidencies of India. Mr. Holden Furiber thinks that in order to ascertain the exact amount of drain from India "we should need what we can never possess, full and accurate statistics of exports and imports for the entire sub-continent"[20]. However, after consulting the invoices and bills of exchange in English,

of Calcutta," and the sum of £ 2,70,000 for the Hindus, Mussulmans, Armenians and other subjects of Calcutta,—which were all specified in the treaty—, the new Nawab had to make large gifts to the principal servants of the company. The Select Commitee of the House of Commons of 1772 estimated the total amount of these gifts at £ 1,238,575 ; out of which the "hero" Clive received £ 31,500 besides a rich Jagir or an estate for revenue farming which was estimated to bring in £ 27,000 a year.

18. Macaulay, describing the situation after plassey, says : "The shower of wealth now fell copiously on the company and its servants. A sum of eight hundred thousand pounds sterling, in coined silver, was sent down the river from Moorshidabad to Fort William, Calcutta, which a few months before had been desolate, was now, more prosperous than ever. Trade revived and the signs of affluence appeared in every English house. As to Clive, there was no limit to his acquisition but his own moderation." *Essay on Lord Clive*, Vol. III, p. 240.

19. J. C. Sinha, *Economic Annals of Bengal*, pp. 51-52.

20. Holden Furber, *John Company at work*, pp. 304-305, 310,

French, Dutch and Danish languages and considering the problem "on a basis of India as a whole" for the decade 1783 to 1792, he held that the drain toward the west should not be reckoned as exceeding £1,800,000 annually during this period.

(a) Terms of trade forced against producers

Apart form direct plunder, there arose other specific patterns of organised drain from India to England. In what different forms this organised drain took place make a fascinating study in the economic history of the period of company rule in India. Since the transfer of political power, 'methods of power could increasingly used to weight the balance of exchange and secure the maximum goods for the minimum payment'. Being 'favourably placed in relation to the individual producer, whether weaver or peasant, to dictate terms favourably to himself,' the company was now 'able to throw the sword in to the scales to secure a bargain, which abandoned all pretence of equality of exchange.[21]

(b) Liquidation of Indian Traders

The attempt to completly monopsonise and monopolise the Indian products for the English led also to the liquidation of Indian trader or middlemen class. Buying cheap and selling dear, backed by force, the servants of the company with a *dastak* in hand moved about duty-free throughout the villages and towns of Bengal.

(c) Export of Specie

Many writers point out to the direct export of bullion as the only and the main form of economic drain during the period. This has become a controversy among writers on this period. Old writers, like Ghulam Hossain, writers of *Siyar-ul-Matakherin*, and Montgomery Martin have written about the annual export of bullion or coin from Bengal to England. There were also references to this phenomena in a few statements of British officers like Warren Hastings and Shore.

21. The puppet Nawab of Bengal complained to the company's Governor in Calcutta in a memorandum, dated May, 1762: "They forcibly take away the goods and commodities of the Reiats (peasants), merchants etc. for a fourth part of their value; and by ways of violence and oppressions they oblige the Reiats etc. to give five rupees for goods which are worth but one rupee." Quoted by R. C. Dutt, *The Economic history of India under Early British Rule*, p° 23.

Modern writers, however, do not believe in the vast export of bullion from Bengal to England. Mr. Holden Furber writes that "direct exports of bullion to Europe were so trifling as to be negligible."[22]

(d) Remittance

The remittance of private fortunes by the servants of the company was a highly objectionable form of drain. Company officials acquired wealth through illegal presents & perquisities open or clandestine private inland trade, and salaries. Apart from the servants of the Company, the Free Merchants also made fortune through their private trade in India. Now there were various means by which these men remitted their private fortunes to England. One of the methods was selling of diamonds to Europe. The company permitted this method with the idea that export of diamonds could not produce any disorder in currency, as diamonds 'did not form any part of the circulating medium of the country.' But 'a necessary consequence of this was that presents which might otherwise have been made in coins were made in jewels'. And also, Bengal money was spent in Oudh, Golconda and other distant places for the purchase of diamonds.[23]

Another method of remittance was through bills of exchange on English company or on any of the other European companies. At first the East India company did not permit bills to be drawn on itself. But when it was seen that the foreign companies were making handsome profits by discounting such bills, they withdrew such objection and started taking bills themselves.

(e) Investment from Land Revenue

The most important form of drain was of course, the "investment" policy of the East India Company, i.e. the policy of purchasing exportable goods from the surplus of land-revenue collection after the Diwani of 1765. Here a misconception is to be clarified. The non-drainage school points out that in the post 1757 period there was

22. *John Company at work*, p. 310.

23. One of the charges against Clive in 1772 was monopoly of diamonds. In refuting it Clive observed; "At that period there were only two ways by which a servant of company could, with propriety, remit the fortune to England; by bills on the company or by diamond"...Quoted in K. K Dutta, *Survey of India's Social life and Economic condition in the Eighteenth Century* from Malcolm, *Life of Robert Clive*.

an expansion in the volume of exports from Bengal to England. The imports did not increase. The import of bullion was much reduced in volume because 'investments' or purchases were financed from revenue and loans locally raised. But since the bulk of the bullion imported became eventually fossilised as hoards of wealth or items of display, reduction of bullion-import did not perhaps affect Bengal's economy. On the other hand, the favourable balance of trade must have resulted in a tremendous impetus to production as a whole, and the creation of virtually new industries like the manufacture of raw silk.

Let us carefully analyse through the tendencious incompleteness of such non-drainage arguments. Land Revenue was raised to high pitch. It was extracted from the peasants A portion went to company officials as salaries etc., remitted to England. The other portion went to artisans who were paid lowest prices possible for their labour. The goods which were the products of land and labour did not circulate for consumption inside the country and were sent to England. Was not the drain present in this schema, the drain of the entire surplus value? No capital could accumulate, the subsistence minimum was forcibly maintained, and the change in the pattern of production was forced by the needs of the export trade.

Not only that. Already in the earlier half of the eighteenth century the specie was drained off from Bengal to Delhi. The money supply was short and a commercial crisis prevailed, goods went outside but money did not enter, there was a fall of prices leading to more sales for same amount of money. Shortage of money supply was at the same time a result and a weapon of economic drain from India.

(f) *Investment in Empire Building*

The economic drain took place also through Bengal's financial assistance to the English company's settlements at Bombay and Madras. In other parts of India, investment was being undertaken on the building up of an empire and peasants and artisans of Bengal had been drained off for this purpose.

(g) *Export of Specie to China*

And if the direct export of bullion from Bengal to England was not much, the Company's investment in China trade took a large

volume of specie from 1757 onwards. Bengal financed Company's China trade, against which there was 'no equivalent returns.' It was of course drain to England via China. The evil consequences of such drain was pointed out, more than once, by the Government of Verelst.[24] The total annual drain due to China trade amounted to 25 lacs according to the estimate of the Select Committee in Calcutta.

(h) *Commercial Policy of the Industrial Bourgeoisie*

And lastly, this economic drain was institutionalised, perpetuated, intensified, and elongated not only by the mercantile interests of the East India Company, but also by the rising Industrial Capital of England through the most unjust commercial policy imposed on India during the ending decades of the eighteenth century and beginning decades of the nineteenth.

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24. "The Select Committee in Calcutta observed in its letter to the Court to Directors, dated 26th September, 1767: "We have frequently expressed to you an apprehension lest the annual exportation of treasure to China should produce a scarcity of money in the country. This subject becomes everyday more serious, as we already feel, in a very sensible manner, the effects of the considerable drain made from the silver currency.""

FOUR

Industrial Capital in England and Economic Transition in India

"Whether there will be meat in the kitchen is never decided in the kitchen."

—German Proverb

"Indian history, or rather the history of Indian progress under British rule, is unintelligible without a reference to the history of progress in England"

—Ramesh Dutt

1. Indian Industrial Organisation in the Pre-British Period

Industrial Commission has observed that, "At a time when the West of Europe, the birthplace of the modern industrial system was inhabited by uncivilized tribes, India was famous for the wealth of her rulers and for the high artistic skill of her craftsmen". Another European writer has observed, "the gossamer muslins of Dacca, the beautiful shawls of Kashmir and the brocaded silks of Delhi adorned the proudest beauties at the courts of Caesars, when the barbarians of Britain were painted savages." Discoveries in recent times have also revealed Mummies in Egyptian tombs, dating from 2000 B. C. wrapped in Indian muslins of the finest quality. "The skill of the Indians," observed Prof. Weber, 'in the production of delicate woven fabrics, in the mixing of colours, the working of metals and precious stones, the preparation of essences and in all manner of technical arts, has from early times enjoyed a world wide celebrity."

The decline of Indian industries began in the latter days of the Hindu rule, accelerated during the stormy days of Pathan rulers. This process of decline was arrested and a great revival took place during the days of Mughals. Among the finer crafts of the period, we might mention the muslins of Dacca, the shawls carpets

of Kashmir, the silk clothes of Delhi and Agra, the ivory work of Murshidabad, the marble work of Jaipur, the perfumery of Gazipur and the velvets of Lucknow.

Before the discovery of the Cape route, the famous handiworks of India were sold to European markets by Arab merchants through the Italian cities of Venice and Genoa. Those were the days when Venice held the 'gorgeous East in fee.' With the discovery of the Cape route, however, the monopoly of the Indian trade became the main objective of different European nations. The Portugese were the first to come upon the scene. Later on the Dutch came to replace the Portugese, only to be driven out of India ultimately by the English and the French. Then ensued a bitter rivalry between England and France out of which the former emerged victorious. The first efforts of the English East India Company were naturally directed to exportation of Indian cottage products to Europe.

Such prosperous export and inland trade must have had a strong base of industrial production organisation. Large exports meant a regular supply and large volume of production. In fact a comparison of the contemporary conditions in India and England reveals that the Indian industrial organisation was more developed and better-built. In England, as in Europe, the industrial production was mostly localised in urban centres only, in India, however, cottage industries were important adjuncts to the village economy. Though urban centres grew up rapidly in India as production-cum-export centres, yet internal consumption was mainly met by the artisans of the villages. The increasing export trade throughout the seventeenth and eighteenth centuries of course gradually shifted the industrial location from the villages to the royal and coastal towns.

The economic structure of a particular industry in India, especially the textiles, was in many respects organisationally differentiated. In a particular centre also, the modes and relations of production in a particular industry were not alike. The different levels and patterns of organisation in an industry revealed that the degree of mercantile penetration varied. Let us attempt to classify the eighteenth century Indian industrial organisation according to the degree of mercantile (capitalist) control over the artisans or the mode of production. At the lowest level was the domestic system under the guild or caste control. At the next higher level (in respect of economic development) production was carried on by the artisans on the orders received from the merchants At the next higher level, the merchants advanced money for raw-materials and wages. Next higher level consisted of contracts which bound the artisans with a particular merchant and prohibited their contact with others. At this level he became less free than he was in the earlier stages. But in spite of all these differentiations in industrial organisation in the seventeenth and eighteenth centuries, we cannot conclude that capitalist mode of production had developed. The earmark of the capitalist mode, as a qualitatively new mode than the old domestic and semifeudal one, was the loss of ownership of the instruments of production by the artisans. Even if the goods were produced by the artisans according to specifications ordered by the merchants yet the artisans continued to own their own tools. Even when production was sometimes carried on in the homes or work-sheds provided by the merchants or master artisans, the mode of production could not as such be properly called capitalistic. Only with the loss of ownership of the instruments of production the artisans became constrained to sell their labour-power. Thus within the feudal or pre-capitalist relations the extraction of surplus value by the capitalist could take place, but a leap in the next stage of economic organisation (wherein new economic laws might have fully worked in an unhindered manner) was only possible with a change in the ownership over the instruments of production. The changeover from piece-rate payment to time-rate payment was a most significant shift involved in this transition process. The informations gathered by the research workers up to date, do not reveal that the general body of artisans in the middle of the eighteenth century completely lost ownership and control over the instruments of production, though different levels of development in the different units in an industry were no doubt perceived, and these different degrees of differentiation and development were mostly based on different amounts of penetration and control of mercantile capital. Thus the merchant capital had, in various degrees and in some way or other, control over the nature of goods to be produced and their trade, but its control over the technique and instruments of production was mostly absent.

Let us analyse in more detail. At the lowest level, of course, was

the domestic system prevailing mostly in *rural areas.* Production (mainly of textiles) was carried on by a simple folk in their own humble dwellings with the aid of a few crude tools. They had no sort of academic and scientific knowledge nor any elaborate machinery. They were often unlettered, unostentatious craftsmen and did not earn more than a penny or two a day. It was this aspect of the Indian manufactures that specially struck Baines.[1] "It cannot but seem astonishing", he wrote, "that in a department of industry where the raw material has been so grossly neglected, where the machinery is so crude, and where there is no little division of labour, the results should be fabrics of the most exquisite delicacy and beauty unrivalled by the products of any other nation, even those best skilled in mechanical arts."

Nevertheless, the conditions were not so simple as Baines supposed. No doubt the craftsman usually worked in his house but he often belonged to a guild which jealously guarded the traditions of the industry and he usually worked for a clothier (*Mahajan*) who supplied him with capital and undertook the marketing of his products. Besides, although the craftsmen (at least the bulk of them) lacked literary culture, they had nevertheless a highly specialised technical training which was rendered more effective by the potent influence of tradition. The relation of the craftsman to his family, caste and guild accounts for the admirably stable industrial organisation that obtained in India in early days. In India, as in Europe, the guilds were there. But the Indian industrial organisation had two other distinguishing marks : the hereditary transmission of skills on the one hand, and the guild organisation mainly based on castes and sub-castes.

Thus the domestic system of industrial organisation was more or less controlled by caste-guilds. Indian caste-system brought important deviations in its industrial structure relatively to the European pattern. Due to its semi-religious sanction, the caste-members sometimes worked more by non-economic compulsions and motivations. Innovations in technique sometimes led to the formation of a new sub-caste forming a new guild. 'Among the oil-pressers,' writes Radhakamal Mukherjee, 'there are two sub-castes. The *Ghana* work on oil mill of primitive pattern. The machine has no hole for the

1. Baines, *History of Cotton Manufacture*, p. 56.

removal of the oil which has to be soaked up with a bit of rag tied on to a stick. The *Kolus* use a mill with a hole ...The status of the latter is very low. The former do not adopt the improvement.' Men who agreed to follow the new technique closely preserved the secret, guarded it and retained it within the new sub-caste guild. Inter-caste marriages were prohibited to preserve the secrecy of the production-technique followed by the group ; intra-caste marriages were favoured because it ensured a new helping hand conversant with the techniques and processes of the group itself.

In the *urban centres* there were various levels of organisation in the textile industry. The lowest level, from the standpoint of organisation and/or direct control of capital over production-process was (a) *independent artisans*. They manufactured goods out of raw materials procured by themselves, and sold the finished product directly to the customer. Tavernier says that, in Benaras, the merchants and foreigners purchased the manufactured goods directly from the manufacturers. According to Peter Mundy, a class of independent artisans was flourishing in the towns who used to bring their products for sale. (b Expansion of trade led to the growth of a *merchant class who provided the artisans with raw materials and took the finished goods for* supplying to the foreign traders. When the Indian merchants or the foreign traders themselves asked for goods of their own specifications, suited to foreign markets, they used to supply the artisans with raw materials and financial advances. Sometimes a senior skilled artisan was relied upon by the merchant or he himself secured order from the merchants to supply goods and was given raw materials and or advances. He then, either distributed the total order among independent artisans of his choice (generally within his own caste) or called the artisans with their tools to come to his house or work-shed to manufacture. Whenever a single artisan or a contractor was relied upon, it became possible to extend division of labour under his planning, guidance and leadership. De Laet wrote, "Nor is one piece of work done by a single worker......but by a number." Apart from the merchants there were bankers, bullion merchants, money lenders, brokers and shopkeepers. Each of these groups contacted the artisans to make money out of their labour-power and the response of the artisans was not in wanting, leading to necessary changes in the industrial

organisation of the country. (c) In the *royal workshops or karkhanas* the artisans (perhaps) worked with the instruments not owned by them, under the supervision of government officials. The raw material was supplied to the artisans who used to manufacture the goods as directed by royal supervisors purely on wage basis. This wage was determined mostly by custom and not by competition. This form was often adopted by nobles who employed the skilled craftsmen at their residence for the manufacture of fine textiles and various luxury goods for personal use or ceremonial presentations to the king. (d) Control of capital over the instruments and also technique and mode of production must had been more complete in *royal karkhanas producing articles of state monopolies.* For the manufacture of weapons, ammunition and coins, a group of artisans were employed who worked exclusively for the State, under the strict supervision of the officials. For example, a large quantity of ammunition was produced in Dacca and along with the Indian artisans many English workmen were also employed. (e) The foreign traders soon realised that in order to ensure regular supply and earn more profits it would be better to employ artisans (at piece-rate and or time-rate) directly under own supervision in own factories rather than procure the goods through the Indian merchants. English Factory Records show that the artisans were paid wages and called to work at the factories. In Baroda, the English Factories employed 800 workmen for manufacturing textile goods. Manufacturing centres were also set up at Nasarpur, Samanah, Sarhind, Malda, Kasimbazar and other places.

In conclusion, it must be remembered that all the different levels of industrial organisation described above existed side by side in the eighteenth century before the political power went to the East India Company. All these differentiations were constantly taking place for a long time since the beginning of the seventeeth century, with the widening of markets for all industries, especially the textiles. The material outcome of this process was a prosperous class merchants. Bernier observed : 'If money be gained it does not in any measure go into his (artisans) pocket but only serves to increase the wealth of the merchants.' Merchants were the vehicles of the penetration of capital into industrial production. This led to the differentiation among the merchants too and the bigger merchants started lending money to the smaller ones to appropriate a portion of surplus created by the artisans. This they did gradually by turning their mercantile capital into usurious capital.

2. East India Company Investment and its Impact on Indian Industrial Organisation

Great Britain's men and money permeated and patterned the industrial organisation of India from the earlier period of the Company's rule through many doors and in gradual stages. The Company first sought to organise the indigenous manufactures by facilitating the supply of raw materials to them and providing them with the services of foreign exports. Writing in a despatch in 1668, the Directors of the East India Company observed : "Encourage the natives and invite them to come thither (Bombay). We would also have you put the natives upon the making of such calicoes as they are capable of......and lest they want cotton for that purpose, we would have you to procure the bringing of it out of the country, or the conveying of it to them, by the sea. We would willingly have some manufacture under own Government......"[2]

In order to encourage the manufacture of sail-cloth they sent two hemp-dressers, one or two spinners and weavers, with instructions to introduce their technique among Indian weavers, and a decade later they despatched throwsters and dyers to the silk industry. The Company men co-ordinated and systematised various silk manufactories in Bengal, at Cassembazar, Patna, Maldah, Hugly and Balasore. They lent out money to the needy workmen.

The eighteenth century saw the Company smuggling itself into the Indian industries through the backdoor of finance. The native *Karkhanas* usually functioned upon the orders placed for their products [illegible] the aid of money advanced with such orders. Large sums [illegible]anced to merchants who would purchase goods [illegible] on behalf of the Company. This putting-out [illegible]ally known as 'investment'. The investments were

[illegible], *East India Trade in the 17th Century*, p. 153.

continued even with specie imported from England but mostly by loans raised from big financiers in India. The officials from London instructed in a despatch in 1746 : "As large an investment as possible to be continued, raising what money is needed by loans." This instruction was very frequently repeated in further despatches. This shows their connection with and dependence on Indian *haute Finance*. The replies from Indian officials go to show that the factories were kept well supplied with money. The Company aimed at a monopoly of demand or monopsonistic trade and tried its best to oust other trading powers from opportunities of such 'investment.'

Such monopsonistic control over Indian industries meant control of merchants, terms of contract, prices, quality and quantity of output. The merchants were at Company's mercy, if the later refused to contract, it could not find another wholesale market. The ruin of the merchants meant in turn the ruin of the weavers and the industry, because both depended upon the former for the sale of their products. So these officials with monopsonistic advantage in bargaining were being constantly instructed by their heads at home that the quality of cloth should be improved and prices reduced while contracting. Thus the profits of the native merchants were kept low enough and the weavers were tied down at a subsistence level.

This putting-out system via native merchants was gradually given up and the Company started employing its salaried (or sometimes 'commissioned') *gomasthas*. Merchant's low profits was a disincentive and some of them preferred to become such salaried agents. As an independent merchant he was hitherto on the supply side along with the weaver and shared with him the exploitation from the demand side represented by the monopsonistic Company. With an employment in the Company service as gomastha, he joined the demand side, and thus put himself against the weaver. The burden of exploitation fell more completely upon the weaver.[3]

3. Here is a picture of it. "Usually a native gomasta was employed. But there were objections to them. The gomastas constantly abused their position and the authority of the company to oppress the weavers and to speculate on their own account even disposing of the company's goods to other traders. They forced contracts upon the ryot, will he, nill he ; for when a piece of cloth was finished, if not before, the price had often been consumed in subsisting the weaver and his family, and he had no resource but to enter into a fresh agreement on the contractors' own terms. A constant

Such was the outline of the mode of production and trade relations in the industrial sector of the Indian economy in the eighteenth century. The Company gradually penetrated to directly dominate the industrial activities. When Hastings was appointed at Madras in 1771, he sought to improve matters and gave powers to the warehouse-keeper to check the high-handedness of the gomasta. The warehouse-keeper was allowed a share in the profits of commission for the trouble. The warehouse-keeper, being the Company's own man, and having the gomasta under his authority, became the director of industries for all practical purposes

The activities of the agents of private traders were worse than those of the Company's. During 1762, Vansittart received numerous complaints about the autocracy of these private trader's agents. In 1771, the Court despatched an order to Bengal to abolish the gomasta system and revert to the method of contracting with independent merchants. Hastings was very reluctant to carry out the order. His argument was that the complete subjugation of the gomasta had brought with it a complete command over the prices of cloth ; and there was nothing that could come in the way of the Company reducing prices to sub-normal levels. Hastings was afraid that the independent merchants can form effective "combines" with other European traders to force contracts at unfavourable prices on the Company, though such prices would be more normal. He wrote back to the Court of Directors explaining these points and requesting a reconsideration of the order. But the latter pressed that it should be enforced.

Hastings then devised means to control the merchants, so that they stayed bound to the Company and did not go to others. He schemed the establishment of a General Bank through which he

device of raising these was to depreciate the finished cloth ;......If the (specified) standard was not reached in a given place the gomasta lowered the price correspondingly......often the price was fixed at 15 per cent and sometimes as much as 40 per cent below what it would have been in the open market, and so these officials reduced the weaver to practical slavery at sweated work. If the native tried to sell the cloth, already contracted for, to others who offered him a fairer price, the company's authority was employed, peons were set over him to watch the progress of the work and prevent such a sale, and the gomasta would even cut the piece out of the loom, when it approached completion and carry it off to *khattah* or warehouse." M. E. Monckton Jones. *Warren Hastings in Bengal—1772-1774*, p. 38-39.

discovered the possibility of recovering the lost financial hold on the merchants and industries. He explained in a circular: "Being persuaded that the measure (of establishing the Bank) will prove of the greatest utility and convenience not only to the Company in drawing the receipt of their revenues from the out districts to the presidency, but also to private merchants in making their advances to the *aurungs* (factories), and otherwise in facilitating and rendering secure the course and circulation of their trade, we have determined to adopt it."[4] Thus the Bank was proposed to secure the "course and circulation of their trade". With the help of Bank Hastings chose to bait these free merchants into the trap of his credit facilities. The system did not work well and the Bank was abolished within a year and a half. The Court of Directors now repented for their earlier order of 1771 of dealing with the merchants. The prices rose causing them the alarm. In March 1775, the Court of Directors revoked the order of 1771, the gomastas were again brought in, the direct interference of the merchant capital with the actual mode of production was resumed.

Textiles being the chief article in the Company's trade it meddled with that industry and seldom thought of any others. No attempt was made by them to create and develop new industries. Since the Company held the trade monopoly, others also could not do it. Though Company's monopoly was abolished with the Charter Act of 1831, it was difficult for the new entrants to compete with an established trade, and much more to establish new industries. A few individuals made unsuccessful attempts to organise the metallurgic industries. Men, money and machines did not flow freely. It continued for two decades till the Charter Act of 1833 which abolished the trading rights of the East India Company. Parliament terminated the East India Company's control over the movements of private British merchants within India, and also ended the Company's last exclusive commercial privilege by cancelling its monopoly of British trade with China. Theoretically speaking, this year saw the beginning of English enterprise in India, though in practice it took two or three decades more for the real start. This act flung open a huge door, inviting every English entrepreneur, advanturer coloniser and speculator into India.

4. H. Sinha, *Early European Banking in India*, p. 167.

3. Inland Trade during Early British Rule

Most of the employees of the East India Company were engaged in private trade along with their service for the Company. Their salaries being ridiculously poor, their right to private trade was recognised. In fact private trade was a great inducement. While they could not export (excepting diamonds), the inland or 'country' trade was not denied to them, the Company allowed their servants 'in a fair way to improve their fortunes'.

There were different types of transit duties during the Mughal rule known as 'Sayers', 'Rahadari' duties etc. Aurangzib removed some of them, but since his death the provincial rulers reimposed such transit duties or fundees. The number of toll collecting centres were raised from eight to twenty two. There were differential rates for Muslims and non-Muslims. In the face of such multi-form feudal or bureaucratic exploitation the English Company tried to establish exclusive and preferential trading privileges by various 'Nishans' or 'Formans' or 'Parwanas' obtained from the ruling authorities.

The English Company or its agents had to pay these duties and they were extremely eager to remove such feudal restrictions on mercantile trade.

In 1717, Emperor Farrukhsiyar granted a 'Forman' permitting the English East India Company's merchandise full exemption from customs duties in return for the payment of lumpsum of Rs. 3000/- per year. On the basis of this forman dastaks were issued to companies servants. The dastak was a pass from the President, with which the Company's goods could pass without inspection in the chokis or toll stations.

The servants of the Company quietly extended this privilege to their own private trade also. They used the dastak meant for the company trade in its foreign commerce and misused them for private gains in inland trade as well.

On the eve of Plassey, there was a change in mechanism of Company's trade in Bengal. The Company used to procure its export commodities mainly through merchant-middlemen as it could not directly deal with the producers. It used to give ***dadni*** or advances to middlemen who in their turn paid advances to weavers and artisans. In the interest of the private trade of the company's servants the dadni merchants were offered terms which were not acceptable to them. The ***dadni*** system was abandoned and gave place to the agency system. 'Gomastas' or paid Indian agents of the Company now made their purchases under the direct supervision of the European servants of the Company. The private trade of the Company's servants no doubt increased as a consequence of the abandonment of the dadni merchant system but as yet this increase was not at the expense of the Company. The chief sufferers were the "Moorish Governments", and the rival Indian traders. Abuse of dastak increased very much under this system and opposition to such misuse was one of the sources of conflict with Sirajudaullah and political intrigues against him.

The consequences of plassey on the inland trade of Bengal was disastrous. Though the Company did not ask Mirjafar to grant any new trade privileges, their servants began to exploit their special position and claimed exemption from duties on all articles in their private trade. The gomastas of the servants of the Company took fullest advantage of their privileged position.

After Plassey the servants of the Company broke their bounds and began immediately to trade in salt, betelnut and tobacco which were hither to prohibited to all Europeans. There was large-scale trafficking in dastaks and in the most "unwarrantable and licentious" manner. European free merchants as also native merchants bought this privilege of the Company's dastak from the servants of the Company at a very high price. These abuses became enormities during 1760-1763. Mirkasim, in disgust, declared inland trade free of all duties for two years. He had to fell for his audacity and when Mirjafar was restored, he promptly revoked the parwana of Mirkasim establishing free inland trade. Privileged private trade thus got a new lease of life with all its abuses.

Secondly, the company's 'investment' policy also changed. Previously it used to bring huge bullion as one of their main imports, in spite of home mercantilism prohibiting such export of specie. During the half century before Plassey, the English traders alone imported to Bengal bullion worth more than six million pounds sterling. After Plassey, the Company did not import any bullion and used the land revenue (of Burdwan, Midnapore and Chittagong) assigned to it by the Nawab to procure goods to England. This led to a shortage of silver and a shortage of currency reducing the prices of merchandise still further. Payments were also made by Mirjafar to the Company on a generous scale. It had also Zamindari income from 24 Parganas. In the words of the court of Directors the produce of their sales in England became the channel of their receipts from India.

Thirdly, the former channels of opulence were further disturbed when trade of the native merchants were disturbed. Armenian, Muslim, Gujrati and Bengali merchants found their free trade daily disturbed and fettered within five years from Plassey. Mirkasim complained to his English masters : "Every Bengal gomastha makes a disturbance at every factory and thinks himself not inferior to the Company. In every parganah, every village and every factory, they buy and sell salt, betelnut, ghee, rice, straw, bamboo, fish, gunnies, ginger, sugar, tobacco, opium and many other things......they forcibly take away the goods and commodities of the *reiats*, merchants, etc., for a fourth part of their value ; and by ways of violence and oppressions, they oblige the reiats, etc., to give five rupees for goods which are worth but one rupee . ." competition from other foreign companies like the French and the Dutch, which sometimes helped the producers in securing better terms of trade gradually disappeared, leaving only the English to monopolise.

The directors were in despair, they wrote in anger, "Dastaks have been prostituted." They ordered that a register of dastaks be maintained and dastaks should be granted on oath and must not be a property of any native of Bengal or of any European free merchant, or of any other person. But directors' orders were in vain. In 1760, the directors proposed an alternative wherein the dastaks will be abolished. In 1762, the directors positively ordered that none of the ...ers should have the benefit or liberty of dastaks until the time of ...tive writerships had expired. Nothing came out of such ...he directors got exasperated and again ordered ... dastaks. In 1764, the directors asked the ... "form a proper and equitable plan for carrying

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Clive and his Select Committee took this opportunity and proposed the floating of a private trade society, distributing shares among themselves, having monopoly of the trade in salt, betelnut and tobacco to be carried on exclusively. The Company's revenue was to be derived from a duty. On receipt of such a plan the directors pronounced the inland trade society a violation of their repeated orders. They ordered the entire abolition of this Exclusive Society. Yet the society continued trade till 1771. The Court of Director were very emphatic in their order that their servants and Free Merchants, residing under their protection, should be confined within the ancient limits of export and import trade only. They asked for withdrawl of all dastaks. Thus at long last in 1768 the previleged inland trade of the Company servants came to an end.

After 1768 the Company's servants tried to create new openings for themselves in their legal private trade. They appointed native banians and continued benami trade in their names.

4. The Decline of Indian Handicrafts in Early Nineteenth Century

A. The Nature of the Decline

When we speak of a general decline of handloom industry (which was the most widespread of all and the axle around which the whole industrial machinery of the time revolved), during the early two decades in Bengal we should well remember that the time and rate of such decline were not the same in the case of different varieties of cotton goods. The demand for some varieties of coarser or "stout calicoes" declined as early as the beginning of the eighteenth century, when they were excluded from the British market by protective tariffs. No such decline took place in the out turn of muslins before 1788. But the complete decline of muslins came earlier than that of calicoes and other classes of coarser fabrics. Generally speaking, coarser the variety, the slower was the decline. This was presumably due to continued internal demand for coarser varieties. While the demand for finer varieties lingered on for a while.

The decline of Indian handicrafts production or de-industrialisation process started at the turn of the century but proceeded rapidly after 1813. In the course of about two decades the once so flourishing cotton industry sank into insignificance. The impact of Industrial Revolution in England began to press hard on India's economy from the beginning of the nineteenth century, and the first to yield to its pressure was the cotton manufacturing industry. As early as the year 1800, the Court of Directors wrote that they were obliged to make a substantial reduction in the investment of Bengal muslins, which were no longer much in demand in the British market. They observed two years later: "A very material alteration has taken place in the indent for goods from this factory (Dacca) by the entire exclusion of *doorias*, both plain and stitched, and a considerable reduction has been made in other sorts of muslin ; this is required by the altered state of the market which are now overflowing with substitutes for these goods from British looms, at rates of price that preclude all prospect of gain on such articles in our sales." By 1806, the decline accelerated still further, on 10th June that year in his Report on the *External Commerce of British India* Mr. Larkins stated that the exports of piece goods on the public account had "very considerably decreased," and the consequences were that "the weavers finding no employment for their looms, many of them have been necessitated to quiet their homes and seek employment elsewhere ; most of them take to the plough, some remain in their own districts, while others migrate into distant parts of the country." And eight years later, the weavers of Midnapore represented that the Company's advances to them "for some time past being much less than before", and the purchases of the Danes, the Dutch and the Americans having totally stopped," they were in great distress and unable to pay off the arrears to the Company.

By the Charter Act of 1813 the East India trade was opened to private enterprise and Napoleonic war terminated in 1814-15. They combined to enormously encourage the import of British machine-made cloths to India. In 1813-14, not more than 91,800 *sicca* rupees worth of cotton goods were imported into the Bengal Presidency from England. In 1822-23, the total import of British cloths to the Presidency was valued at 67,77,279 *sicca* rupees. At the same time the total export of Bengal piece-goods to the United Kingdom, which had amounted to forty-six lakhs of rupees in 1812-14, fell to little over three lakhs of rupees.

The import of foreign cloth affected not the weavers only but also the million of spinners as there was a corresponding fall in the demand for thread with the fall in the demand for handloom fabrics. Until about 1825 the spinners did not feel it so very keenly. In 1825-26, only Rs. 81,000 worth of British yarn was imported; but in the following year the value of its import exceeded eight lakhs of rupees. The effect was the annihilation of the business of the spinners, mostly women, nearly half a million, who had been engaged in spinning, fully or partially. Outside the textile production women had no scope of major wage-earning occupation, and with the decline of spinning, they virtually became an unnecessary factor in industrial organisation of the country and lost their economic independence.

The breakdown of the cotton handloom industry in the early 19th century, especially between 1813 and 1833, was a revolution of serious magnitude. It brought in its trail immense miseries, colossal unemployment, devastating deaths, an increased pressure on land, and an all-pervading sense of gloom among those who survived the catastrohpe. Many of these unemployed turned *Bairagis* and started begging door to door singing the songs of futility of life. A sense of frustration and alienation from the life and society pervaded them. A virile and skilled artisan class suddenly felt themselves socially worthless and fruitless. The sense was deeper than starvation, it was loneliness in the crowded world. The Governor-General wrote in 1832: "Cotton piece goods, for so many ages the staple manufacture of India, seem thus forever lost......The sympathy of the court is deeply excited by the Report of the Board of Trade exhibiting the gloomy picture of the effects of a commercial revolution, productive of so much present suffering to numerous classes in India, and hardly to be paralleled in the history of commerce."

The non-textile handicraft industries did not experience the annihilating effects of the Industrial Revolution directly during this period. Indirectly they were hit by the sudden immiserisation of the working people, the artisans and the cultivators alike, the fall in purchasing power leading to loss of markets. The ship-building industry was hard hit by the introduction of steamships and political discouragement faced from Britain. Some textile industries, such as the indigenous manufacture of jute products and to a limited extent, the silk manufacture still flourished. The saltpetre manufacture in Bihar and Western U.P. survived for a considerable time. The sugar industry received a distinct impetus from the opening of the East India Trade in 1813-14.

B. *Causes of the Decline*

Economic historians have shown various reasons for such decline. Mr. R. C. Dutt maintained that the decay of the handloom cotton industry in India was due mainly to 'the policy pursued in England to discourage Indian manufactures.'[5] In opposition to this view Prof. C. J. Hamilton held that it was not the selfish commercial policy of England, but the inability of Indian artisans and merchants to compete with the machine-made products of that country which led to the downfall. According to him it was a sort of historical inevitability and British Commercial policy had not accelerated the breakdown process.[6] Dr. J. C. Sinha opined that the Industrial Revolution in England 'only hastened the decline of Bengal industries which had began before'[7]; and Dr. K. K. Datta wrote that the decay of Bengal Cotton Industry 'did not begin or end at any definite day, but was a long process continuting for many years.[8]

Before we enter into a discussion of the serious causes, let us discuss at the start, some of the arguments which analysed only the surface conditions and did not probe deeper into the phenomena. Firstly, the breakup of the central authority in Delhi after the death of Aurangzib and the political disturbances throughout the eighteenth century India no doubt obstructed peaceful pursuits of Bengal artisans. The successive Maratha raids, the incursions of the Mugs and the Portugese pirates, frequent loots of the Sannyasis or Fakirs (especially during and after the famine of 1770), all these must have brought some uncertainties among the artisans. But these disturbances are temporary in nature and 'regular spinning and weaving do not seem to have been seriously dislocated by it.'[9] The second

5. R. C. Dutt, *Economic History of India*, Vol. I pp. 256-65.
6. C. J. Hamilton, *Trade Relations between England and India* Pp. III, 184, 194.
7. J. C. Sinha, *Economic Annals of Bengal*, P. 276.
8. K. K. Dutt. *Studies in the History of the Bengal Subah* P. 486
9. H. R. Ghosal, *Economic Transition in Bengal*, P. 28.

contributory cause often referred to was the famines of 1770 and 1788 which reduced the weaving population of the towns. But this had only a temporary effect and there was large expansion of the industry after 1783. Thirdly, the monopsonistic control of the Company and the oppression on the part of their gomasthas and dalals also did not really give a crushing blow to the industry. It led to the decline of native middlemen merchants, and the exploitation of the weavers increased. This brought a change in the financial interests related to handicraft trade, but cannot be properly accepted as the cause of its breakdown. Fourth, it is sometimes held that the decay of indigenous courts led to the decline of cotton manufacture. But this also cannot be accepted as true because (a) the loss to the industry was mainly of highquality muslins used in the courts, and (b) this loss was more than made up by increase in exports.[9]

Let us now analyse the main causes, their interdependence and relative importance in bringing about such a rapid decline in our cotton handicrafts. These causes were, (a) the highly protectionist fiscal policy pursued in England, and, (b) the technological advancements in English Cotton industry (which are commonly known as the spearhead of English industrial revolution) in response to the energising effects of Indian plunder during Plassey and the following years.

It was as early as the year 1700 that the English Parliament imposed protective duties on Indian manufactures.[10] In that year

9. "It follows then that the decline of the indigenous courts and of the old aristocracy of Northern India during the latter half of the eighteenth century did not bring much quantitative loss to the manufacturers. The further shrinkage in the demand for Dacca fabrics in these courts during the early nineteenth century does not also seem to have affected them very much so far as quantity is concerned. Nevertheless it must have steadily impaired their artistic skill by compelling them to turn increasingly to the production of coarser stuff. The withdrawal of court patronage may also have reduced the outturn of finer goods in certain other centres of cotton manufacture. But there is no reason to suppose that the cotton industry as a whole sustained a permanent injury on account of it." H. R. Ghosal, *Econ. Transition in Bengal*, pp. 33-4.

10. For a clear analysis of the economic interests, conflicts, passions and

an act was passed forbidding the use of painted, dyed or printed calicoes in England ; and though muslins proper and white calicoes did not come within the orbit of this Act, they were, at this time, subjected to an import duty of 15 per cent *ad valorem*. A long series of other measures followed this Act in quick succession.[11] In 1765, Indian cotton piece goods had to pay an *ad valorem* duty of 45 per cent, which exceeded by more than 100 per cent the duty on rawmaterials imported from India. In spite of this, an additional duty of 5% was imposed in 1779 on all manufactures imported into England, and a further 5% was added in 1782. In 1783 being 'impressed by the rapid growth of smuggling brought about by the high tariff' parliament repealed all previous duties upon plain muslins, unrated muslins and calicoes, and subjected them to a single import duty of 18 per cent *ad valorem* and a drawback of 10% on reexport. This reduction of import duties on some types of goods increased their exports between 1784 to 1787. The consolidation Act of 1787 made each article subject to a single rate of tax instead of separate duties hitherto levied, it in fact made an alteration in the duties on rated calicoes which then approximately amounted to 40 per cent.

From 1797 onwards fresh tariffs were imposed by Parliament on goods imported into England. The 18% *ad valorem* duty levied on plain muslins, muslins and calicoes, flowered or stitched was raised to more than 35% *ad valorem* in 1805 ; while on plain white calicoes and dimities the duty rose from 40% before 1797 to over 66% in 1805. Duties were further increased until in 1813 they reached their maximum. In that year plain muslins as well as muslins, flowered or stitched, were subjected to an *ad valorem* duty of more than 44%, and on calicoes and dimities the rate was raised to slightly above 85%.

agitations which combined to force the Parliament to stand against Indian cotton industry at this time, see P. J. Thomas. *Mercantilism and East India Trade.*

11. In 1704 an additional duty of 15 per cent was imposed on calicoes and some other cotton products. In 1720 another act was passed forbidding the use of printed calicoes, even printed within England. Further duties were imposed upon Indian goods in 1747, 1759 and 1765. See Hamilton, *Trade Relations between England and India*. pp. 107-8.

Many economists or historians point out that the influence of these protectionist policies taken in Britain could not be considered as too much injurious. It is argued that the English market was only a tiny bit of the great export market for Indian cotton goods 'which ranged from Japan and China to the Spice islands—Burma, Pegu, Persia, Arabia, West Africa and Europe outside England'.[12] But this view seems to ignore that after Plassey other foreign companies' trade with India gradually declined. The trade contacts also had changed, goods were being sent to England to be reexported by the English merchants to the countries of Europe. A protective policy by England, therefore, was bound to reduce the volume of Indian exports and production.[13]

R. C. Dutt was the leading historian who held this tariff policy as the main cause. He observed : "India in the eighteenth century was a great manufacturing as well as a great agricultural country, and the Indian handlooms supplied the markets of Asia and Europe. The East India Company and the British Parliament, following the selfish commercial policy of a hundred years ago, discouraged Indian manufactures in the early years of British rule in order to encourage the rising manufactures of England. Their fixed policy, pursued during the last decade of the eighteenth century and the first decades of the nineteenth, was to make India subservient to the industries of Great Britain, and to make the Indian people grow raw-produce only in order to supply materials for the looms and manufactories of Great Britain. This policy was pursued with unwavering resolution and fatal success ; orders were sent out to force Indian artisans to work in Company's factories ; commercial residents were legally vested with extensive powers over villages and communities of Indian weavers ; prohibitive tariffs excluded Indian silks and cotton goods from England, English goods were admitted in India free of duty or on payment of a nominal duty".[14]

12. Knowles, *The Economic Development of the British Overseas Empire*, p. 310.

13. "It was due also to Napoleon's Continental System which by checking their export to the continent indirectly affected the supply to Great Britain, and to the outbreak of war between England and Denmark in 1807-08, which completely stopped the Danish trade with India." H. R. Ghosal, *op. cit.*, p. 37.

14. R. C. Dutt, *Econ. History of India under Early British Rule*, pp. vii-viii.

There were economists and historians, however, who tried to refute this idea put forward by R. C. Dutt. This leads us to discuss the second important cause pointed out for the decline of handicrafts. A bold attempt to refute the view of Dutt was made by Prof. C. J. Hamilton.[15] He pointed out : "By the end of the 18th century India was beginning to lose her export markets and early in the 19th century the producers of the finer cotton goods were being driven even from the home market. But this was ***the inevitable result of an unequal fight*** between the handicrafts man and the machine product. The high English duties were neither directed against the Indian cotton manufacturers nor did they play any really important part in determining the outcome."

Many modern writers also echo Hamilton : 'What was more serious was the competition of English goods in India and the world markets......By far the most important reason for the depression of Indian textile and other manufactures of this period was the Industrial Revolution in England. In any case, the Indian domestic and cottage handicrafts could not possibly have withstood foreign competition, which derived its strength from the formidable industrial organisation with its gigantic machinery, large scale production, complex division of labour and improved transport and communications'.[16]

15. C. J. Hamilton, *The Trade Relations between England and India (1600-1896)*.

16. See Jathar & Beri, *Indian Economics*, Vol I, pp. 112-13. Also H. R. Ghosal *op. cit.* p. 38. "while it is true that the heavy duties levid on Indian manufactures in Great Britain and the continental system of Napoleon materially affected the supply of cotton piece-goods to British and continental markets, the ultimate cause of decay of Bengal's handloom cotton industry is to be sought in the rapid growth of industrial activity in England consequent upon the mechanical inventions of the eighteenth century. The point is that British tariff policy and the Napoleonic war, while they certainly helped its decline, could not by themselves have brought about its practical ruin. Again, even the complete absence of these factors could not have long arrested its decay, for the simple reason that handmade fabrics cannot long stand in competition with machine-wrought articles. Indeed the coming into general use of Arkwrights' water-frame from 1785 and the mushroom growth of cotton-spinning mills during the next few years led to an immense production of cotton goods in England, which easily onsted the handmade fabrics of Bengal and other parts of India from the market." 129—142

The crucial question, however, is the relative importance of these two causes and finding out the one which may be termed as 'first among equals'. It may be safely pointed out that the balance of judgement by the economic historians seems to be in favour of R. C. Dutt and not for Hamilton and others. The crux of the problem lies in the point whether the English industrial revolution could have started without the protective wall set by high tariffs. Mr. H. H. Wilson points out, 'Had not such heavy duties and the prohibitory decrees existed, the mills of Paisley and Manchester would have been stopped in their outset and would have scarcely been set in motion, even by the power of steam. They were created by the sacrifice of Indian manufactures......The British manufacturer employed the arm of political injustice to keep down a competitor with whom he could not have contended on equal terms.'

Hamiltonians may argue that England's manufactures would have developed even without protection against Indian goods owing to the overwhelming advantage of machinery. But this view ignores several crucial problems. Without protective duties and the use of 'political arm', the market for British cotton manufacture could not enlarge at that time to the extent that it had, and the stage for the innovations would not have been set, the cost-reducing external and internal economies would not have thus accrued. And if protective wall had not been built up against Indian cotton goods, any one of the following two consequences might have followed, (a) the English industrial revolution might have taken a separate path with increasing innovation and investment in some other commodity as the leading sector, and (b) British or native capital, separately or jointly, would have felt the necessity of and actively pursued to bring technological innovations here on Indian soil. In such a situation, an industrial revolution in India would have started at the turn of the nineteenth century. It happened in the case of America, it could so happen in India also. And we could develop industrially earlier than the U. S. A. because of this early start and a large store house of highly skilled artisan class. Cotton textiles production would have been our leading sector and India could have entered into the industrial age. Prohibition of Indian goods, therefore, historically speaking, is to be considered as the leading cause or the first among equals'. The comment by R. C. Dutt correctly signifies the relative importance when he says that, "The invention of the powerloom in Europe *completed* the decline of Indian industries", the process was started with the selfish commercial policy of the rising manufacturing class of England.

In conclusion, some observations should also be made on the phrase used by Hamliton, (i.e. 'the inevitable result of an unequal fight'. Such 'inevitability' approach is sheer historical fatalism which refuses to penetrate deeper into the historical processes and refuses to reveal the laws of economic development in that particular period. If it is considered that what happened in history must have happened because it was inevitable to happen, then all events stand self-explained, their occurrence prove that they are natural.

This Hamiltonian inevitability thesis fails to analyse properly the past, the present, and the future. It forgets the past when it closes its eyes to the period of ruthless exploitation which preceded this phase, direct plunder, abuse of *dastaks* and other internal trade privileges cunningly or forcibly obtained, high protective tariff in England, decay of the market for luxuries with the ruination of old feudal aristocracy, constant wars in India and extremely high land-taxes leading to the impoverishment of the peasantry as revealed in the famine of 1770, and thus the market for goods. It also forgets the past when it fails to perceive in the preceding phase the intensive primitive accumulation which ultimately led to the growth of industrial capitalism and machines—the effect of the preceding period as the cause of the present one. It forgets the present when it fails to analyse the superiority of skill and knowledge of the Indian artisans and their technical know-how which to a large extent helped its survival even after the machine-made goods appeared. And not only the machines, these machines were protected by men, because the owners of these were men who preferred to fight behind a steep protective tariff wall. Tariffs on imports and bounties for exports, legislation against the wearing of Indian silk were human machinations and not just the "blind" forces of history. Such inevitability theory forgets also the future when it fails to explore the alternative historical possibilities in India. Had there been no forcible reduction of economic surplus, could not there be an independent industrial growth in India itself? And, if there had been no colonial rule, and if India would have been a free country to impose protective duties against machino-facture of England and could stop the extraction of the industrial rawmaterials out of her territory, what course the economic history of India would have taken "inevitably" and "naturally" ?

C. *The Effects and Significance of the Decline*

Such decline in the cottage and small industries or the process of 'de-industrialisation', brought far-reaching changes in the nature and direction of Indian economic history. At the base of Indian agrarian system there was the more or less collective or co-operative village. These village-communities were mostly based on common possession of land, on the blending of agriculture and handicrafts and on a more or less unalterable division of labour based on caste. Spinning and weaving were carried on in each family as subsidiary industries. A smith, a carpenter, a potter, a barber, a washerman, a silversmith, and a poet who very often worked as a school teacher—all were parts of an organic whole. These occupations helped the main batch of 'productive' labourers, i.e. the agriculturists, and by helping them used to become themselves 'productive'. They used to live on the meagre surplus generated in the villages due to the low development of the productive forces.

Now, therefore, the artisan of the earlier days was an organic member of the village community; he owned the tools that he employed and also the raw-materials of his trade, which he obtained from the neighbourhood of the village or from distant sources. The village weaver was the only craftsman who broke through the circle of village self-sufficiency, and found an outlet for his products in places far away from his village. In the town, the artisans had to meet the needs of varied social groups, each with its own standard of comfort and luxury. Such expanded market for the weavers led to an increase in their skill and workmanship. Weaving industry could, therefore, generate larger wealth relatively to other forms of village industries and thus stood on a higher plane than others.

The 'de-industrialisation' or increased 'ruralisation' process brought far-reaching changes in the socio-economic structure of the Indian villages by destroying this slender balance of the old 'natural economy'. The artisans lost their traditional sources of livelihood and fell back on land which was not remunerative either. The prosperous village industries used to siphon-off the increase in labour-force due to natural increase in population and the land-man ratio was thus traditionally kept in balance. The decline of village industries pushed them back into agriculture making it extremely over-crowded. The disguised unemployment, seasonal unemployment and general underemployment all were rooted to the imbalance in the occupational structure due to such 'de-industrialisation'. A new proletariat arose within the country, not a proletariat of industrial workers employed in large scale production, but a proletariat of half-starved farmers and landless labourers.

The real impact of the decline of cottage industries was on the path of course of Indian economic development. Not only did it slow down the rate of primary capital accumulation, remove the possibility of technological innovations, and delay the emergence of 'enterpreneu-rial class.', 'the captains of industry' or 'the Indian bourgeoisie', it also chartered for India a separate path, a distinct course for the emergence of capitalism in India—the peculiarities of which still put a stamp on the nature of Indian economy today.

In the recent studies on the evolution of capitalist enterprise from the womb of feudalism two broad patterns have been distinguished from one another. On the basis of studies of the West European and specially English history, Prof. Dobb has arrived at the conclusion that the capitalism in Europe came in 'the really revolutionary way.' This means that the capitalist class grew out of the ranks of the producers themselves, who had slowly accumulated enough capital and then started controlling the mode of production and gradually acting as merchants too. These artisan capitalists came from within the existing mode of production, directly from within the system itself and so 'in the really revolutionary way.' On the other hand, the indirect way to the rise of capitalism consisted of the following manner. The merchants who had nothing to contribute in the actual production of goods and were mainly confined to taking the produce from the artisans to the market, later on after accumula-ting some capital, started controlling the mode of production. The

producers were brought under one roof under the direction of the merchant. In other words, when this assemblage of producers under one roof was done by some prosperous one from the rank of producers themselves, it was 'the really revolutionary way' (Path I). And when it was done by some one doing middlemanship in taking the produce from the producer to the market, it was 'the indirect way' (Path II). The really revolutionary way was 'from within' and the indirect way was 'from above' the mode of production. Capitalism that came in Western Europe, and especially in England came by the first way ; but the capitalism that evolved in Japan and Prussia came by the second way.

Simultaneously with the gradual emergence of capitalism in Western Europe from the sixteenth and seventeenth centuries a parallel situation was unfolding in the Indian society. As the records show, unlike in western Europe, both the paths were being opened and a simultaneous trodding of these two paths was the possibility in India. Capitalism was being born in both the ways. With the impact of foreign trade, the merchants grew in strength and they started advancing large sums of money to the artisans. Their next step was to call the artisans to work in a factory for money wage. Indian producers and the merchants through domestic trade and foreign exports were accumulating capital rapid enough to take that leap into the new stage. But the decline of handicrafts ended such possibilities. Neither path could open up.

From the second half of the nineteenth century Indian native capitalism again started coming into being, but this time the first way was totally blocked to it. Non-producer Indian or foreign merchants now endeavoured to assemble the producers under a roof, advanced them rawmaterials and money, collected the goods to sell them through their own initiative. The indigenous capitalism that evolved in India from the second half of the nineteenth century was thus in the second way like Japan and Prussia.

5. De-industrialisation in India

One of the recent controversies among the economic historians hover round the process of deindustrialisation in nineteenth century India, due to the British economic policies. The nationalist viewpoint strongly asserts that there can be no doubt a point deindustrialisation and clearly points out three important causes :

(a) Selfish tariff policy destroying the Indian handicrafts for the benefit of Manchester and Lancashire textile industry, (b) ruinous land revenue system destroying the economic balance and integration between industry and agriculture, as the cotton textile production was mostly an agro-based industry and (c) continuous economic drain leading to decline of capital stock. In support of such deindustrialisation the nationalisis point out to the (i) decline of the volume of textile exports to England from India, and (ii) decline of weaving population in the towns where the artisans were concentrated.

Though no statistics are readily available, it is quite known that some varieties of coarser and "stout calicoes" declined as early as the beginning of the eighteenth century, when they were excluded from the British markets by protective tariffs. Muslins started declining after 1788. The decline sharpened after 1813 and within 1833, the decline was complete.

Parallel to de-industrialisation in India was the rise in imports of textile goods from Britain. In 1813-14 not more than 91,800 sicca rupees worth of cotton goods were imported into Bengal Presidency from England. In 1822-23, it amounted to 6,777,279 sicca rupees. At the same time the total export of Bengal piece-goods to the UK., which had amounted to forty-six lakhs of rupees in 1812-14, fell to little over three lakhs of rupees. The spinning industry, where mostly women were employed, broke down completely with the import of Lanchashire threads. In 1825-26, only Rs. 81,000 worth of British yarn was imported, but in the following year the value of its import exceeded eight lakhs of rupees.

Nationalists also point out to the decline of towns where artisans were concentrated. In 1840 Charles Trevelyan reported the decline of Dacca "which was the Manchester of India where population has fallen from 150000 to 30000. Montgomery Martin reported "The decay and destruction of Surat, of Dacca, of Murshidabad, and other places where native manufactures have been carried on is too painful a fact to dwell upon."

The modern critics of de-industrialisation thesis, however, do not find out enough evidences to suggest such de-industrialisation.

Unfortunately their data consist of late nineteenth century, while de-industrialisation is a phenomenon of early nineteenth century. Encouraged by Theodore Morison's 'Economic Transition in India' where he supported the thesis, that British rule in India has been conducive to her economic regeneration, Moris D. Moris and Daniel Thorner also do not subscribe to the de-industrialisation proposition. Thorner analysed the census data of 1880-1931 and saw no decline in the percentage of persons engaged in secondary occupations. Buchanon-Hamilton also analysed some data from North Bihar districts and tried to prove that the percentage of persons engaged in secondary sector has not changed over decade.

Their conclusion seems to be that since there had been (i) no fall in the proportion of population engaged in secondary industries, or, (ii) no fall in the proportion of total number of people benefited by the secondary industries (with multiplier effect), there was no de-industrialisation. They also contend that during nineteenth century there was fall in output in some other countries also; or a slackening of their growth rate. Hence, even there was stagnation and non-growth, it was a world-wide phenomenon not peculiar to India.

Three comments are due on their point of view. First, that there was stagnation or slow growth of the percentage of population engaged in the secondary occupations during the late nineteenth century does not prove that there was no de-industrialisation in the early nineteenth century.

Second, while in Europe, deindustrialisation was soon and simultaneously followed by re-industrialisation, no such process took place in India. Technological unemployment was not absorbed in the new type of industries.

Third, de-industrialisation was perpetuated as both the path I and path II of the growth of capitalism was obstructed by the British (a) Tariff policy, (b) High Land tax, (c) Economic Drain, (d) Economic policy, (e) Industrial policy and (f) the Currency policy of an Imperial ruler set to recreate a colonial economy to suit the advantages of Industrial Capital at the first stage and Financial Capital at the later stage, with limited foreign investment in plantations, mines and raw material extraction.

6. Commercialisation of Agriculture

The older rural framework of India was weakened by the new Land system introduced by the East India Company between 1793 and 1850. But this weak framework was shattered by the spread of commercial agriculture between 1850 and 1947. Commercialisation of agriculture means the production of crops for sale, rather than for own consumption. It grew out of a variety of conditions. The foremost reason was the constantly recurring need of the peasants under the new land systems to find ways of getting cash money to meet the mounting demands made upon them by the State and the landlords. The increase of demand for money in the money market led to an increase in the supply of crops in the commodity market. And urbanisation being slow, the price of crops fell and consequently the peasantry suffered from continued adverse terms of trade, which necessitated further commercialisation of crops. Secondly, by the middle of the nineteenth century Britain itself had passed through the Industrial Revolution. British industries kept on expanding and the need for raw materials increased. Thirdly, the British industries also required markets and under pressure from British merchants and manufacturers, India's coastal towns were linked up with Britain in the 1840's by steamship and the interior of India was covered up after 1850's by the most elaborate railway network in Asia.

Prof. Gadgil writes, 'The first impetus towards this tendency of commercialisation was noticed when money economy was introduced into the village in the shape of cash assessments', 'rents in kind went out of fashion and cash rentals were introduced'. The second impetus was the 'interest of the money lender'. 'To pay these two dues the cultivators had to rush into the markets just after harvest, and to sell a large part of their produce at whatever price it fetched. This process was further facilitated by the 'case of communications.'[17]

17. "The basis on which agriculture was conducted in India was being slowly changed. Broadly speaking, the change might be described as a change from cultivation of home consumption to cultivation for the market. The spread of transport facilities, when it began to breakdown the compact character of the village, affected also its agricultural economy. The change was seen in a gradual extention of the area of some industrial crops under cultivation and a specialisation in crops grown in different districts. Export trade increased and internal trade

In his *India in the Victorian Age*, R. C. Dutt, put forward two other reasons for such commercialisation. According to him, trade on the basis comparative cost difference was beneficial no doubt, but export of agricultural goods was *forced* and was thus not based on this classical natural law. Heavy land tax and a heavy tribute, were the two main causes ; the land revenue system of India, as well as the Home Charges *forces* the export of food grains, much of which the country needs for its own population.[18]

Once the railways were opened it became possible for the inland areas of India to produce for a wider market, the peasants entered into the cash-nexus, they were drawn into the vortex of the world market. 'The commercialisation of agriculture had progressed most', writes Prof. Gadgil, 'in those tracts where the crops were largely grown for export out of the country. This was so in the Burma rice area, the Punjab wheat area, the jute area in Eastern Bengal and the Khandeth, Gujerat and Berar cotton tracts'.

The commercialisation of agriculture in India was more pronounced during the civil war in North America. Before that, raw-cotton had started being exported to Lancashire, more and more with the decline of weavers and spinners in India. In fact, Lancashire was pressing for railways in India since 1830's. The disturbance in the U. S. A. diverted British demand to India. After 1862, exports of raw-cotton

very great extent......But it is not so much to the increase in the area under industrial crops that we look for signs of this change, as to the changes in the method of marketing the crop. It is the basis of cultivation rather than the proportion under different crops that has changed. The cultivator today does not try to grow every kind of agricultural produce that he may require at home, as he had to do when the means of communication were deficient. He is more ready now to resort to the market for his requirements and also for his surplus produce. This market for agricultural produce of all kinds might indeed, be said to have been non-existent before the middle of the last century." D. R. Gadgil, *The Industrial Evolution of India in Recent Times*, p. 153.

18. Commerce, even when carried on by foreign capital and foreign merchants, is beneficial to a country. It brings in articles cheaper than the country can produce. And it also brings a higher price for the home produce than can be obtained at home. In both these ways commerce is beneficial, even though the profits of trade go to other lands. But, in India, even this benefit is restricted because her foreign trade is *forced, not natural*. The excise imposed on cotton manufactuers restricts

had spectacular rise. From Rs. 5·6 crores in 1859-60, the exports of cotton rose to Rs. 37·5 crores in 1864-65. There was increase in the exports of food grains too. Exports of rice, wheat and other food-grains amounted to Rs. 3·6 crores in 1859-60, it went up to Rs. 6 crores in 1864-65. At the end of the civil war, export of raw-cotton no doubt declined, but the cotton-merchants' capital accumulation led to modern spinning and weaving industry in India, and therefore, the domestic demand increased. Exports of food grains, oil seeds, jute and tea continued to increase. Opium and indigo production and other exports expanded. The total value of exports rose from 28·9 crores in 1859-60 to Rs. 165·7 crores in 1906-7.

Spread of commercial agriculture and money economy brought a number of important changes in the Indian agrarian structure. The older practices associated with a self-subsisting economy declined leading to a further break up of the self-sufficient village economic equilibrium. As the industrial crops were more paying than the food-grains, the peasants who were at liberty to choose their own crops showed a tendency to shift towards them. In some districts the peasants shifted over completely to industrial crops and had to buy their food requirements from traders. The cultivators sent to the market even the cereal reserves traditionally kept for poor years. They became less prepared to meet poor harvests and more vulnerable to families.

Such substitution brought serious dislocation in the food Supply position in our country. About the famine of 1866 in Bengal and Orissa it was stated by a leading local Zemindar, Shibo Parkesh Misser of Tulsipur, that one of the causes of the famine was that "best lands of the district (Monghyr) were in possession of planters for cultivation of indigo;" "during last five years indigo concerns had increased, the area under cultivation of rice had fallen. This according to him, was the chief cause of the distress."[19]

system of India, as well as the Home Charges, *forces* export of food grains, much of the production of articles which the country could produce. And the land revenue which the country needs for its own population. Thus large imports of cotton goods into India are secured by restrictions on the Indian industry. And large exports of food are compelled by a heavy tax and a heavy tribute." R. C. Dutt *India in the Victorian Age*, p. 535.

19. Govt. of India Proceedings. Home (Public) No. 144, June, 1867.

In the opinion of Mr. Cockerell, who, himself enquired into this famine stated, "one of the causes of scarcity of foodgrains was the increasing cultivation of indigo which year by year absorbed a large area of land which otherwise would have been devoted to the cultivation of cereals."[20] Dr. MacGill of United Presbyterian Church wrote to the Secretary of State for India in 1870, "one cause of the want in Rajputana......the absence of supplies once provided by fertile plains of Malwa. They are now devoted to the growth of poppy, in consequence, it is believed, of the encouragement lent to its production by the Government."

Secondly, to produce, stock and sell the crops for market the peasants required credit. They turned to the money-lender. The symbols of private ownership of land, the land-revenue systems with the necessity of payment of rent in ready cash and the legal system developed in India—all helped[21] to develop a money lending community. To the State also, the money-lender was of invaluable aid in converting the peasants' crops into cash and passing on the land-revenue due to the Government. The money-lender could make a good and secure profit under the new order to things. If the peasants defaulted he could use the new legal procedure to attach their lands, livestock and personal possessions. Furthermore, from the middle of the nineteenth century the price of land rose rapidly, thereby encouraging the money-lender to broaden his operations. He began to take over the peasants' land and rent it out to them again thus getting a larger slice out of peasant's cake in the name of rent and interest. When the money-lenders started financing the petty grain traders, he could also appropriate a portion of trading profits. Thus

20. Letter of Bengal Govt. 15th Feb, 1867, Home Proceedings No. 196.

21. The British monopolies, controlling the system of finance and credits in India, used the local trading and loan capital as their agency. British banks financed the money-lenders, who in turn lent money to the peasants, and paid the banks a considerable part of the interest they received from the peasants. In this way the British financial monopolies exploited not only the Indian workers and handicraftsmen, but the peasantry as well. This explains the close economic connection between the British monopolies and the feudal and semi-feudal landlords and money-lenders. Exploitation of the peasantry by the money-lenders and through them by the British monopolies steadily increased.

the money-lenders grew in number and in wealth. As the control of usurious capital gradually grew in the countryside, the actual tillers were fast becoming pauperised agricultural labourers and the ownership of land became concentrated in fewer hands.[21]

The commercialisation of agriculture brought changes in the pattern of production no doubt, but it failed to bring the necessary changes in the mode of production. It did not act as the catalytic agent in agrarian reformation. There was private property in land, however, imperfect that might be. There were accumulation of capital, differentiation of the peasantry into rich and poor, an impoverished section of semiproletarians, and above all, production for market and money-economy. Yet full fledged capitalism in agriculture did not develop in India as in western Europe. Unlike other countries the commercialisation of agriculture could not be the steppingstone to capitalist agriculture.[22]

What happened to India was typical of the underdeveloped countries in the world. The way in which capitalism broke into the historical development of the now under-developed countries precluded the materialisation of 'classical' conditions of growth. In India agricultural labourers were pauperised, the peasant's marginal productivity became negligible, disguised unemployment appeared in the countryside. The economic surplus taken away from the actual tillers was no longer small in amount.

But the crucial factor which arrested the growth of large-scale capitalist farming is the mode of utilisation of this economic surplus. Taking agriculture as a whole, it was highly probable that economic surplus generated in this sector comprised at least half of its aggregate output. It was obvious that the use made of this significant share of the national product was of crucial importance for a take-off from commercial farming to capitalist farming. But here, as

22. "The writer of the *Hyderabad census Report* (1911) says with reference to the enormous expansion of the area under cotton in Marathwara, that 'when a country begins to produce rawmaterials of manufacture in place of food crops, it has started on the road to industrialisation.' This statement cannot apply to India, as a whole. For here there was no large displacement of food crops....The result of this process was not industrialisation ; indeed, it is doubtful how far such industrialisation has taken place in India. But commercialisation of agriculture undoubtedly, did follow," D. R. Gadgil, *Industrial Evolution of India.* P 155.

elsewhere, this economic surplus that was squeezed out of the peasant sector of agriculture was appropriated by the landowners, the money lenders and the merchants and to a smaller extent, by the State. A considerable share of this surplus was absorbed by the excess consumption of the landowning aristocracy. Socio-cultural traditions no doubt regulated this squandering away of wealth for unproductive consumption, the objective economic conditions also were not at all ready for its transformation into productive capital. Labour being relatively cheaper no improvement in the technique was profitable, capital-intensity was not called for. Industrialisation did not proceed in the towns at an accelerating rate creating labour-shortages in the rural sector necessitating investment in agricultural machinery. Returns on capital invested in agriculture tended to materialise rather slowly, so that the high rates of interest prevailing in India largely discouraged the sinking of funds in agricultural improvement. The questionable and undefined proprietory rights in land in India also checked investment in agriculture. And at the same time, the usually large fluctuations of agricultural prices, now dominated by world forces, rendered such investment particularly risky.[23]

7. Growth of Towns

Prof. Maurice Dobb writes : "So far as the growth of the market exercised a disintegrating influence on the structure of Feudalism, and prepared the soil for the growth of forces which were to weaken and supplant it, the story of this influence can largely be identified with the rise of town as corporate bodies".[24] The story of towns in India, their growth and decay and resurrection, also shows the development of productive forces in India before the British conquest, the arrest of the normal path of economic evolution and the

23. "Economic, social and political processes unfolding outside agriculture, and in particular the accumulation of capital and the evolution of the capitalist class, while themselves originally largely determined by processes that have taken place in agriculture, become with the onset of capitalism the prime movers of the historical development."

24. M. Dobb, *Studies in the Development of Capitalism*, p.70, "The influence of their presence as trading centres, especially on the smaller estates of the knights, was a profound one. Their existence provided a basis for money dealings, and hence for

rise of feeble colonial capitalism in India as a junior partner to British capital, with predominantly trading interests. For this purpose we can study (a) the nature and causes of the growth of towns in India before the British conquest ; (b) the causes which led to their decay ; and (c) the growth of the towns during the nineteenth century.

According to Prof. Gadgil, the origin and prosperity of most of the old towns in pre-British India may be traced to three reasons : (i) They were places of ***pilgrimage or sacred places*** of some sort like Allahabad, Benares, Gaya, Nasik, Puri ; or, (ii) they were the seats of a court or the capital of a province like Delhi, Lucknow, Lahore, Poona, Tanjore, Arcot ; or, (iii) they were commercial centres, owing their existence to their favourable position along trade routes such as Mirzapur, Bangalore, Hubli etc.[25]

From the account given above it may transpire that 'the dominant trait of Indian towns was their non-industrial character.' But it does not mean that 'the Indian towns at this time had no industries, but rather, the industries were not the cause of their importance.' Before the British, in large towns 'there was a class of middlemen or capitalists who advanced money to craftsmen, purchased their goods or made them repay the loan in the form of articles manufactured to their order, collected large stores of such goods and either sold them locally or exported them.' Clive wrote after entering Murshidabad in 1757: 'The city is as extensive, populous and rich as the city of

money payments from peasants to lord (which however, were never entirely absent during the feudal period), and, if the pressure of feudal exploitation and the decline of agriculture helped to feed the towns with immigrants, the existence of the towns, as more or less free oases in an unfree society, itself acted as a magnet to the rural population, encouraging that exodus from the manors to escape the pressure of feudal exactions which played the powerful role in the declining phase of the feudal system ......But while these urban communities to the extent that they were independent centres of trade and of contractual dealings, were in a sense alien bodies whose growth aided in the disintegration of the feudal order, *it would be wrong to regard them as being, at this stage, microcosms of capitalism.* To do so would be to anticipate developments that belong to a later stage. *Nor can one regard their existence as necessarily in all circumstances a solvent of feudal relations.*"

25. "In India cities were created in the past either by the royal residence or the special religious sanctity of a place, wherever our Muhammedan sovereigns or their provincial viceroys lived, cities sprang up. In a few years the tents were replaced

London, with this difference that there were individuals in the first possessing infinitely greater property than in the last city.' Chittagong was referred to by the Portugese as Porto Grande. According to V. A. Smith, Patna had extensive trade in raw-cotton, cotton cloths, sugar, opium and other-commodities. Ralph Fitch found Patna a a flourishing trade centre in 1586. Both politically and commercially Patna was linked with Benares and Agra. It also became a connecting link between Bengal and Northern Hindusthan. Prayag was in William Finch's time (1608—11) 'one of the wonders of the East.' Benares was the 'principal mart of Bengal goods' and Ayodhya being 'one of the largest cities of India' in the days of *Ain.* 'Agra and Fatehpore are two very great cities, either of them much greater than London and very populous'. In the north-west of India the most important towns then as now were Srinagar, Lahore, Delhi and Agra. In West India the chief city was Cambay in Gujerat. In South India the most flourishing cities were Calicut and Vijaynagar.

The original aim of the East India company in its trade with India was the typical aim of the monopolist companies of merchant capital, it was to make a profit by securing a monopoly trade in the goods and products of an overseas country. The governing objective was not the hunt for a market for British manufacture, but the endeavour to secure a supply of the products of India and East Indies (especially spices, cotton goods and silk goods), which found a ready market in England and Europe. The problem, however, which faced the company was that, in order to secure these goods from India by way of trade, it was necessary to offer India something in exchange. But England then had nothing to offer India in exchange for her goods. And therefore, 'from the outset the merchant adventurers of the East India Company were much concerned to devise a means to solve this problem and secure the goods of India for little or no payment.' The margin between trade and plunder began to grow conspicuously thin.

by houses and when later on a defensive wall was added, it became complete city. Here all the best artisans of the land were concentrated, and here most part of the revenue was spent. Again, the Indian manufacturer of old never thought of going out to seek his customers, he expected them to come to his doors. Hence, every famous centre of pilgrimage, such as Benares, Puri, Kanchi, or Mathura by drawing tens of thousands of visitors every year afforded an excellent market and induced artisans to settle there. In time, the temple became the centre of a large and flourishing city." Jadunath Sarkar, *Economics of British India*, P. 83.

And when the administration of the revenues passed into the hands of the Company with the granting of the Dewani or civil administration of Bengal, Bihar and Orissa in 1765, a new field of limitless direct plunder was opened up in additions to the profits of trade. The effects of the East India Company are better to be quoted from foreign sources.

"In former times, the Bengal Countries were the granary of nations, and the repository of commerce, wealth and manufacture in the East......But such has been the restless energy of our misgovernment that within the short space of twenty years many ports of these countries have been reduced to the appearance of a desert. The fields are no longer cultivated : extensive tracts are already overgrown with thickets ; the husbandman is plundered ; the manufacturer oppressed ; famine has been repeatedly endured ; and depopulation ensued "[26] Lord Cornwallis reported in 1789, "I may safely assert that one-third of the company's territory in Hindusthan is now a Jungle inhabited only by wild beasts." In 1840 Sir Charles Trevelyan reported : "The peculiar kind of silky cotton formerly grown in Bengal from which the fine Dacca muslins used to be made is hardly ever seen ; the population of the town of Dacca has fallen from 1,50,000 to 30,000 or 40,000, and the jungle and malaria are fast encroaching upon the town......Dacca, which was the Manchester of India, has been fallen off from a very flourishing town to a very poor and small one ; the distress there has been very great indeed." Montgomery Martin reported : "The decay and destruction of Surat, of Dacca, of Murshidabad, and other places where native manufacturers have been carried on is too painful a fact to dwell upon." Thus by destroying the Indian industries and by removing the powers of trade from the hands of the Indians, the old flourishing towns were put into poverty and men were driven into the villages to depend on rackrented agriculture.

From the middle of the nineteenth century, modern towns started emerging in India, and as Prof. Gadgil has pointed out, 'one of the most important factors determining the growth of towns in India at the present time is railway construction.' But these towns which came

26. William Fullarton M. P. *A view of the English interests in India*, 1787, quoted in R. P. Dutt, India today. P. 93.

into being after the construction of railways were more in the nature of 'commercial depots' or 'distributing centres.' The Indian railways 'sank old towns into oblivion or resurrected them as mere distributing centres in the new economic dispensation.' 'Calcutta is a distributing centre for hides and skins and jute ; Madras is a distributing centre for ground nuts, flue-cured and other types of tobacco and tanned hides and skins......Cawnpore is a railway junction and convenient distributing centre for the imports of Manchester piece-goods, hardware and machinery from Bombay and Calcutta, while its factories produce 'very large quantities of leather goods, cotton textiles and tents' ; Delhi is a 'clearing house for cotton, silk and woolen piece goods for the Punjab, the western districts of the United Provinces ; Amritsar is a distributing centre for hides, skins and and grains......of the Punjab ;......Lucknow is a distributing centre for the rich agricultural products of Oudh.'

In these 'distributive centres,' or modern towns, the native Indian merchants started coming into being for the second time as junior partners to British industrial capital. With increasing British investment in railways, coal, jute, tea, coffee and rubber plantations, the urbanisation process started all over again. But the process could never become fast. So 'most of the urbanisation that exists is not the result of industrialisation. It is the artificial result of an artificial economic evolution.' Prof. Gadgil writes that, 'The fact is, then, greatly emphasised by this, that in India the growth of industries has been taking place very slowly, whatever little growth in towns there has been is due much more to the growth of commerce than of industry.' The slow rate of urbanisation is reflected in the proportion of the urban population to the total population in the country by different censuses :

1872	census	8·72	per	cent
1881	"	9·41	"	"
1891	"	9·46	"	"
1901	"	9·88	"	"
1911	"	9·42	"	"
1921	"	10·2	"	"
1931	"	11	"	"
1941	"	13	"	"
1951	"	17·3	"	"

Let us, for example, review the growth of few big cities in India. Until the middle of the 19th Century Bombay was little more than 'a mere collecting centre for the trade of the smaller ports of the west coast.' But the great stride in the growth of Bombay is the result of Indian enterprise as well as by the Britsh. Calcutta grew out of the villages Sutanuti, Gobindapur and Kalikata. Like Madras it also became a port or a commercial depot and developed as a merchant town. In these merchant towns the provincial landlords flocked as well as the impoverished peasantry due to successive famines. The different occupational basis and the social stratification of these cities clearly reveal the now-solidified waves of immigration into the cities of ruined artisans, peasants and other professional classes uprooted by the breakdown of the village economy in the countryside.

The British, therefore, are to be credited as the modern port-cum-town builders of India. Hunter writes: "Emporia of commerce must grow of themselves...It is this difficult enterprise, in which the Portugese, the Dutch, the Danes and the French had successively failed, that the British in India have succeeded. (The British)...have ruled not as temple-builders like the Hindus, nor as palace and tomb-builders like the Musalmans, nor as the fort-builders like the Marathas, nor as the church-builders like the Portugese; but in the more common place capacity of town-builders."[27]

Only two towns were exceptions, their character being mostly industrial. More than half of the population of Ahmedabad was engaged in cotton textile industry. Jamshedpur was a steel town, its heart throbbed with the factory. Only these towns could claim to be industrial on the one hand and 'Indian' on the other.

Prof Gadgil had pointed out that besides railways, 'the other factors making for an increase in town population are: (i) new industries or further growth of old industries; (ii) famines; (iii) creation of a landless labour class; (iv) tendency of wealthy landlords and others to live in towns'. He also points out the factors leading to de-urbanisation: '(i) diversion of trade routes (both railways and water ways) into different channels; (ii) decay of old handicrafts: (iii) epidemics; (iv) insanitary conditions and bad housing in towns.'

27. William Wilson Hunter, *The Indian Empire.* P. 660.

Prof. Gadgil had also pointed out one of the most important trends in urbanisation in modern India—the growth of cities at the expense of smaller towns. The smaller towns in India during the British period were either stagnant or decadent and the bigger towns were expanding.

Being essentially commercial in nature, these towns could not exert 'profound influence' as the European industrial cities did. These towns increased the volume and rapidity of money dealings and hence forced the pace of money payments from the peasants to the landlords. Commercialisation of agriculture increased at a more rapid rate. Absence of manufacturing industries in the towns led to stagnation in the mode of production in agriculture. Excess population from agriculture was not drawn in to the factories in the towns and no pressure was generated for increasing the capital intensity of farm production. A parasitic rentier class and trading community dominated the towns and such towns could not act as 'solvent of feudal relations.'

8. A Short Outline of Railway history

Lord Dalhousie (1848—1856), the administrative disciple of Bentham, was surcharged with utilitarianism and the zeal for reforms. He was out to unify the country and provide it with an able and honest administration. Along with it the need of the English manufacturers for the collection of rawmaterials and expansion of market inside India also created the necessary objective conditions ready for the introduction of railways in this country. Dalhousie's personal share in laying down a railway policy and programme is rightly regarded as among his most notable achievements. Dr. Eric Stokes comments: "His (Lord Dalhousie's) own experience at the Board of Trade in dealing with English railway development enabled him to work confidently and boldly. Freed from limitations imposed by the parliamentary system he was able to achieve his own ideal of central railway planning and control."[28]

The idea of railways in India first occurred to Mr. George Clark, the chief engineer of Bombay Government in 1843. The first proposals for the construction of railways were submitted in 1844 to

28. Eric Stokes, *The English Utilitarians and India*, P. 251.

Government at a cost of £ 23, 695, 226 while up to 1880 private companies had built 6,128 miles costing about £ 97,872,000. The policy of State construction had to be abandoned because of the Government's financial difficulties caused by war and famine shortly after 1875 and the fall in the gold value of silver. The Famine Commission of 1880 urged the need for 5000 miles of additional lines and the country could not be held safe from famines until the Indian railway mileage had aggregated 20,000. The Famine Commission, also suggested that 'though the original form of guarantee had been condemned it may not be impossible to find some substitute which shall be free from its defects.'

A new period in railway history was ushered in when the Government decided again to make contracts with private companies but with terms more favourable to itself. The main differentiating features of the new guarantee system were as follows : (i) the lines constructed by the companies were declared to be the property of the Government, they were called 'State lines worked by companies.' The Government was given the right of concluding the contracts after 25 years or at subsequent intervals of 10 years, repaying at par capital provided by the companies, (ii) the rate of interest on the capital raised by the companies was guaranteed at lower rate the usual rate being 3½ per cent, and, (iii) the State was given a much larger share (usually three-fifths) of the surplus profits. When the contracts of the old guarantee companies ran out, the Government exercised the power of termination between 1880 and 1905 in all cases except one by paying the purchase price in cash or in Government of India securities. Some of these lines were retained under direct State management while others were handed over to company management under the new guarantee system with more favourable terms for the Government.

During the last quarter of the nineteenth century more money became available to the Government for railway construction. After 1878, part of the Famine Insurance Grant, when not spent for direct famine relief, could be spent on railway development ; and in 1890 the whole available balance of the grant was applied to that object. During this period the Government was empowered to raise the limit of borrowing and the companies with Government guarantees were

forbidden to borrow capital in India, having to take advances only from the Government.

At the dawn of the twentieth century, most of the sub-continent's present railway network was clearly visible. But the expansion was still poor relative to other developed contemporary countries. In 1906, India had only one mile of railway line to every 63 square miles, U.K. had one mile for every 5 square miles, U.S.A. had one mile for every 17 square miles, and Japan had one mile for every 29 square miles.

Between 1900 and 1914 there was rapid extension and development of railways and the commencement of railway profits. During this period about 10000 miles of branch and feeder lines were built up. The branch line companies were subsidized from main line's gross earnings from traffic interchanged with the companies lines. In 1905, the Railway Branch of the Public Works Department was abolished and a Railway Board consisting of a President and members was established at the head of the railway system under the Department of Commerce and Industry.

The loss to the State or Indian tax payers as a whole during the first forty years of the existence of railways amounted to Rs. 58 crores. After that the railways began to yield a net return to the State on the capital outlay. This was due to general economic development of the country during this period and also the new guarantee system. The gain to the State was small for the first ten years after 1900, but it greatly increased during the first world war period. By 1924 the total gain had accumulated to Rs. 103 crores. High net profits were obtained only at the cost of capital depreciation and immense inconvenience to passengers.

Not until the Acworth Committee was appointed in 1920 was the question of State Management versus Company Management discussed more fully. The Committee held that the present system was unsatisfactory and desired that the system of management through companies domiciled in Britain should cease as soon as the various contracts lapsed. The Committee were, however, almost equally divided on the question of the future management and on the ways of raising capital. The majority were for direct State management of State owned railways. They pointed out that the system of divided responsibility did not make for efficiency. The minority expressed the view that the management should be transferred from English to Indian Companies. The majority did not support the proposal, they argued that it would not improve matters as companies substantially independent of Government could not be started in India, and without such independence the benefits of private enterprise could not be realised. The majority expected also that State Management would lead to cheaper rates, better facilities and impartial treatment of both Indian and Foreign business firms. On the question of raising capital, the minority was sceptical about the Government's ability to provide large funds required every year. The majority opined that the money should be raised in India as far as possible, and the public would more readily subscribe to the loans if the management was done by the Government. Moreover, if external loans were necessary, the credit of the Government of India would be of great help. Indian opinion also wanted complete nationalisation. Indian merchants complained of discrimination against them by the companies. State management was considered necessary for opening top positions in the railway administration for the Indians. It was also hoped that State management would reduce the burden on the tax payer. In 1923, the Indian Legislative Assembly passed a resolution in favour of State Management and between 1925-1950 all the railway lines were gradually brought under State management.

The Acworth Committee also urged the separation of railway finance from general finance on various grounds. (a) It would remove the element of uncertainty in the annual budget estimates due to the inclusion or railway profits. Railway profits are subject to remarkable variation from year to year, depending as they do on the rainfall and the course of internal and external trade. The budget estimates may be upset by several crores of rupees. (b) The dependence of the railways on the exigencies of the general budget prevents them from being run on a commercial basis. The capital budget of railways might necessitate the unbalancing of the annual budget for a particular year, but this would be impossible so long as the railways had no separate budget. In 1924, the Legislative Assembly adopted the convention that railway finances should be separate from the general finances of the country and that the general revenues should receive a definite annual contribution from the railways which should be the first charge on their receipts.

In 1922 the Inchcape Retrenchment Committee made a number of recommendations for the reduction of working expenses. These were adopted in the budget for the year 1923-24. As a result the financial position of the railways improved between 1924 and 1929, railways were prosperous and contributed about Rs. 35 crores to the general revenues, and built up a reserve from Rs. 18·43 crores.

The impact of 1929-30 depression on Railways was very hard, their net earnings ceased to be sufficient even to meet the interest charges. In 1932, the Pope committee made several recommendations about economy in expenditure and methods of increasing incomes. But by 1936 the railways had practically drained off their reserves and unpaid contributions to general revenues stood at Rs. 25 crores. A period of mild recovery started in 1936 and lasted until 1940. Since then, the period of world war II saw unprecedented prosperity. The gross receipts swelled from year to year until 1946. The entire arrears of contribution to the general revenues were cleared off, and the railway reserve fund was increased to Rs. 38·13 crores.

Of the pre-partition mileage of 40,524, Pakistan received 6,958 miles. In 1950, the Government of India announced that 33,000 miles of Indian railways would be regrouped into six zones. At the end of 1949-50, the capital-at-charge stood at Rs. 812·99 crores. Nearly a million persons were employed on the railways and their wages and allowances came to Rs. 107 crores. The Government of India thus inherited a public sector undertaking of giant magnitude, which facilitated administration and proper planning and also gave rise to important feeder industries accelerating the general course of industrial development in the country after independence.

9. Indian Railways and Economic Development

By the first quarter of the nineteenth century, the transformation in the economic relationship between an industrialised Britain and her Indian dependency was an accomplished fact. Yet both as a buyer of finished products and as a supplier of raw materials, India disappointed British merchants and manufacturers. India could not absorb as many goods and as fast as they wished she should do. The basic problems were of low purchasing power and declining productivity. The underdevelopment of transport facilities, however, prevented the full exploitation of even the limited opportunities and resources that are available. In 1840, the P. and O., subsidised by the British Government and the East India Company, opened a regular service to the East. The inland areas, the great cotton bowl of the Deccan, in particular, still remained inaccessible. Hence at the chief British mercantile houses concerned with India the outstanding question in 1840's was railways. Hyde Clarke, a leading railway economist, urged the need for improved transport facilities 'which would promote the sale and transmission of the raw products and incidentally, compel the Hindus to receive their cotton in a manufactured shape.' The projected railway from Bombay to the cotton districts was, according to John Chapman, considered by the Lancashire merchants as 'nothing more than extension of their own line from Manchester to Liverpool.' The E. I. R., on the other hand, was considered a 'political line,' one which would facilitate administrative and military activities, ensuring 'promptness and certainty in the execution of the orders of the ruling power.'

The introduction of railways represented (according to Shelvankar): "(i) the inflow of goods produced by new manufacturing industries of Britain; (ii) the investment of British capital not only in Railways but in plantations, mines and factories, so as to increase the supply of raw materials and food stuffs; and (ii) the export of raw materials and food-stuffs of everykind produced in India to pay for the manufacture she imported and to keep the wheels of British industry in motion."

The development of Indian Railways expresses the relationship between the growth of British capitalism and the evolution of a colonial economy in India. The terms under which British capital was first invested in steamship and railway lines for India, and 'the struggle to secure these terms', represent an inportant milestone in the development of capitalism in England. The export of capital from England to India under these terms constituted the largest single unit of international investment during the period.[30]

Prior to the advent of railways the 5 lakh villages with varying social customs, languages, and geographical environments, used to produced for self-consumption. Marx wrote, 'The village isolation

30. Daniel Thorner, *Investment in Empire—British Railway and Steam shipping Enterprise in India, 1825—1849.*

produced the absence of roads in India and the absence of roads the perpetuated the village isolation'. With the advent of railways this isolation gradually broke down, obscure villages have grown into towns, several towns into big cities. The peasants were drawn into the vortex of the world market and this also necessitated commercialisation of agriculture. Jute, tea, coffee and rubber were now grown in remote places and carried to the towns and ports.

Impact of Railways on Industries was twofold: it led to the ruin of ancient industries and it also led to the growth of modern industries. Railways carried the cheap machine-made goods from the shores of London to the interior villages and ruined the already broken up cottage industries. The laissez faire policy pursued in India prevented the adoption of any tariffs. The Railway rates policy was regulated in such a way so that the British manufactured goods could penetrate into the villages cheaper than the movement of indigenous goods. Railways, however, before independence, could not directly help industrialisation of India by setting up huge factories and workshops for the manufacture of locomotives, locomotive parts, coaches, and other rolling stock and railway stores. Railway expansinon went with State guarantees and State-backing but the ancillary and necessary heavy and basic industries like Iron and Steel etc, could not be expanded properly due to opposition from English industrialists. It is pointed out, "It should be emphasised, however, that the policy pursued was one of trial of State undertakings; it did not go beyond that. India's policy stood in sharp contrast with the policy which Japan pursued in the Meiji era. Public investment in these and other inaustril undertakings was on a small scale and whenever the necessity of increased public investment became imperative, the State was extremely cautious."[31] Attempts for iron production in the State sector have been made in spite of opposition from British industrialist class in 1860-61 (The Burwai Iron works), in 1876 (Kumaon Iron works), in 1882 (Barakar Iron works) The necessity of fuel for Railways also led to the working of coal mines both in the private and the public sector though to a very limited extent.[32]

31. Dr. Sunil Kumar Sen, *Industrial Policy and Development*, P 105.

32. "The Warora mine situated at Chanda in the Central Provinces was opened in 1871, and it was the first coal mine to be worked by the State...Nearly the whole

Railways also contributed much to the development of commerce and trade in India since the middle of the nineteenth century. In the pre-railway period, in spite of British market for cotton, for example, adequate supplies could not be shipped from India for want of transport.[33]

In 1854, directly after the close of the East India Company's operation, the volume of the whole foreign trade of India, for example, was no more than Rs. 14·34 crores. The advent of railways helped the movement of goods in and out of the country. With the railway stations came bazars, which developed into thriving towns and construction of roads and feeder lines acquired new stimulus. In Bombay, for instance, during the ten years 1855-1864, the value of imports trebled and that of exports quadrupled. Factories for cleaning cotton sprang up, steam presses for pressing and packing bales were put up and the foundations were thus laid for development of the giant textile industry of Bombay. Famines were handled, the tendency towards regional equalisation of prices appeared to assert itself. Mr. Buchanan writes, 'Besides facilitating military and governmental operations, railways also made possible for the first time the formation of contracts and relationships'—social, cultural, political and economic. Money economy spread with amazing rapidity, especially in rents and wages. The farmer raised a specialised crop which was sold to London and brought the Manchester and Birmingham goods in his railway town for cash. Instead of giving grain to families of workers for their customary services at certain seasons of the year, the land owning rich farmers began to hire

output was taken by the great Indian Peninsular Railway. From January, 1884, coal was sold to the great Indian Peninsula Railway at the reduced rate of Rs. 4-8-0 per ton, so that by 1889 the reductions benefited the Railways to the extent of Rs. 2,14,000."

33. Captain Wingate reports that (Fifth report from Select Committee on Indian Territories) : "Berar has produced this year the finest cotton crop we have seen for many years, if ever ; the quality of much of its superior to the best Broach, and the cultivation of such cotton can be almost indefinitely increased in that province but to what purpose so long as it cannot be conveyed to the coast, where alone it can be converted into money ? Much of the crop will not be despatched owing to the difficulties of transport over the wretched bullock tracks, which alone are available for over three-fourths of the journey to Bombay."

labourers for wages. Freed for long periods and able to remain away permanently if they liked, these customary labourers began trailing away to seek wages in the building of railways and canals, the mining of coal or the working of new Indian factories. The armour of the isolated, self-sufficient village was pierced by steel rail, and its life blood ebbed away. In some fields, such as land ownership and tenancy, the blow to the village economy came from the new English laws, but in the main it came because the railways 'made exchange and competition economical.[34]

10. A short note on the Guarantee System

It was R. M. Stephenson who first put forward the idea that the Government must underwrite the rail projects. In the long debate on the question of British investment for railways in India this guarantee issue remained the central focus until the support of very powerful economic and political interests in Britain won. The guaranteed-interest railway contract, was an outstanding instance of 'private enterprise at public risk.' Bright, Cobden, Baron Rothschild and, of course, the Lancashire merchants and manufacturers were among the supporters of the demand for this guarantee. The now familiar debate on the relative merits of public and private enterprise figured prominently in the struggle for the guarantee, when it was proposed that the government should construct the railways. The spokeman for the railways pleaded the superiority of private initiative and urged the need for putting the people into possession of a principle of association, a matter of extreme importance in India where 'the energy of individual thought has long been cramped by submission to despotic governments.' The opponent of public enterprise had one unanswerable argument : the miserable record by the East India Company in the field of public works to which it had devoted less than one per cent of its revenue. Any further evidence was in fact hardly necessary for condemning the Company's entire economic policy in India.

The old guarantee system expresses also the culmination of a long process of struggle of the 'new investors' fighting the monopoly of the plunder of India by the shareholders of the East India Company. Hungry British investors fought for the spoils through this guarantee.

34. *Indian Railways : One Hundred Years*, 1853-1953, p. 148.

The contracts with the G. I. P. and E. I. R. provided for the payment by the E. I. Company of 5% interest on the capital of each railway for period of 99 years and the grant of land on 99 years' lease at no cost to the railways. Elaborate provision for Government control and eventual acquisition of the railways by the Government without compensation were included in the contract. The net results were best summed up in the following words : "......The interests of the railway companies and the private investors in them were far from being unprotected. The key provisions in the contract for governmental supervision of the railway companies were more than counterbalanced by other provisions inserted in the interest of the companies......Clause No. 16 virtually compelled the East India Company to pay 5 per cent with no questions asked, on all capital deposited with it by the railways."

This system, however, proved to be a great drain on the resources of the State and a burden on the tax-payer in India. The companies were unable to earn their interest. The government had to make good the deficiency, and the deficit on railway budget amounted to Rs. 1,66,50,000 by 1859. Such drain on tax-payers' money was due to the extravagance of the companies who had no incentive in construction. (R. C. Dutt wrote on the old guarantee system as follows : 'Railway operations were commenced in India under an arrangement, calculated to lead to extravagance, and not calculated to secure the comfort of passenger.') Lord Lawrence in his Minute in 1867 strongly condemned the system. Acworth Railway Committee considered that the formation of English domiciled companies was the only course at that time due to the shyness of Indian capital and special attractions to British capital was necessary. But William Thronton specifically noted before a Parliamentary Committee, that 'considering how this country (England) is always growing in wealth, and what an immense amount of capital is seeking investment which it cannot find in England, and goes to South America and other countries abroad I cannot conceive that it would persistently have neglected India.' The contention that the rate of interest actually guaranteed was needlessly high is strengthened by the later experience of the government when they were able with no difficulty, to enter into contracts on terms much less favourable to the companies in respect of the guaranteed rate of interest and other concessions.

11. The Significance of the Guarantee : The Private Enterprise at Public Risk

The final question that may be posed about the guaranteed interest railway contract : what kind of private enterprise did it propose to introduce into India ? At the outset of the struggle for guarantee the companies asked for guaranteed profit. What they actually got was much better than that, it was an absolute guarantee of interest. The guaranteed profit would have put the companies under an obligation to economise and for proper management. The guaranteed interest, on the other hand, gave an incentive to spend any amount of capital which might be raised in London.] The alternative to guarantee was government ownership which was opposed by these promoters mainly on two grounds : the record of the East India Company of spending in the field of public works was too poor, and, the value of private enterprise. 'Private enterprise was associated with laissez faire among the battle-cries of the Manchester School, which scored its greatest victory in 1846 with the repeal of Corn Laws. Private enterprise in India, it was held, could not help but wither away that greatest of all obstacles to the modern economic development of India, that aged incubus, the East India company.'[35]

The private enterprise, that risk-bearing adventurer, the innovator, the captain of industry, and the fighter for freedom was always pictured to be in classical economic theories as an honourable believer in self help. In reality, however, the guaranteed contract smacked of old mercantilist protectionism under the favour of the State. 'From the start the E. I. R. and the G. I. P. were to be shored up by a guarantee of 5 per cent interest, that is, a most impressive *governmental* subvention. Nevertheless all of the profit was to be 'private', and if that failed to materialise, the railway entrepreneurs were to be at liberty to withdraw, leaving the State to hold the unprofitable baby. In short, the enterprise was called private but the risk was made public.'[36]

This is rather highly significant that the manufacturers and members of the Parliament from Manchester, the centre of laissez faire agitation, were the leading advocates of state-intervention to under-

35. Daniel Thorner, *Investment in Empire*, p. 176.
36. D. Thorner, *op. cit*, p. 178.

write railways for India. The agitation for private enterprise was simultaneously carried on with similar zeal for governmental aid. This apparent paradox lends force to the contention of J. Bartle Brebner that laissez faire in mid-nineteenth century Britain was essentially a myth—in the sense of 'a slogan or war-cry employed by new forms of enterprise in their politico-economical war against the landed oligarchy'. The new industrial entrepreneurs, Brebner argues, keenly 'wanted new freedoms, but also new services, and extracted both from the state.' The kind of enterprise promoted under the guaranteed-interest system was at least as much public as private—and the 'private enterprise' being campaigned for was at least half mythical[37]. But, as Brebner observes, myths (or semi-myths) can be powerful and to the promoters and shareholders of the E. I. R. and G. I. P. their enterprise was real, it was 'private', and, for them, it eventually proved quite profitable.

The agitation for the guarantee was not a part of any 'dogma' or theorising; the promoters made it 'the cardinal consideration of their pecuniary strategy because it promised to make them financially invulnerable.' Their success in getting the guarantee signified politically that the interests backing railways for India had been strong enough to impose their will on the East India company and the British cabinet. The launching of railways for India truly constituted, in Leland Jenk's words, one of those 'memorable episodes in which arts of political manipulation gave aid to the craft of enterprise.'

12. Railways versus Irrigation

During the thirties and forties of the last century when Railways for India were being proposed in Manchester and London, a school of opinion prevailed in India who preferred inland navigation for India and not the railways. As early as 1828, H. T. Prinsep, then secretary, submitted an interesting note on the subject in which he

37. The Glasgow Chamber of Commerce and Manufacturers used an expression that was both apt and candid when it referred in 1847 to the proposed Indian railway set up as "copartnery" of government and business. Horace Bell, in his important work on *Railway Policy in India*, described mid-nineteenth century policy as "one of encouraging so-called "private enterprise'..." D. Thorner, *op. cit.*, p. 132.

made a comparative estimate of canals and railways. The cost being the same the railways might pay higher return, though the indirect effects of canal in improving agriculture would be much larger. This discussion did not proceed further as the railways won the debate. The controversy, however, went on throughout the nineteenth century.

Sir Arthur Cotton the architect of the magnificent Kaveri and Godavari works, was one of the few men of his time who saw the great need of canals in India both for irrigation and for transit. He stated his conviction before the parliamentary committee:

"...What India wants is water carriage; that the railways have completely failed; they cannot carry at the price required; they cannot carry the quantities; and they cost the country millions a year, and increasing, to support them. That steam-boat canals would not have cost more than one-eigth that of the railways; would carry any quantities at nominal prices and at any speed; would require no support from the Treasury; and would be combined with irrigation." Two other eminent administrators, Charles Trevelyan and Lord Lawrence also recognised the importance of irrigation works for India. "Irrigation is everything in India," said Sir Charles Trevelyan, "water is more valuable than land, because when water is applied to land it increases its productiveness at least sixfold, and generally a great deal more..."

Such was his passion for irrigation that an English member of Parliament remarked that he must have water on the brain. Inspired by a vision of grandiose network of canals linking the great river valleys, Sir Arthur Cotton went to England to obtain Parliamentary sanction for the enterprise, but he failed in his mission although his cause was strengthened by the eloquence of John Bright, the best orator of England at that time. Cotton's plans were described as 'shadowy and too speculative in character', and a member of the Secretary of State's council who denounced them 'invented a range of mountains in order to make it impossible for a canal to be carried across the lower part of central India.'[38] The Select Committee of 1878, which nullified Cotton's schemes failed to note that conditions which brought about the decline of canals in England were not present in India. In a memorandum which he prepared in 1879 on

38. Lady Hope, *General Sir Arthur Cotton*, p. 211,

the report of the Select Committee of the House of Commons on Public works in India Sir Arthur Cotton observed : "The Godavari navigation was carried on at a cost of three quarters of a million in twenty five years, and was stopped entirely when it wanted some £ 20,000 to complete the second barrier works, which would have finished the first part of the project opening 400 miles of navigation and bringing some ten millions of people within reach of the markets of the world. At this very time the then Secretary of State spent half a million on sixty miles of branch railways in the most out-of-the-way part of Central India merely to carry coals and cotton, the returns on which were last year £ 8500 or 1·7 per cent. So wtih Orissa canal to connect the whole populous delta and the Mahanadi valley with Calcutta." Cotton has been vindicated by history ; just a year after his proposals were turned down, the Famine commission of 1880 declared that among the measures that would be necessary to protect India from famine, the first place should be assigned to irrigation works.

At the closing years of the nineteenth century and the early years of the twentieth, the irrigation and the inland navigation policies of the Government of India was sharply criticized by leaders such as Gokhale and R. C. Dutt. Their point was that irrigation helped the people more than the railways, and that the Government ought to have spent much more on dams and canals. The British point of view on the controversy is summed up by Dr. Vera Anstey, "There is a natural *limit* beyond which without far reaching changes in knowledge and skill irrigation cannot profitably be carried." This view presumes that such a *limit* had already been reached for the country as a whole at this time. The recurring famines point out that such a limit was far off. A small increase in the expenditure on irrigation would, in some places, have brought much additional benefit to the people.

R. C. Dutt who took a leading part in it showed how, by 1902, only about 38 crores had been spent by the government on irrigation as against 370 crores on railways. This disparity appeared more objectionable, as Mr. Dutt has shown, on account of the railways being a losing concern and a burden on the tax payers on the one hand ; and in view of the intensity of the famines at the close of the last century, on the other. Dutt argued that under the influence of capitalists, speculators and manufacturers in England, pressure was brought to bear upon the government unduly to hasten railway construction with a guarantee system. Furthermore, Dutt showed that the undue hastening of railway construction accelerated the decline of indigenous industries and led to the congestion in agriculture, thus practically defeating the object of the protective railways, namely to reduce the severity of famines. The Government of India, like a true ***bania***, calculated its relative earnings from investment in railways and irrigation. But they forgot that strictly commercial considerations of profit and loss are out of place here and the question should have been looked at from the broader point of view. Prof. Gadgil has put it : 'In estimating the financial soundness of an irrigation scheme, account should be taken not only of the revenue directly attributable to the work in question, but also of the additional revenue indirectly accruing to Government, as a result of the increase in the wealth of the population.'

The economic effects of extravagance on railways and neglect of irrigation were severe in India. Dutt writes : 'Railways helped the distribution of food supply in times of famine, but did not add to that supply. It was irrigation works which added to production and secured crops in years of drought. Hindu and Mohamedan rulers had therefore paid the greatest attention to irrigation works. But the British nation, more familiar with railways than with canals in their own country, did not adequately realise the supreme importance of irrigation works in India : and did not extend them with the eagerness with which railway lines were multiplied.'

In financial terms, railways have brought good return in twentieth century, no doubt. This makes it difficult to appreciate the nineteenth century criticism of the railways. In England, the agrarian revolution took place earlier than the industrial and the transport revolution. Here in India, railways preceded both. This shift from the normal pattern was due to India's colonial status, where national economic development was not the dominant plank of Government's policy and also the specific historical situation in which British capital migration was the dominating trend.

That the deviation from the 'normal' took place can be shown by innumerable sources. In a letter to the Select Committee of

1878 Colonel Fischer pointed out that, whereas the districts of the Madras Presidency, through which railways ran, lost, during the current famine, over 85 per cent of their revenues and two-thirds of the population, the Godavari district, thanks to its canals, paid double the revenues it had ever yielded in the most prosperous years and carried on a trade which was fortyfold in value to what it had been before the district was irrigated. Another observer reported, 'Taking this century and considering the period from 1800 to 1860 as a pre-railway era (though railways were begun in 1848) there were 13 famines in those years and a probable loss of life of 4,000,000 or 5,000,000...In the Railway era from 1861 to 1878 the loss was 11,871,420. It might have been shown that, in districts which could be named, in which there are railways, a fourth of the population died from famine and famine-occassioned disease in two years, and the cultivated area decreased dy one quarter.'[39]

An interesting historical point emerges out of this discussion. Had there been no railways and only canals with navigation and irrigation facilities, what course could the Indian economic development take ? But this must be considered an idle speculation, in as much as, the course of economic growth in imperial England, by its own necessity, would have determined the course of events in the colonial economy. During the middle of the last century, England needed raw materials and markets and she had large investible funds. Had there been no other colonies or sources of raw materials for British industries, the Indian fields would have been better irrigated for increasing the food crops and commercial crops needed in England. The American and Egyptian cotton, the Canadian wheat—all were available for England, and the historical need for irrigating Indian soil was thus absent. The problem was of rapidly vanishing investment opportunities at home for the large volume of accumulated capital. The funds must be invested to 'prepare' the colony for the imperial country. The opposition of English manufacturers checked the establishment of manufacturing units here in India. Theoretically speaking, the exodus of capital from England was also an ecnnomic necessity, as it helped to maintain a low organic

39. Horace Bell, quoted in "Railways in India", an article in the *Modern Review*, June, 1909.

composition of capital in England and consequently a higher rate of profit. The exodus of capital became, therefore a necessity par excellence to halt the tendency of a falling rate of profit under developed capitalism.

13. Famines in India

Famines have been known to India for time immemorial. During the Hindu period, famines must have occured, though records are not available to give us any details about them.[40] The testimony of foreign travellers also show that these were exceptional occurrences.[41]

During the Muslim period several famines visited the country, four of them being very severe. The first was in 1343 during the reign of Mohammed Tughlak. During the reign of Akbar, there was a terrific famine which ranged all over the country for three or four years. Under Shah Jehan, one of the greatest famines ever recorded in history visited India. Another famine followed during the time of Aurangzib.

During the rule of the East India Company, (the 1901 Famine Commission Report points out that) 'India suffered, in one part or another, from twelve famines and four severe scarcities.' The most important of these famines can be easily charted. The undisguised plunder by the company and its officials, the Diwani grant to the Company in 1765, the uncertain land tenure systems and auctioneering of land settlements, the forcible collection of land-revenue at increasing rate, the exportation of goods and specie in large quantities from Bengal, the Bengal wealth spent for the expansion of British Empire in North and South, all combined to generate this famine of 1770. James Mill wrote of this famine, 'by which

40. When Famines did occur adequate relief measures were undertaken by the State. Kautilya, in *Arthasastra* mentions the following among other remedial and relief measures : (i) remission of taxes., (ii) emigration, (iii) the granting of money and grain from State funds, (iv) construction of artifical lakes, tanks, wells, etc. and (v) the import of grain from other places BK 4 ; chapter 3.

41. Megasthenes says : "Famine has never visited India and there has never been a general scarcity in the supply of nourishing food" (MCCrindle, *Ancient India as described by Megasthenes & Arrian*).

more than a third of the inhabitants of Bengal were computed to have been destroyed'. The price of common price rose from 40 seers a rupee to $3\frac{1}{4}$ seers.[42]

In Madras, 1781 and 1782 were the years of severe scarcity, and in 1784 a severe famine devasted the whole of India. A drought in Madras and Hyderabad in 1791 was followed by the 'skull famine' of 1792. It was on this occasion that relief works were first opened by the Madras Government for the support of the famine-stricken. In 1802-03, a failure of rains led to famine in Bombay and scarcity in Madras, which were followed in the next year by a bigger famine in the North-Western provinces and Oudh. In 1806-07, there was a severe scarcity in some districts of Madras. The next great famine was that of 1833, known as the 'Guntur Famine' which affected the Northern districts of Madras, and parts of the Southern Mahratta country and of Mysore and Hyderabad. Out of 500,000 people in Guntur 200,000 died. In 1854, a severe famine visited the limited area in Northern Madras.

Since the transfer of administration of India from the Company to Crown there have been ten important famines, and also a large number of severe scarcities. It started with 1860-61, the main area affected being that between Delhi and Agra. A drought in the previous year was followed in 1866 by a severe famine, known as 'Orissa Famine.' It was estimated that about a million persons died in Orissa alone. A year had hardly elapsed before Northern and Central India was visited by one of the most widespread and grievous famines on record. The next great famine was in Behar in 1874. A far more

42. W. W. Hunter in his *Annals of Rural Bengal* (vol. I, pp 26-27) describes the famine as follows : "All through the stifling summer of 1770 the people went on dying. The husbandmen sold their cattle ; they sold their implements of agriculture, they devoured their seed grains ; they sold their sons and daughters till at length no buyer of children could be found, they ate the leaves of trees and the grass of the field ; and in June 1770 the Resident of the Durbar affirmed that the living were feeding on the dead...At Moorshedabad...the streets were blocked up with promiscuous heaps of the dying and the dead...Even the dogs aud jackals, the public scavengers of the East, became unable so accomplish their revolting work and the multitude of mangled and festering corpses at length threatened the existence of citizens."

terrible famine visited Madras only three years later.[43] In respect of the area and the population affected, as well as the duration and the intensity of the distress, this great famine of 1877 was the most grievous calamity experienced since the beginning of the nineteenth century.[44]

Between 1878 and 1896, there were two famines and five scarcities, all of them of a more or less local character. The great famine of 1896-97 affected almost every province, though in varying degrees of intensity, the population affected being estimated at 34 millions. Following closely upon this came another calamity of the severest type, namely, the famine of 1899-1900. A large number of famines and scarcities of a local character occurred between 1901 and 1941, those of 1906-07 and 1907-08 being the most important. The last important famine under the British rule was, of course, the Bengal famine of 1943. War-generated inflation, hoarding and speculation increased, profiteers took the opportunity. The famine was thus a man-made one, the like of which has rarely been witnessed anywhere in the world.

Before the introduction of railways in the mid-nineteenth century, famines were mostly a lack of food as well as a lack of employment. In Rajputana famine, too, people had to go without food even though they had the means to buy it. It was mainly regional maldistribution due to lack of communications. In the words of Baird Smith, who dealt with the famine of 1860-61 in North-West Provinces, the practical question was then 'not so much how to get good, as how to get

43. Never within the memory of living men, never within the present century, has there been destruction of life so terrible and so great as in the Madras famine of 1877. And when at last that great calamity had subsided and a census was taken, it was found that over five million of people had been swept away. A population of Ireland had disappeared under the desolating breath of the famine of 1877." R. C. Dutt, *Paper on Famines in India,* Fortnightly Review, 1897, published in *Speeches and Papers on Indian Questions*.

44. The Government refused to recognise their responsibility for saving human lives, and declared with cynical calmness that "the task of saving life, irrespective of cost, is one which is beyond their power to undertake, and that in the interests of the distressed population itself, as well as of the taxpayers generally, the Government of India was bound to adopt precaution against indolence or imposition." *Report of the Famine Commission*, 1901.

the starving people to the food or the food to them in the cheapest and the most expeditious way possible.' The decade 1860-70 saw a change in the nature of Indian famines. Henceforth, the Indian famine meant no longer only a serious lack of food, but scarcity prices and a universal lack of employment. The miseries of the people were also aggravated by the fact that a very usual feature of the famines in India was the complete lack of fodder.

The first and the most apparent effect of the famines was on the rate of increase in population. Famines reduced this rate; the lack of sufficient food checked the birthrate during the years of scarcity and people were easy victims of the epidemics of fever, cholera, etc. which were the invariable companions of famines in India. (ii) Yet another effect of famines, which was more disastrous to the prosperity of India, was the setback to agricultural improvement. Inevitability of famines led to non-improvement by cultivator of his land and cattle. Cultivator's capital consisted of his pair of bullocks and famines generally eroded his capital first, not the Zemindar's land. (iii) The study of agriculture in the famine-stricken areas has shown that two of the most immediate effects of these famines in the domain of agriculture were: (a) the decline in the double-cropped area, and (b) the displacement of the industrial crops and the export-crops by food-grains. (iv) The famines also severelly affected village industries as the markets for the products of the artisans consisted of agriculturists. Famines led to trade-depression all around but the most hard hit were the hand-spinning and hand-weaving. As the Famine Commission (1880) showed that of all classes the weaver came the earliest for relief. The Famine Commission (1896) describes the effects of famines: 'In the absence of extraneous aid, many weavers are obliged under the stress of the famine to fall off from their own trade; and of those a considerable number never return to it, but sink into and swell the ranks of ordinary labourers.'

But the most important effects of famines were those which have affected the structural patterns of our economy, creating the basis for far-reaching changes in future. During famine time the rural population went out of work; indeed, an Indian famine might be described as a time of national unemployment. Having no work in the field, the village population went to the towns for employment. A portion

settled there and thus, indirectly, the urbanisation was encouraged. The absentee landlordism was also due to famines in the villages. The growth of towns and the town-population both were largely affected by the successive waves of famines in India. The creation of a class of rural proletariat, i.e. the landless labouring class, was also the result of famines, and it simultaneously revealed the dispossession of the old peasant proprietors. The British had given rights of free transfer and absolute ownership—especially in the ryotwari tracts—to the cultivators. The land became a commodity, mortgageable and saleable. The money-lenders could now cover their risk of lending more easily. Again the judicial system which had been adopted gave the money-lender a great power over his debtor. Largescale transfers occurred and concentration of ownership of land in the hands of the non-cultivator class increased.

The recurrence of famines in India was discussed by the economists and historians of the late nineteenth and early twentieth century. The economists attributed their severity to the different policies adopted by the Government. They referred to the huge economic drain under the British rule which led to the arrest and decay of Indian industrial growth. It broke up the self-sufficient village economic set up and led to imbalance in the occupation structure through increasing ruralisation and disguised unemployment. Secondly, this rural population was drained off their savings through increasing land revenue and strict collection measures imposed from above. The margin of profit left to the cultivators could never increase, as at each successive revenue settlement the land tax was raised. R. C. Dutt pointed out that the absence of permanent settlement thus led to recurring famines in the temporary settlement area, 'the absence of permanent settlement operates as discouragement to improvement, the fixity of tenure more than any other measure will enable them and their tenants to resist famine.' Thirdly, the neglect of irrigation led to famines. R. C. Dutt wrote, 'Railways helped the distribution of food supply in times of famine, but did not add to that supply. It was irrigation works which added to production and secured crops in years of drought.' Up to the end of the nineteenth century, he pointed out that, while two hundred million pounds have been spent on railways, only twenty million pounds have been spent on irrigation works. Fourthly, the nineteenth century writers also pointed out to the increasing government expenditure in wars of imperial expansion which were completely unproductive form the standpoint of the Indian people. These wars and other 'Home Charges' led to the corresponding growth of taxation impoverishing the people.[45] And lastly, as the successive Famine Commissions have pointed out, the absence of industries and complete reliance on unproductive agriculture were the main cause of famines. The absence of secondary and tertiary sectors led to an imbalance in the economy making it highly susceptible to famines.

Several other writers pointed out some other surface factors as the causes of famines.[46] About the stock argument that increase in population is the root cause of famines (put forward by Mrs. Vera Anstey), no better analysis than R. C. Dutt can be put forward : ...'much has been said of the increase of population in India. But India is not the only country in which population increases. The population of the British islands was twenty-five millions when Queen ascended the throne, it is now forty millions, not counting ten millions more who have found homes beyond the seas. The population of India, excluding annexations, has not increased at

45. "Forty years ago, when India passed under the direct rule of the Crown, a pledge was given that the cost of wars outside India would not be charged to India, within the period of forty years the limits of England's Asiatic Empire (miscalled India) have been extended to the frontiers of China in the east and have been pushed forward into Afghanistan, Beluchistan, and Tartary in the west ; and the cost of these outside extensions has been charged to India. And within this period the expenses of India have so enormously increased that every responsible Indian statesman has been filled with anxiety, and every method of taxation, bearing more and more severely on the people, has been tried, with poor and ghastly results. We seem to be coming back in despair to taxes which every civilised country has discarded. A scheme to reimpose tolls on roads and to levy tax on every marriage is now under the consideration of the Bengal Government." R. C. Dutt, Famines in India, *Speeches & Papers on Indian Questions*, p. 10.

46. "R. C. Dutt suggested that the heaviness of land revenue assessment was one of the most important causes of the famines which visited the country during the last century, especially towards its close. As to the connexion between land revenue and famines...we hold that land revenue can only be regarded as a minor cause of famines, as it is for rural indebtedness." Jathar & Beri, *Indian Economics*, Vol. I, (1949 Edn.) p. 390.

half this rate. On the other hand, trade and commerce have increased in India, railways and canals have been opened, wastes have been brought under cultivation, and the resources of the country have been developed during these sixty years. The increase of population has not been greater than the increase in cultivation. The increase in population, affords no explanation, therefore, for the recurring famines of India.'

Let us have done with such generalisations, and go to the root of the matter. Let us, or those of us who can do so, mark the condition of Indian cultivator in his home, and find out what cause impoverish him and make him unable to save. The reason is not a want of frugality, or of sobriety, or of prudence. The Indian peasant is the most sober, the most frugal, and the most prudent peasant on the face of the earth. The reason is, that at each settlement the rent payable by him is increased, and his capacity to save is decreased. The reason is that, with no savings of his own, he goes to the money lender under every pressure and our civil courts, with their hard-and-fast rules, only cast him deeper into the meshes of money-lender. The reason is that in every petty dispute, civil and criminal, he is compelled to have recourse to distant and expensive law-courts. The reason is that he has to pay many taxes in order to maintain England's Empire in Asia.'

14. Potentiality of Industrial Revolution in the British India

The De-industrialisation debate has come to the forefront due to another debate, closely connected with it. The nationalists point out that during the late eighteenth century India was on threshold of an 'industrial revolution'. The British industrial revolution was built with capital accumulated from Indian plunder, and colonisation of India put a brake on the wheels of history. The Indian economy rolled backwards in history, could not enter into the phase of industrial revolution which was knocking at the door. The implied thesis is, had there been no colonisation India would have experienced the course of industrial growth before England could even conceive. De-industrialisation appears to be more tragic as because it destroyed not only what India had, but also what she could had been. By destroying the then present, de-industrialisation destroyed the future also, the future which was very rapidly becoming a reality at that time.

Though most historians will agree that there was de-industrialisation due to the British, not all will agree that there was a high potential of industrial growth during the period. Irfan Habib[47], V. I. Pavlov[48], A. I. Chicherov[49] have rejected the idea of the potential for capitalist development in pre-British Indian society. On the other hand, Rajani Palme Dutt[50], M. N. Roy[51], Paul Baran[52] and A. R. Desai[53], have held the opposite view. According to the latter view the Mughal Empire had started disintegrating very rapidly in the eighteenth century, and on the ruins of the Mughal Empire the British colonialists succeeded in laying the foundation of an empire of a new type.[54] This distorted the potential developments towards 'Capitalism', because Indian society was by that time quite ready for bursting through the fetters of feudal agrarian system.

The historians who subscribe to the view that industrial revolution imminent during the pre-British rule point out to three factors, (*a*) extent of commodity production ; (*b*) prevalence of wage labour ; and (*c*) increased monetisation of the economy as sure signs of capitalist embryo within the womb of feudalism. These theorists of the transition from feudalism to capitalism reduce it to commodity production.

Recent historians on the other hand point out that the economic categories no doubt provide the basis, but it is the nature of class struggle arising out of particular class alignment that gives decisive twist to the destiny of a society. Therefore, the main issue is the level of maturity of class relations in India on the eve of British colonial

47. Irafan Habib, 'Potentialities of Capitalist Development in the Economy of Mughal India. *Enquiry*, New Series, Vol. III, No. 3, 1971.

48. V. I. Pavlov, *The Indian Capitalist Class*, pp 41-42. and *Historical Premises for India's Development.*

49. A. I. Chicherov, *Economic Development in the 16-18th Century* p. 236.

50. Rajani Palme Dutt, *India Today*, pp. 95-6.

51. M. N. Roy, *India in Transition* p. 90.

52. Paul Baran, *Political Economy of Growth.* pp. 179—180.

53. A. R. Desai, *Social Background of Indian Nationalism*, p. 16.

54. Satish Chandra, *Parties and Politics at the Mughal Court*, 1707—1740, P xvii

enslavement which could have brought about changes in the feudal production relations for ushering industrial revolution.[55]

Recent writings point out severe backward features of Indian economy for which such maturity did not develop. (*i*) First, the structural pattern of pre-British India contained, alongside the dominant feudal structure considerable residue of clan and tribal relations. In a number of regions the structure was patterned by tribes and clans. (*ii*) Secondly, eighteenth century India did not have a class or a large social group 'equipped' with an ideology that combined the vital aspirations of the nascent bourgeois class. Neither of the two great religions (Hinduism and Muslim) passed through a reformation movement as experienced by Christianity.[56]

(*iii*) Thirdly, the agricultural surplus was mostly appropriated by the Mughal ruling class and their relatives.[57]

(*iv*) The village community system was described in the works of Marx as "the self-maintaining unity of agriculture and crafts manufacture.[58] Such unity of handicrafts and agriculture within each community made it possible to contain within it all the conditions of its reproduction.

55. Saibal Gupta, Potentialities of Industrial Revolution of British India. E.P.W March 1, 1980

56. R. Ulyanovsky and V. Pavlov, *Asian Dilemma* pp. 25-26.

57. "The redistribution of rent under the control of the Zamindar landed estates tended to prolong the historical being of the socially conservative and economically parasitic elements of India's society, of all the retainers, the countless 'relatives', priests, big and small tax collectors, watchmen and guards. In the areas under the Permanent Settlement there was no disbandment of the feudal military retinue, an important condition for primitive accumulation in the social and purely financial sense. The countless idlers continued to consume the surplus-product produced by the cultivators without feeling any (let alone imperative) need for a leap from one (feudal) to another (capitalist) formation." V. I. Pavlov, *Historical Premises for India's Transtiion to Capitalism*, Pp. 362-3.

58. "Each of the places in the community's division of labour was systematically reproduced : the individual could not emancipate himself from the community or from his predestined place in the division of labour. The absence of reproduction and the rigid division of the labour within the communities, systematically excluded the possibilities of change or development—except for purely quantitative changes within existing social relations, the growth of communities or foundation of new

The consumer demand in the villages was satisfied by craftsmen who did not break their ties with the community (potter and cobbler, tailor and jeweller).[59] Weavers were the only large group of artisans who stood outside the village community (produced for outside markets). Since they themselves made a part of their implements, the volume of intersectoral division of labour with industrial production itself was reduced.[60]

(v) Fifthly, part of the value created in the peasant household in the form of traditional remuneration of the community craftsman and payment of the artisan by the feudal lords was redistributed so that the total value of the crafts article would merely enable the artisan and his family to maintain themselves and ensure at least simple reproduction. Such a situation stemmed from the relatively low productivity of craft labour. It rendered extended reproduction in industry exceedingly difficult and made impossible any widespread beginning of capitalism, for which as Marx stated, a steep rise in the productivity of industrial labour as compared with that of agricultural labour was needed.[61]

communities. The unity of handicrafts with agriculture and the social separation within the community from one another gave Asiatic society a cellular structure—each of the cells unaffected by the presence or absence of other cells and remaining unaffected by the dissolution of any state which unites them at political levels."—Saibal Gupta, op. cit

59. Marx, for example assumed that the village communities "were based on domestic industry, in that peculiar combination of hand weaving, hand spinning and hand-tilling agriculture which gave them self-supporting power." Marx and Engles, *On Britain*, ph 396-7.

60. R. Ulyanavsky and Pavlov, op. cit, P 32

61. K. Marx, '*Theories of Surplus Value*', Part II, Ph 109-10.

The question arises : what products ultimately compensated the labour of the artisans ? Marx long ago gave us a model of exchange (like the Physiocrats) of the agricultural product for the articles produced by these crafts. Even in the mid-19th century, as he pointed out, archaic forms of relations between the feudals and the artisans survived in the backward provinces of British India. "The non-agricultural labourers are employed by the magnates to whom a portion of agricultural surplus in product is rendered in the shape of tribute or rent. One portion of this product consumed by the magnates in kind, another is converted for their use, by the labourers, into articles of luxury and such like things ; while the rest forms the wages of the labourers, who own their implements of labour." Karl Marx, *Capital*, Vol I, P. 598.

Sixthly, while the feudal strata acted as the chief clients and consumers of the output of the crafts, the merchant capital performed the function of their agent. To this should be added the important circumstance that in India, State feudal ownership of the land also extended to urban lands.

Seventhly, the merchant capital was not directly connected with production, it stood separate and distant. There was prosperous foreign trade, strong mercantile guilds, developed money economy, and well-established 'cash nexus'. "Yet," as Max Weber rightly observes, "modern capitalism did not develop indigenously before English rule."[62]

The guild power in India remained purely money power, unsupported by any authority of political or military or social power. It collapsed as soon as the king found it convenient to call in the aid of priestly and feudal elements.[63]

Eighthly, in western Europe, and especially in England, the 'haute bourgeoisie' who formed the uppermost rank in the class of the bourgeoisie eventually became an obstacle to the further development of capitalism. In India too the haute bourgeoisie of pre-British period, who had accumulated enough capital, proved an obstacle to the development of native capitalism. Earlier they had been collaborating with feudal interests and later they started collaborating with English, Dutch, and French companies. They joined hands with Clive, the representative of English monopoly mercantile company which was itself anti-Industrial Revolution in its own mother country. Since then they sided with British imperialism in consolidating the gains of the empire for the benefit of industrial capital in England.

Ninthly, though considerable quantity of bullion flowed into India during Mughal period, it was "swallowed up," and was not available for productive enterprise and organisational expansion. Bernier attributes the lack of productive investment to the feudal and despotic political system of the country. The general practice among all merchants was to keep money concealed, lest it should

62. Max Weber, *The Religions of India*, P. 4.

63. B. R. Misra, *The Indian Middle class*, P. 8.

excite the capacity of the local governor or officer possessing "inclination to deprive any man of the fruits of his industry." Feudal despotism in fact discouraged the circulation of precious metals and withdrew wealth from productive undertaking.[64]

Lastly, while the Indian technology or skill was definitely superior, the direction or the use to which it was put was thoroughly unproductive. It was not so in England. Instead of building pyramids and cathedrals the commanders of social surplus in that country chose to invest in ships, warehouses, raw materials, mechanical devices, finished goods and such other 'productive' directions. The social surplus was thus converted into enlarged productive capacity. This brought about Industrial Revolution. Capital was mobile and productive in the west, here in India it was stagnant as also non-productive. The social surplus here was squandered in building mosques, mausoleums, temples, palaces etc— the typical investment pattern of Mughal India.

In India, it was even bad feudalism. A 'good' feudalism could have invested in expanding irrigation works, but the State-landlordism and the 'Mansabdari' type of rent collecting feudals did not put their surplus any where near productive investment even in agriculture which fed them, not to speak of industry.

64. B. B. Misra, *op. cit.* P 25—6.

APPENDIX 1.

(From *Dobb* : **Studies in the development of Capitalism**)

"But in the '40's and '50's of the century there arrived on the scene a novel activity which, in its absorption of capital and of capital goods, surpassed in importance any previous type of investment expenditure. Even when we label these decades of the mid-nineteenth century "the railway age", we often fail to appreciate to the full the unique strategic importance which railway-building occupied in the economic development of this period. Railways have the inestimable advantage for capitalism of being enormously capital-absorbing; in which respect they are only surpassed by the armaments of modern warfare and scarcely equalled by modern urban building. This is not to say that they were the only source of demand for iron at this period......But the 2000 miles of railway line opened in the United Kingdom in 1847-8 must have absorbed nearly half a million tons of iron for rails and chairs alone, or one quarter of the iron output of that date; and according to Tooke, railway expenditure gave employment to 300,000 "on and off the lines" in the peak year. By 1860 some 10,000 miles of railway had been laid in Great Britain and Northern Ireland: a figure which was to increase by half again between 1860 and 1870.

Railway building at home was by no means the whole of the story of the importance of railways for investment and for heavy industry in Britain. Although we generally have in mind the '80's and the decade prior to 1914 when we speak of capital export, it must not be forgotten that foreign investment played a far from negligible role in the middle of the nineteenth century. Foreign investment at this time chiefly took the form of lending to governments, and not of direct investment as was later to be the case. But this foreign investment was ultimately directed to railway construction in a very large measure, and served the double function of providing a profitable outlet for capital and also stimulating the export of British capital goods. Close on the heels of the British railway boom of the '40's came continental railway building; and following this there yawned the even larger maw of American railroad construction. Between 1850 and 1875 there was an average annual export of capital from this country of £15 million, in addition to the reinvestment of the net earnings on past investments, which by the 1870's had attained a level of £50 million. The '50's witnessed a considerable rise in the exports of capital goods ; iron and steel exports doubling in value in the first three years of this decade and in the early '70's reaching a level five times that of 1850. Between 1856 and 1865 £35 million of railway iron was shipped abroad, and between 1865 and 1875 £83 million : and already by 1857 products of iron, copper and tin amounted to one-fifth of British exports. Between 1857 and 1865 there was some shift of British capital towards Indian railways and public works, and the iron for Indian railways was almost exclusively supplied from British orders. Railway building in Russia and in America continued, however, to create a strong demand for British railway iron in the '60's : and although German railway building was more or less at an end by 1875, Russian railway building only reached its peak in the '90's, when some 16,000 miles of road were constructed, while American building proceeded spasmodically into the last quarter of the century, and in 1887, in a revived burst of activity, 13,000 miles of track were built in the United States, indeed, over the whole period of 1865 to 1895, American railway mileage multiplied four or five times ; although as the century drew to a close an increasing proportion of American railway equipment was supplied from American and not from British sources. Taking U. S. A., Argentine, India, Canada and Australasia together the lengh of railway track in these countries rose from about 62,000 miles in 1870 to 262,000 miles in 1900 ; and even in the seven years prior to 1914 British capitalists provided £600 million for railway construction in overseas countries—countries, incidentally, which were mainly concerned in the production of raw materials and food stuffs."

APPENDIX 2.

Impact of Railways on Indian Economy
(From *Marx* : Notes on India)

"The ruling classes of Great Britain have had, till now but an accidental, transitory and exceptional interest in the progress of India. The aristocracy wanted to conquer it, the moneyocracy to plunder it and the millocracy to undersell it. But now the tables are turned.

The millocracy have discovered that the transformation of India into a reproductive country has become of vital importance to them, and that, to that end, it is necessary above all to gift her with means of irrigation and of internal communication. They intend now drawing a net of railroads over India. And they will do it. The results must be inappreciable.

It is notorious that the productive powers of India are paralysed by the utter want of means for conveyance and exchanging its various produce......The introduction of railroads may be easily made to subserve agricultural purposes......Railways will afford the means of diminishing the amount and the cost of the military establishments ..

We know that the municipal organisation and the economical basis of the village communities has been broken up, but their worst feature, the dissolution of society into stereotyped and disconnected atoms, has survived their vitality. The village isolation produced the absence of roads in India and the absence of roads perpetuated the village isolation. On this plan a community existed with a given scale of low conveniences, almost without intercourse with other villages, without the desire and efforts indispensable to social advance. The British having broken up this self-sufficient inertia of the villages will provide the new want of communication and intercourse......

I know that the English millocracy intend to endow India with railways with the exclusive view of extracting at diminished expence the cotton and other rawmaterials for their manufactures. But when you have once introduced machinery into locomotion of a country, which possesses iron and coal, you are unable to withhold it from its fabrication...... The railway system will therefore become, in India, truly the forerunner of modern industry. This is the more certain as the Hindus are allowed by British authorities themselves to possess particular aptitude for accomodating themselves to entirely new labour, and acquiring the requisite knowledge of machinery...Modern industry resulting from the railway system will dissolve the hereditary divisions of labour, upon which rest the Indian castes, those decisive impediments to Indian progress and Indian power."

FIVE

Empire, Enterprise and Investment

"Colonies remain a vast system of outdoor relief for the upper classes"—James Mill.

"Expansion is everything...These stars...these vast world which we can never reach. I would annex the planets if I could."—Cecil Rhodes.

"The alliance between capital and mob is to be found at the genesis of every consistently imperialist policy."—Hannah Arndt.

1. The Foreign Enterprise and Economic Development : a general study.[1]

Foreign enterprise in a colony can take two forms : it may produce mainly for the colonial market, or it may produce commodities for export. If the foreign enterprise produces for the colonial market itself, then obviously the rate of capital accumulation, investment and growth is slackened. Such enterprise may come to the colony from the imperial country due to many reasons : (a) excess of investible capital at home, (b) existence of a particular category of raw material (like a definite type of land) which cannot be transported, and (c) availability of very cheap labour leading to large economic surplus, however, does not help to industrialise the colony. Though a portion of the economic surplus is spent locally, as on the maintenance of highly paid executives, the most of it is transferred abroad. The personal savings of these executives also go to the imperial country without adding to the national savings of the colony. These are sectors where production is carried on by superior technique, and large capital accumulation takes place. If that could be invested in the land of origin then industrialisation could have started. Investment is called forth by investment, one investment act gives rise to another, and the second investment act provides rationale for the third. In fact, it is this clustering of investments, their synchronisation, that sets off the chain reaction which is synonymous with the evolution of

1. Paul Baran, *Political Economy of Growth, ch 6, III & IV.*

industrial capitalism. Without the widening impact of investment, the originally narrow market remained of necessity narrow. This was discovered with much sorrow by the British capitalists who had anticipated no limits to their ability to export manufactured goods to India. 'Under such circumstances there could be no spreading of small industrial shops that marked elsewhere the transition from the merchant phase of capitalism to its industrial phase.'

When, in course of time, the possibility of undertaking some industrial production arose, such enterprise was founded by the foreigners themselves and not by the colonial capitalists (who sometimes collaborated with the foreign capitalists). In India, for example, this was institutionalised in the managing agency system, through which the foreigner brought to bear their experience and technical know-how upon the organisation of the new venture. They built up single large-scale modern plant or chain of small-scale not-so-modern plants (under one managing agency house, of course), which became sufficient to meet the existing demand. The total amount of capital invested was sometimes large, but a very small portion was spent on the colony and the larger portion was spent in the mother country for machineries and other perquisites. Such investment had consequently little stimulating effect, but it paralysed the indigenous attempts for industrialisation. 'The narrow market became monopolistically controlled, and the monopolistic control became an additional factor preventing the widening of the market......Completing swiftly the entire journey from a progressive to a regressive role in the economic system, they became at an early stage barriers to economic development, rather similar in their effect to the semi-feudal landownership prevailing in underdeveloped countries. Not only not promoting further division of labour and growth of productivity, they actually caused a movement in the opposite direction. Monopolistic industry on one hand extends the merchant phase of capitalism by obstructing the transition of capital and men from the sphere of circulation to the sphere of industrial production. On the other hand, providing neither a market for agricultural produce nor outlets for agricultural surplus labour and not supplying agriculture with cheap manufactured consumer goods and implements, it forces agriculture back towards self-sufficiency, prepetuates the idleness of the structurally unemployed, and fosters further mushrooming of petty traders, cottage industries and the like'.[2]

And secondly, more complex was the role played by foreign concerns in an underdeveloped country producing for exports (like indigo, tea, coffee, rubber, jute, etc in India). To evaluate their impact on economic development of underdeveloped countries like India, let us consider separately the different aspects of their activities: (1) the significance of the *investment* by the foreign entrepreneurs; (2) the *direct* effect of its *current* operations; and (3) its more *general* influence on the underdeveloped country. It must be remembered that the large part of foreign investment in a country consists of export-oriented producing units. The League of Nations Report 'Industrialisation and Foreign Trade', points out that, 'Typical manufacturing industries working chiefly for domestic market do not appear to attract foreign capital.'

Beginning with the first we can note that such foreign investment could not make a significant contribution to the colonial countries' economic development for various reasons.

(a) Production of exportables started with actually little amount of capital, for the control over land for plantations or for mining was secured either by political force (e.g. indigo) or forcible expropriation

2. Paul Baran, *The Political Economy of Growth*, P. 176.

"Thus in most underdeveloped countries capitalism had a peculiarly twisted career. Having lived through all the pains and frustations of childhood, it never experienced the vigour and exhuberance of youth, and began displaying at an early age all the grievous features of senility and decadence. To the dead weight of stagnation characteristic of pre-industrial society was added the entire restrictive impact of monopoly capitalism. The economic surplus appropriated in lavish amounts by monopolistic concerns in backward countries is not employed for productive purposes. It is neither plowed back into their own enterprises nor does it serve to develop others. To the extent that it is not taken abroad by their foreign stockholders, it is used in a manner very much resembling that of the landed aristocracy. It supports luxurious living by its recipients, is spent on construction of urban and rural residences, on servants, excess consumption, and the like. The remainder is invested in the acquisition of rent-bearing land, in financing mercantile activities of all kinds, in usury and speculation. Last but not least, significant sums are removed abroad where they are held as hedges against the depreciation of domestic currency or as nest eggs assuring their owners of suitable retreats in the case of social and poitical upheavals at home." (P. 177).

of the native population (e.g. Assam tea estates), or at a nominal price from the rulers, feudal lords or tribal chiefs (e.g. Gondoana coal region). After such negligible primary investment, further investment came from profits.[3]

(b) A very large part of such investment consisted of 'investment in kind' i e. machineries ordered and brought from the mother country.

(c) The replacement demands expanded the mother country's 'internal market' rather than widening the market in the underdeveloped countries.

Now to the second point, i.e. the effects of its *current* operations. The resources produced are exported abroad, and are not used as inputs in the colonial country's production-structure. The total wage bill also was kept very small due to either low rate of wages or high degree of mechanisation requiring smaller amount of labour[4]. Even this wage bill could not enlarge the market encouraging the

3. Sir Arthur Salter observes in *Foreign Investment* (Princeton, P. 11.) that "it was only in an earlier period, which terminated soon after 1870, that the resources for foreign investment came from an excess of current exports over imports. In the whole period from 1370-1913, when total foreign investment from about £1000 million to nearly £4000 million the total new investments made were only about 4% of the income from past investment during the same period. The somewhat similar growth of Dutch, French and (later on) American holding abroad followed substantially the same pattern: it was largely attributable to the plowing back of profits earned by operations in foreign countries." *Ibid.* P. 179.

4. 'In Venezuela, petroleum accounts for over 90 percent of all exports (and for a large part of total national product), but the oil industry employs only some 2 per cent of Venezuela's labour force, and its local currency expenditures (exclusive government payments) do not exceed 20 percent of the value of exports (shown by Nurkse); some seven-eighths of these expenditures have gone to meet the wages and salaries bill, with the remainder being used for purchases within the country. In Chile "before the first world war about 8 per cent of the active population was engaged in the mines or associated processing plants, but this proportion has fallen steadily". (*U. N. Report*). According to an unpublished study of the International Monetary Fund, the proportion of the value of the industry's total product locally spent is also approximately 20 per cent; the parts of labour and material costs respectively cannot be determined. In Bolivia about 5 per cent of the workers are employed in the tin mines; it has been estimated that during the last half of the 1940's about 25 per cent of total receipts were required to meet wage payments,

development of industrial enterprise as it accrued largely to low-paid workers who spent on consumption i.e. on elementary wage-goods that are produced in agriculture by local craftsmen. A portion of sale-proceeds went to the mother country or abroad in such a manner that the mother country's manufactures are not affected. Reinvested another portion is paid as taxes and royalties, whose amount is so negligible (except in the twentieth century oil producing countries) as not to make any impact on economic development. Prof. Nurkse thus concludes that '...the trouble about foreign investment of the 'traditional' sort is not that it is bad, or that it does not tend to promote development generally : it does, although unevenly and indirectly. The trouble is rather that it simply does not happen on any substantial scale.[5]

Let us discuss the third point, i.e. the foreign export-oriented enterprises' *indirect* effects on the economic development of underdeveloped countries. The establishment and operation of enterprise has sometimes necessitated investment in installations which are not an integral part of the production and exportation of rawmaterials. But they were indispensable. The railways and ports, roads and airports, telephone and telegraph, canals and power stations —all combine to generate "external economies" congenial for further growth. The study of history however shows that the acceleration of investment and external economies were interrelated in a different manner. These external economies were present in India for past hundred years, yet no outstanding flow of investment have occurred due to them. There is, theoretically speaking, much difference between acceleration and external economies. Acceleration is investment-snowball effect, one investment inevitably necessitating the second, which leads to the third, and so on. No such inevitable necessity, or an internal pressure is inherent within the creation of benefits. The investment-snowball effect or acceleration means economic development. It creates along with it all the external economies necessary to feed or help its growth process ; the external economies by themselves do not constitute growth, they do not automatically or, inevitably lead to transition of the entire economy from feudalism or commercialism to industrial capitalism.[6]

The crux of the matter is that the 'auxiliary facilities' in question are for the most part auxiliary to no one but foreign export-oriented business, and that the external economies stemming from them benefit nothing but additional production of raw-materials for export. In the words of Dr. H. W. Singer, 'the productive facilities for export from underdeveloped countries which were so largely a result of foreign investment, never became a part of the internal economic structure of those underdeveloped countries themselves, except in the purely geographical and physical sense.'

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but this is undoubtedly high, because the low official rate of exchange was used to compare dollar sales figures with Bolivian wage figures. In the Middle East, all of 0·34 percent of the population are engaged in the oil industry while less than 5 per cent of the oil revenues are paid out as wages (*U. N. Report*) Ibid. P. 181.

5. Ragnar Nurkse. *Problems of capital formation in underdeveloped countries*, P. 29.

6. "Just as it has been recognised to be a mistake to expect that on a given level of income and effective demand a mere lowering of the rate of interest will result in an increase of investment so it is a fallacy to believe that the sheer presence of potential sources of external economies is bound to generate economic expansion. The similarity goes further. As the earlier insistence of economics on the strategic significance of the rate of interest was by no means "innocent"—implying as it did the desirability of laissez faire and of government non-intervention in economic affairs—so like-wise the current clamour for providing underdeveloped countries with installations giving rise to external economies (power stations, roads, etc.) is far from being a mere theoretic fad. Its significance becomes transparent as soon as one asks, to whom should the facilities that are to be erected furnish the external economies ? It is necessary only to take a glance at the statements of official economists and of various big business dominated organisations to see clearly that such sources of "external economies" as are to be created in underdeveloped countries are primarily to assist western enterprise in the exploitation of their natural resources. What is more, the pronounced emphasis on the indispensability of government aid in financing these project (e.g. Indian railways) reflects the time-honoured notion of business as to what constitutes "harmonious cooperation" between national administrations and monopolistic corporations : the former should shoulder the costs of establishment and conduct of business with as little as possible financial "intervention" of the interested firms, while the latter should reap the profits resulting therefrom with as little at possible financial "intervention" of the public treasury." *P. Baran, op. cit.* pp. 191-2

7. Quoted in P. Baran, *op. cit.* P. 198, from "The Distribution of Gains between Investing and Borrowing countries". *American Economic Review*, (May, 1950) P. 475. "It is interesting to note that the United Nations Technical Assistance Mission in Bolivia concludes its analysis of the country's mining economy with the

They constitute alien bodies in a socio-economic structure into which they have been artificially injected, and hence, their effect on economic development would be practically nil or negative. 'For it is not railways, roads, and power stations that give rise to industrial capitalism : it is the emergence of industrial capitalism that leads to the building of railways, to the construction of roads, and to the establishment of power stations. The identical sources of external economies, if appearing in a country going through the mercantile phase of capitalism, will provide, if anything, 'external economics' to merchant capital. Thus the modern banks established by the British during the second half of the nineteenth century in India, in Egypt, in Latin America and elsewhere in the underdeveloped world became not fountains of industrial credit but largescale clearing houses of mercantile finance vying in their interest charges with the local usurers. In the same way, the harbors and cities that sprang up in many underdeveloped countries in connection with their briskly expanding exports did not turn into centres of industrial activity but snow-balled into vast market places providing the necessary 'living space' to wealthy compradors and crowded by a motley population of petty traders, agents and commission men. Nor did the railways, trunk roads, and canals built for the purposes of foreign enterprise evolve into pulsating arteries of productive activities ; they merely accelerated the disintegration of the peasant economy and provided additional means for a more intensive and more through mercantile exploitation of the rural interiors.'

2. Foreign Enterprises and Investment in India

It is sometimes taken for granted that foreign investment in India represented a transfer of capital from Britain to India. It is also taken for granted that had there been no such transfer to India that capital would have been invested in Great Britain itself. Britain is supposed to have placed a part of its surplus product (savings) at the

statement that 'this new trading economy remained divorced to an extraordinary degree from that of the rest of the country,' Report of the U. N. Mission of Technical Assistance to Bolivia (1951), p. 85 ; while the United Nations Economic Commission for Latin America in its *Recent Facts and Trends in the Venezuelan Economy (1951)* observes that petroleum operations in venezuela could be more properly considered a a part of the economy in which the investing companies are domiciled than of Venezuela itself."

disposal of India and in this way first started our economic regeneration in the nineteenth century. In return Britain received interest and dividends. We are presumed to have benefited from this. Mrs. Vera Anstey and D. H. Buchanan would like us to take it just as a matter of history.

In order to test their conclusion on this aspect of Indian economic history, let us enter into the detailed mechanism of foreign investment by Great Britain into India. Let us approach the problem deeper. (a) This foreign investment was made possible by political subjugation, by the labour and savings of the Indians plundered and looted through unfair terms of trade imposed upon by the monopolistic trading rights. (b) Foreign investment in India was a process of using up of a portion of Indian land revenue, business profits and tax-earnings before it went to England in enlarged amounts. The capital was furnished by the former servants of the company who had made fortune by extortion and bribery. In other words, the new industries were built up with the money they had earned in India by unfair means[8]. 'These interests represented simply portions of the Indian spoils and revenue reinvested in India. They did not constitute an export of British capital.'[9] (c) The foreign capital here invested was not due to philanthrophy, but with a desire to take the advantage of cheap labour and specialised natural resources (mines, topography, climate and soil) endowed by nature to India.

As no detailed statistics available are we cannot also show the increase in the capital accumulation of Great Britain from the earnings of foreign investment. The relation between British home investment and its foreign investment (including India) has not yet been closely analysed for the early British industrialisation period. An attempt has been made recently.[10] Prof A. K. Cairncross points out that the hey-day of British foreign investment (in all countries including India) was the half-century before the First World War. According to his estimate, in the years 1870—1913 there was a net export of capital from Great Britain of £2·4 billion, equivalent in those days to some 12 billion dollars having more than twice the purchasing power of today's

8. W. W. Huuter, *The Annals of Rural Bengal*, Pp. 366-68.
9. L. H. Jenks, *The Migration of British Capital to India* P. 208.
10. A. K. Cairncross, *Home and Foreign Investment*, 1870-1913.

dollar. Even by today's standards, that is a lot of foreign investment. But, the crucial question is, did it really represent any transfer of resources from Britain to the receiving countries ? Evidently, the answer depends on how much income was flowing into Britain from these investments during the period in question. According to Prof. Cairncross, the sum was £4·1 billion. In other words, the flow of capital from Britain was only about three-fifths of the flow of income to Britain. Or to put it still another way, during the 43 years preceding the first World War, Britain extracted from the rest of the world £1·7 billion more than she invested in it, while at the same time steadily building up her foreign holdings. The question may thus be very properly asked, who was 'aiding' whose economic development ?

By the beginning of this century, 'India had come to be regarded as a plantation of England, growing raw products to be shipped by British agents in British ships, to be worked into fabrics by British skill and capital and to be reexported to India by British merchants in India through their British agents.'[11] That India had come to be so regarded by the nationalist thinkers was no accident. Much British effort has gone into moulding the colonial economy into rough complementarity with that of the imperialist ; a lot of British capital had come to ensure that it remained that way.

How much British capital came into India is difficult to say. Estimates of investments prior to world war I are so unreliable as not to be worth giving. Dr. V. K. R. V. Rao's estimate relating to 1926-7, puts total British private investment at just over £150 million. Whatever might be the precise figure there is no doubt that British capital concentrated almost exclusively on supplying British industry's demand for raw-materials, either by producing or transporting them. An *Economist* report in 1911 covering India and Ceylon (excluding Government and railway securities) attributed 60 per cent of investments to tea and rubber plantations, 12·3 per cent to tramways, electricity and other utilities, 8·9 per cent to vegetable oils, 5·7 per-cent to finance, 2·7 per cent to shipping and 3·7 per cent to

11. Mover of the *Swadeshi* resolution adopted at the Allahabad convention of the Indian Congress in 1910.

commercial and industrial undertaking.[12] In other words, slightly more than three quarters were in the extractive industries that dominated India's exports at that time and most of the rest were in the mean of transporting them to their foreign markets.

Another important characteristics of foreign enterprises and investment in India was its close dependence on the State. They could not have taken place without prior intervention of the colonial State ; nor could they have sustained themselves without the States' unremitting efforts at keeping the colonial exploitation unchanged. It was the £20,000 a year special subsidy from the East India Company which enabled the P. & O. line to inaugurate and maintain a regular shipping service between India and Europe from 1841 ; it was the officially guaranteed-interest-railway contracts signed initially at the close of that decade that linked up India's hinterland with her ports and, ultimately with Great Britain. Although 'the solid core of pressure both for steam navigation and for railways came from the great mercantile houses of London and the other leading British ports trading to India and China',[13] their existence was organised, assured and underwritten by the State. So it was with the supply of labour to the uphill plantations, with the fixing of the rupee exchange rate to facilitate the free flow of funds between Calcutta and London, and many such others. So necessary was the help of the State, that it itself became a major sphere of investment ; well over half the foreign capital in India in 1926-27 was held in Government stock, and the proportion hardly changed until World War II when the official debt abroad was refunded.[14]

At the end of the first World War Indian Industrial Commission observed : 'A characteristic feature of organised industry and commerce in all the chief Indian centres is the presence of large managing agency firms, which except in the case of Bombay, are mainly European. In addition to participating in import and export trade they finance and manage industrial ventures all over the country

12. *The Economist*, London 21 June, 1911, p. 1345. Quoted in Michael Kidron, *International Capitalism*.

13. Daniel Thorner, *Investment in Empire*, p. 23.

14. V. K. R. V. Rao, cited in *Census of India's Foreign Liabilities and Assets*, Reserve Bank of India, p. 153.

and often have several branches in large towns. The importance of these agency houses may be gauged from the fact that they control the majority of the cotton, jute and other mills as well as, of the tea gardens and the coal mines.' (*Report*, p. 12). In 1921-22 interests on foreign investments (as the rate of 6 per cent) had been calculated at Rs. 60 crores and profits (at the rate of 10 per cent) at Rs. 100 crores (Shah and Khambata, *Wealth and Taxable Capacity in India*, p. 221.) In 1935-36 foreign investments (excluding capital of foreign companies operating in India under Indian companies Act) stood at £573 million. In 1948, the Reserve Bank census put it at Rs. 398 crores. Of this total Rs. 248 crores were held by Great Britain. (Reserve Bank, *Census of India's Foreign Liabilities and Assets*, p. 39.) Thus the question may again be repeated : Foreign investments in India brought whose economic development and who decayed ?

3. Foreign Investment in India : *the nature of pulls and pushes*

The transition of the British economy from mercantile stage to the industrial one generated forces for the beginning of foreign investment in the colonies like India. The mercantile interest of the company was more involved in buying the finished goods cheap from the Indian producers and selling them at highest possible prices in Great Britain and other European markets. The rising industrial and manufacturing interest of Great Britain was, on the other hand, more in favour of getting the raw-materials from India in order to be transformed into finished products to be sold in India and other countries of the world.

Herein lay the whole contradiction. The English would like to buy cheap, which meant low purchasing power for Indian people ; but they desired to sell dear which required high purchasing power. India could not therefore satisfy the manufacturers of early Victorian Britain. She was England's greatest overseas possession, but could take in only one-tenth as much per capita of British manufactures as Brazil, which did not even belong to Britain. India also could not satisfy the captains of British industry as a source of raw-material for its fastly moving wheels.

'Stories were current on the other hand, which made the British believe that there was no limit to the possible and profitable development of economic relations with India. India was still considered as El Dorado. Descriptions of India's immense population and vast undeveloped resources simply made the British businessmen appreciate more keenly the tantalizing gap between the potentialities and actualities of that far off land.'

During the first three decades of the nineteenth century the quantity of British goods exported to India increased sharply. Machine-made British textiles moved into the more accessible markets of India and hastened the decline of Indian handicrafts. But in real value, British trade with India was far from impressive. It failed to attain the dimensions expected of it. In order to develop raw-material production and the sale of finished goods extensive communications were felt necessary.

The material background in India which was inviting investors should better be analysed. In India, at that time, even the small enterprise of the native industrialist had been paralysed, for his financial resources had been thined to insignificance. 'The grinding extortion of the English government has effected the impoverishment of the country and people to an extent almost unparalleled', wrote Hon. John Shore in 1834, 'while the ruinous system of inland customs and town duties has prevented the establishment of manufactures, and greatly lessened the activities of those that were in existence...It is impossible that they can be retained much longer ; and if not totally abolished, must at least be so modified as to allow the energies of the country some scope for exertion ; and then the skill and capital of English artisans and mechanics may be fairly brought in to action'. He clearly perceived that more than enthusiasm substantial finance was required to work out India industrially, and stressed the necessity and advantage of carrying capital before starting out to India : 'The possession of some capital is almost a *sine qua non* for new settlers : they will find it extremely difficult to borrow of the native bankers and merchants except by the temptation of such exorbitant interest that it would be ruinous. The reasons are...the great losses which the natives have suffered by their dealings with the English merchants, and the dread of being involved in any process of the supreme court.

India is rich in natural resources, were they properly developed ; but in proportion to the extent of country and population, poor in money'.[15]

The material background in England which was pushing the British investors to get out of the country may also be analysed. There was luxurious supply of capital, not infrequently superfluous. There was a tendency for capital to flow abroad on the attraction of higher rates of interest than that allowed on the floating debt of England.[16] It was clearly demonstrated in 1825. Twice during the three years immediately preceding that date the government effected conversion operations, each time reducing the rate, and the demands for loans by foreign governments and new adventurers in South America were very readily met by the English public.

Side by side with the regional diversion in investment there also occurred changes in the distribution of capital among various categories of investment. In the Bubble Act in 1825, important changes had to be made in the working of the Joint Stock Companies. But the disturbances caused during these transfer transactions was too violent for an ill-developed currency system : and thus the drain of gold and an abundance of uncovered paper money preceded the crisis of that year. The growth of the floating capital in Britain during this period ready for investment abroad took the form of abundance of paper notes. Banks created the notes, and notes created the capital.

More or less the same circumstances developed once again in 1844. Money was found to be cheap all over the country and a gradual reduction of the rate of interest on a portion of the national debt was announced. This time the railways absorbed a huge amount of capital, dislocating the export industries by increasing imports more ...dly than exports and thinning the Bank of England reserves. ...he picture prominent among the events preceding the crisis ...as also immediately followed by the gold rush. Before ...re was again an abundant supply of capital

B... take... Brazi... satisfy... its fastly...

...iah, *op. cit.*, p. 100, from 'Notes on Indian Affairs.'

... *Economic History of Modern Britain—Machines* ...914).

finding employment in an accelerated speed in joint stock companies, after the extension of limited liability to any business body that wanted it by the Act of 1862. Once again the crisis of 1873 followed a heavy demand on the Bank of England to feed continental enterprises, especially German.

This was the objective situation in England during the early nineteenth century or the material background of export of capital. This background gave rise to oversaving explanations of economic crisis, propagated by a series of victorian economists.[17] It was contended by Fullarton in 1844 that 'the amount of capital seeking productive investment accumulates in ordinary times with a rapidity greatly out of proportion to the increase of the means of advantageously employing it.' He analysed that the investor who was scrupulous about the security of investments found that these 'secure investments', usually funded debts of government, went on yielding decreasing incomes due to falling interest rates. The interest of earning higher incomes drove him to venture out into other fields of investment. John Stuart Mill was more explicit when he wrote in his *Principles of Political Economy*,[18] that one of 'the counterforces which check the downward tendency of profits in a country whose capital increases faster than that of its neighbours, and whose profits are therefore nearer to the minimum' was 'the perpetual overflow of capital into colonies or foreign countries to seek higher profits that can be obtained at home. I believe this to have been for many years one of the principal causes by which the decline of profits in England has been arrested.' Giffen argued on the same lines in 1878 and Levi repeated Fullarton almost verbatim. The thought expressed in these theories did react on the material situation so as to alter it by way of accelerating foreign investments. It pointed out to the capitalists that their speculative activities were a natural reaction to decreasing profits that if they did not invest their savings somehow, somewhere, the prospect of their remaining solvent was not promising.

Thus the finance capital[19] entered into India and promoted and developed most of the major Indian industries (apart from Railways),

17. For a good summary "The victorians and Investment," by A. K. Cairncross, in *Economic History*, February, 1936.
18. J. S. Mill, *Principle of Political Economy*, Book IV, Ch, IV, § 8.
19. Originally it was Hilferding who coined this term to describe the

jute, tea, coal and the metallurgical. The results of this entry was good in the sense that India's natural resources were being developed. It could not have been bad as it was an attempt by British Capitalism for self-preservation tried on a country with underdeveloped resources. The industrial development was forced from above, it did not originate from the dynamics of Indian economy itself. Master artisans here did not first accumulate money and employed pauperised peasantry for manufacture and trade as in the 'classical' pattern of growth. It was this capital that created the big bourgeoisie in Indian industry, and proceeded to the next stage in its own development, namely, the assimilation of local capital.

The indigenous capital that joined this finance capital came from two sources. The first was the class of local small industrialists and merchants. The native small industrial capital had no chance of independent development, because only through absorbing markets the small firms could increase the scale of output, minimise costs through technological innovations, and go on increasing capital accumulation ; only through this path a small industrial economy becomes a big industrial capitalism. The petty bourgeois Indian industry could not manage a succesful market abroad and within India it was being continuously repulsed by the products of the English industrial revolution. It faced extinction. And therefore, the upper half of this industrial petty bourgeoisie, i.e. those who had accumulated some capital joined the new big capitalists. The lower half became salaried employees or wage workers under the new industrialism according to the degree of their dispossession.

The other important source was the landed aristocracy. So long they were used to invest funds in money-lending and accumulated funds through usury, robbing a portion of the toil of the producer class. They put a portion of their accumulation in new 'industrism' which started in India during the middle and later decades of the nineteenth century.

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integration of finance and industry since about the last decade of the nineteenth century. Maurice Dobb interprets this concept as "an integration of finance with industry with its subordination of industrial decisions to large scale financial strategy (*Political Economy and Capitalism*, p. 245).

SIX

The Dynamics of a Colonial Economy

"The old imperialism levied tribute, the new imperialism lends money at in'erest".

—H. N. Brailsford

1. A General Survey of Industrial Growth in India

The development of factory industries in India did not, as in England, follow on immediately after the decay of handicrafts. There was a hiatus between the decay of handicrafts and the industrial development. There were railways, pauperised peasantry and limited market. But the Indian business enterprise and native capital were lacking, as also the Government's industrial commercial policies were inimical, so the necessary take-off did not take place. Economic isolation broke down, but the industrial thurst was absent. The improved communication broke up the old economic organisation of self-sufficient villages with artisans and weavers, but the new productive apparatus of industrial towns, wage-labour and higher technocracy did not take its place. The transport system, instead of co-ordinating factors of production necessary for industrial establishment, commercialised the agricultural production. Old order changed but there was no yielding place to the new ; and the dissolution of the old order at the same time remained incomplete.

Towards the middle of the nineteenth century the factory industry was introduced into India. It was during this period that the first outposts of the industrial revolution were planted in the country. In Bombay and Bengal respectively two of our most important manufacturing industries were established. Bombay had a hinterland of black soil producing raw cotton ; Calcutta's hinterland produced raw jute. From the start the cotton mill industry was financed and managed by Indian capital and enterprise, and the jute mill industry was financed and managed by British capital and enterprise. This limited industrial revolution spread to the mining industries and then to various other industries such as cotton gins and presses, coal, manganese, gold and mica, steel and iron, rice-husking and grinding mills, oil mills etc.

Progress was at first very slow and was confined to only a few places in the country and it was only towards the end of last century that factory industry began to develop[1]. Prof. Buchanan has entered into some dicussion as to the cause of this remarkable growth.[2]

Free trade was instituted in India during the eighties of the last century. Revenue duties were retained only on a few articles such as liquour and arms. Free traders cite this rapid growth as a demonstration of the truth of their doctrine. 'But,' observes Prof. Buchanan, 'whether free trade alone can be given such credit for such a great change is doubtful.' According to him, the opening of the country by the railways and the commercial revolution were progressing rapidly. The new tariff on imports in Great Britain harmed the cotton production here and helped the Lancashire goods to enter Indian market more freely. Tariffs therefore went against India and did not help her. 'The advance was caused by more important changes. The Indian people were abandoning their old habits of local cloth manufacture for cash purchase, and that had a favourable effect upon the business of Indian cotton mills. As for jute manufactures, this was the period of great growth in the world demand for jute products. The grain lands of America and Australia, as well as other sources of crude products, were being rapidly developed by the extension of railway and shipping services while the later arrangements of handling grain in bulk had not yet been perfected. The greatly increased demand for the coarser types of gunny bagging

1. "To those who look forward with hope to an industrial revolution in India, the bright side of the picture is not to be sought in the village at all but in those manufacturing centres which have sprung into life in recent years and in which industry is organised on a completely modern basis. It is to Bombay, Cawnpore and the banks of Hooghly that we must go to find labour concentrated together and working under expert supervision. It is in such cities that capital has been freely spent on the erection of mills and costly machinery, that the economics of large scale production have been secured, and that Indian Captains of Industry have arisen." Morison, *Economic Transition in India*, pp. 170-71.

2. D. H. Buchanan, *The Development of Capitalistic Enterprise in India*, pp. 138-39.

affected that line of manufacture much more than did the small tariff changes.'

By 1890 India had a large factory industry of some 300,000 people employed in factories and mines, about 200,000 were in cotton mills, jute mills, and coal mines in the proportions of 11, 6 and 3. Reviewing the growth of industry from 1880-95, Prof. Gadgil comes to the conclusion that the rate of growth became specially prominent after 1885, the rate was not very rapid but it was remarkable and continuous, and there was an entire absence of any violent fluctuation throughout the period. In spite of increased competition from Japan, the cotton textiles continued to grow. Jute manufacture continued to grow relying on the foreign markets. The coal industry was very small in 1880 and the progress was very slow up to 1886, but after this date the industry began to progress rather rapidly. The growth of this industry depended upon (a) growth of railways, (b) growth of steam engines in other factories, and (c) exports. Of the plantation industries, tea had by now assumed great importance. It enjoyed continued prosperity and growth in the last three decades of the nineteenth century. The industry was concentrated in Assam, i.e. in the Brahmaputra and the Surma Valleys. Bengal followed as the second. Better methods of cultivation and increased use of machinery in the manufacturing processes started in this industry during this period. The cultivation of coffee was almost wholly confined to Mysore, Coorg and the Nilgiri and Malabar districts of the Madras Presidency. Till about 1879 industry was fairly prosperous, but the next decade saw the plant diseases and the Brazillian competition. It however recovered after 1889. Indigo, however, was stationary and did not grow. The class of semi-factory industries like Madras tanning industry or the brick and tile industry of the Malabar Coast developed at a continuously high rate. 'On the whole', concludes Prof. Gadgil, 'during these fifteen years—especially during their later part—there was a certain amount of quickening in the development of Indian industries. The bigger and the already established industries grew at a rapid pace, and there was fair growth in the auxiliary and the smaller industries.'

The trend which evolved towards the end of the last century persisted continuously during the beginning of the new century. The

Swadeshi movement of 1905, which arose at this time, stimulated Indian hand-industries and led consumers to prefer Indian products. The movement became stronger after the civil disobedience upheaval as the Indian National Congress emphasised importance of preferring Indian products all round. The existing industries continued to grow slow but steady, and many new industries grew up. 'The growth from 1890 until the world war was fairly steady in all fields. Cotton spindles more than doubled, cotton power-looms quadrupled, jute looms increased four and half times and coal raising six times, while the extension of railways continued at the rate of 800 miles per annum.'[3] The average daily number of operatives in factories increased from 316,000 in 1892 to 869,000 in 1912 and 951,000 by 1914. But, 'prior to the war certain attempts to encourage Indian industries by means of pioneer factories and government subsidies were effectually discouraged from whitehall.'

The following tables indicate the trend in our industrial development on the eve of the first world war[4] :

Cotton Textile Industry

	1879-80	*1889-90*	*1900-01*	*1913 14*
No. of mills	58	114	194	264
No. of persons employed	39,537	99,224	156,355	260,847
No. of spindles	1,407,830	2934,673	4942,290	6,620,576
No. of looms	13,307	22,078	40,542	96,688

Jute Industry

	1879-80	*1889-90*	*1901-02*	*1913-14*
No. of mills	22	27	36	64
No. of persons employed	27,494	62,789	114,795	216,288
No. of spindles	70,840	164,245	331,382	744,289
No. of looms	4,946	8,264	16,119	36,050

Coal Industry

	1885	1901	1914
No. of persons employed	22,745	......	151,367
Output (tons)	1,294,221	6,038,053	15,738,153

3. Buchanan, *op. cit.*, p. 139.
4. Gadgil, *Industrial Evolution in India*, pp. 76-79, 107, 110-111.

The impact of World War I (1914-1918) on Indian industrial growth was no doubt beneficial. The war created enormous demand for factory goods due to (a) lack of usual imports from Europe and, (b) increase of war requirements of the Allies. Cotton manufactures were the chief example of the former and jute and steel manufactures of the latter. Leather, wool and numerous other commodities also felt the effect of Europe's frantic demand for the sinews of war. During the war, Provincial Departments of Industries were established in each major Province. The war, moreover, sadly exhibited the extent of India's dependence on inports from abroad for plant and machinery. It changed to some extent the British attitude towards industrialisation in India. The want of heavy industry in India led to difficulties of delayed supplies of war materials when quick military supplies were necessary. There was also a desire to enlist the support of Indian capitalists in the war by concessions in favour of Indian industries. The competition from newly industrialised Japan had also to be checked. All these to led a minor shift in the industrial policy of the government. Munitions Board was established and an Industrial Commission was appointed.

During the war period cotton and jute mills worked at full capacity and made huge profits. Steel production increased from 19,000 tons in 1913 to 124,000 tons in 1918. Due to reducing imports from foreign countries, the production of various consumer goods was also developed. This period, however, did not lead to further industrial growth due to many factors. First, profits were frittered away in dividend payments and were not reserved for replacement or additional investments. Secondly, there were difficulties of expansion due to lack of heavy, basic and key industries or the machines to produce machines. Thirdly, once the world war was over the government attitude changed. Even the halting proposals of the Industrial Commission were shelved. Lokanathan correctly observed that the First World War 'beyond affecting temporary gains to a few established industries, did nothing to set the country firmly on the road to industrialisation. After 1918, the few industries which had been established on account of the war either stagnated or decayed ; they could not face the competition of advanced industrial countries.'[5]

5. Lokanathan, "Industrialisation", *Oxford Pamphlet*, No. 10.

The Indian Industrial Commission categorically pointed out to the Government the slow rate and the low stage of industrial development in our country. It also pointed out the urgent need to produce machines and reduce their imports. It remarked, 'India produces more than 3,000,000 tons of raw sugar a year, and in addition, imports manufactured sugar to the value of Rs. 15 crores, yet the value of the sugar machinery imported was only a little over Rs. 4½ lakhs. Similarly oilseeds worth nearly Rs. 25 crores were exported ; but oilcrushing and refining plant to the value of only three lakhs of rupees was imported. These figures are significant of the exiguity of efforts hitherto made in India to replace imported articles by the manufacture of indigenous raw materials.'

The Industrial Commission pointed out a number of deficiencies which were to be removed. They were among others scarcity of capital, neglect of industries based on technical science, the inadequate manufacture of metals, chemicals, vegetable and animal products, cement and soap, and failure to produce machine tools, steam engines, boilers, oil and gas engines, hydraulic presses, and heavy cranes. 'India can build a small marine engine and turn out a locomotive,' it stated, 'provided certain essential parts are obtained from abroad, but she has not a machine to make nails or screws, nor can she manufacture the essential parts of electrical machinery......The list of industries, which, though their products are essential alike in peace and war, are lacking in this country, is lengthy and almost ominous.'[6]

The inter-war period (1918-1939—from the end of the First World War to the beginning of the Second one) fostered a number of industries and raised India to tenth position in the industrial map of the world, both for the volume and variety of her manufactured products. 'Next followed the post-war boom,' Buchanan observes, 'when production, profits and expansion outran all precedents.' The leading cotton mills in Bombay paid 120 per cent dividends. The reports of 41 jute mills with a total capital of £6 million showed profits of nearly £23 million in four years (1918-21), in addition to £19 million carried to the Reserve Funds. British capital became eager to share in these colossal profits. Thus at the end of the war, large amounts of British capital were attracted to India. The annual export of British capital

6. *Report of the Industrial Commission*, p. 55.

to India increased from £14·7 million or 9 per cent of the total in 1908-10 to £29 million in 1921 and £36 million in 1922, or more than one-fourth of the total British exports.

Prof. Gadgil has shown that in 1918-19, the number of registered companies was 2,713 with a paid-up capital of about Rs. 106 crores which rose to 4,781 with a paid-up capital of Rs. 223 crores in 1921-22. The post-war boom ended by 1920 and the depression which followed hit the Indian industries hard. Hardship was increased by increased foreign competition on the one hand and the government's currency policy, on the other. Many Indian companies founded during the boom period became bankrupt and even the Tata Iron and Steel Company was in trouble. The persistent demand from Indian capital, now to a large extent supported by British capital invested in India, led to the appointment of a Fiscal Commission to devise the modes of granting protection. The Fiscal Commission in 1922 recommended a policy of discriminating protection which was accepted by the Government in 1923. A number of industries like steel, cotton, sugar, paper and matches were granted protection. The country reached self-sufficiency, of course at a low income and consumption level, in sugar, matches and cement. The change in the content of external trade of India also reflected the same trend, namely, a falling off of imports of consumption goods, like sugar, matches and cement, and an increase in the imports of machineries and various raw materials.

The extremely inadequate and halting policy of discriminating protection was made further ineffective by the policy of Imperial Preference which characterised the Indian tariff system from 1927 onwards. This policy gave British products an advantage over both non-empire and Indian products in the Indian market. The Ottawa Agreements in 1932 thurst the system of Imperial Preference upon India. Miss Mitchell points out, 'In this way the tariff system of the early twenties, originally proclaimed as a means for accelerating Indian industrialisation, was transformed into a system which assisted British industry to compete in the Indian market, while giving India in return the privilege of favoured rates for the sale of her raw-materials and semi-manufactures in the British market—an obvious attempt to revert to the pre 1914 status.'[7]

7. Miss Kate Mitchell, *Industrialisation of the Western Pacific*, p. 285.

The world economic depression of 1929-30 hit the Indian industries. During 1929-33, the value of exports fell from Rs. 339 crores to Rs. 135 crores and the value of imports from Rs. 260 crores to Rs. 135 crores. The payment of Home Charges and debt interests had to be met by gold exports which totalled £ 241 million for the seven years 1931-37. This gold drain from the past savings of the masses of the Indian peasantry meant a still further impoverishment of the Indian market and a corresponding depression of Indian industry.

The impoverishment of the peasantry, and the relative increase in the capital of Indian propertied classes, on the other hand, led to the increase in the number of joint stock companies and new enterprises. The new enterprises were mostly in light industries, primarily in cotton textile industry.

To sum up the industrial development between 1922 and 1939, the production of cotton piecegoods in the country increased two and half times, that of steel ingots rose eight times, and of paper went up two and a half times. In sugar and cement India achieved self-sufficiency. Other industries, like matches, glass, vanaspati, soap and a number of engineering industries also witnessed increased output. A beginning in the manufacture of electrical equipments and goods was also made by 1938-39.

In spite of such a growth in various industries the broad pattern of our economic structure remained largely underdeveloped as before. Occupational structure still revealed the imbalance in favour of agricultural occupations and a small proportion of industrial working class. The nature of industries was light and consumer type, the capital goods or basic industries were conspicuous by their absence. And also, in the limited number of consumer goods industries, the productivity per unit of labour and capital was incomparably low. The slow rate of development can also be shown from the number of workers employed. Between 1897 and 1914 the number of industrial workers had increased from 421,000 to 951,000, while between 1922 and 1939 it increased from 1,361, 000 to 1,751,000. Writing about the economic development of India during the inter-war period Dr. Vera Anstey remarked, 'The recent expansion of industrial output owing to the protective policy has been achieved at the expense of the cultivators who have to pay for what they have to buy, and who

are dependent on world prices for what they sell. My own conclusion is that India cannot expect to proceed far or fast upon the road of largescale industrial development and that intensification of protection would merely increase the profits of a small section of the population at the expense of the masses.'

The second world war had a stronger impact on India's industrial growth than that of the First World War. Two facets of growth during the war are to be noted : the increased production of existing units though limited and, the establishment of machine producing and heavy chemical industries. The latter brought a limited shift in the nature of India's industrial structure towards a 'developed' and 'balanced' economy. Japan's entry into the war made it doubly necessary that India should be developed as speedily as possible into an industrial arsenal for Great Britain. The fall of France, the dislocation of shipping lines due to bombing, the shortage of goods and materials in general and Japan's penetration into the Southern pacific demonstrated the need of India and Australia as sources of supply. Before the outbreak of the war, for instance, India had to entirely depend on foreign sources for high grade steel, for most of steel manufactures and for all types of machinery. But, by the end of 1941, pig iron production increased from 1,600,000 tons in 1938-39 to 2,000,000 tons. Finished steel production increased from 867,000 tons in 1939 to 1,250,000 tons in 1941 and to 1,400,000 tons in 1942. A programme costing Rs. 4 crores for the expansion of armament works, explosive plants and small arms factories was initiated in 1941. At the end of 1941, ordnance factories were assisted by 250 trade workshops and 23 railway workshops, producing 700 different items of munitions supply. Fiftyfour firms were licensed to manufacture machine tools and lathes, drilling, shaping and planning machines, furnaces and power blowers. Over 280 new items of engineering stores were being manufactured in India ranging from small tools and machine parts to heavy calibre guns, torpedo boats, and degaussing cables. A considerable expansion took place in the production of drugs, leather manufactures, hardware, glassware, cutlery and optical goods. A heavy chemical industry developed in 1941. This year also saw the birth of Hindusthan Aircraft Factory. The unwilling Government had to take up measures like the Eastern Group Conference, the Report of the Grady Commission, and the appointment of a number of technical missions. The conditions of inflation and a seller's market gave a great impetus to the production in establised industries, which worked multiple shifts to raise output in want of new machines.

Not all economists will readily agree to be satisfied with such impressive record of industrialisation during the war period. Dr. Lokanathan complained of discrimination against India while developing industrially the Eastern group countries.[8] Dr. John Mathai observed, 'The general belief......that the war has tremendously accelerated India's industrial progress is a proposition which, to say the least, would need a lot of proving. While it is true that certain established industries have increased their production in response to the war demand, several new industries of fundamental importance to the country, which had been projected before the war, have, under stress of war conditions, been either abandoned or been unable to reach completion. My personal view is that, on a careful balance of the various factors in the situation, it will be found that, unlike countries such as Canada and Australia, the war has been more a hampering than an accelerating influence in India.'

The transition from the war period to peace period in India was beset with many problems as in other countries. The major portion of our industrial apparatus had been tremendously over-worked during the war period, had become obsolete and urgently needed repairs and replacement. The cost-minimisation attempts could be safely overlooked during an inflationary situation. Industrial output showed a declining trend, the excess capacity appeared in several big industries. Anticipating a post-war depression, schemes of public

8. "The contrast between India and Australia and Canada has been striking. Starting from an initially worse position than India, Australia increased her steel production rapidly, and within two years was able to manufacture aircraft, wireless and other articles directly through Government effort, and also by inviting British, American and other industrialists to set up factories to replace imports. In Canada, the Government created seven Government-owned corporations, for manufacturing planes, shells, rifles and instruments, one for procuring machine tools and two for purchasing vital war commodities. In India, even the manufacture of locomotives,, already recommended by an expert committee and for which blue prints were ready, was given up at the last moment on the ground that it was more desirable to import them from abroad." Lokanathan, *Industrialisation*, p. 15.

works were drawn up and put into effect. Thus the post war depression did not last long and a new wave of inflation oiled the wheels of industry. This postwar inflation was due to the building up of a developmental economy on the basis of a war economy without allowing the latter to reach at normalcy. The black market money was used to buy up foreign concerns by the Indian capitalists. The eclipse of Japan towards the end of the war opened the South-east Asian market to Indian producers. This situation continued up to 1950, when the Korean war gave our industrial production another push.

The Indian economic structure did not have a major change due to Partition and Independence in 1947. The partition of the country into India and Pakistan created a difficult raw material problem for jute and cotton textile industries, as the raw material producing areas of India's these two industries went to the latter. This led to the production of those two commercial crops on Indian soil and gave a boost to further commercialisation of agriculture. India lost only three per cent of the mineral resources of the sub-continent and, barring the loss of gypsum and rocksalt, it did not affect her industrial potentiality. The loss of market in the areas now called Pakistan was a serious one no doubt, but the opening of South-east Asia saved the situation. Due to partition, only nine per cent of the sub-continent's industrial units went over to Pakistan.

In spite of a hundred years' industrial expansion, India in 1950, on the eve of her planned development remained an underdeveloped country comparatively to other industrialised nations of the world. Her per capita consumption of steel was only eight pounds per year as compared to 860 pounds in the U.S.A., 520 pounds in the U.K., and 470 pounds in Australia. Her annual consumption of cement of 11 pounds per capita, compared ill with Turkey's 29, Hungary's 42, France's 162 and England's 260 pounds. The per capita consumption of coal was ·07 tons in India per year, in the U. S. A. it was 4·7. The figure for salt in India was 12 pounds, the lowest in the world. The per capita consumption of paper boards and paper per year was 1·4 pounds in India, whereas it was 150 in U. K., 175 in Canada, and over 300 in the U. S. A. Her per capita consumption of sulphuric acid was 400 times lower than that of the United States of America.

2. The Managing Agency System

The path of Indian Industrial growth differs in many respects from that of England. This difference in path obviously led to many such differences also in the forms and institutions developed in these two countries. The pioneering and management of largescale factory industry in England has been taken up by owners of capital some-times jointly combined into a joint stock company. These companies were managed by the representatives of the owners of capital, jointly called the Boards of Directors. In India, however, a "new" pattern was evolved. In this system, the Boards of Directors of Joint Stock Companies producing goods entered into a contract with another company whose task was only management and provision of loan capital when and if necessary. The Board of Directors of the original company gave up its rights of management which were vested on this managing agency company. It was supposed to be a curious appendage to the joint stock organisation in India so as to fundamentally alter its character and working. Prof. Buchanan observed: "The organisation of large-scale factory industry in India is peculiar in that a special arrangement for management of corporations—the managing agency system—is almost universally employed. Something akin to this system exists in other parts of the Orient to which European enterprise has gone. But generally it applies only to concerns operated by Europeans, whereas in India it has been adopted by nearly all Indian companies."[9]

The managing agency firms in India developed in various patterns, as an individual business, a partnership, or a joint stock company.

9. "The system is somewhat as follows: when a company is formed, whether for starting a cotton mill, for operating a line of steamships, or for publishing a newspaper, it is agreed that some person or firm, generally the latter, will act as managing agent and take the principal responsibility for conducting the business. The managing agent usually has had much to do with the promotion of the company and has invested a considerable amount in it. Among other terms the prospectus states that this person or firm is to be the managing agent on contract for a period, usually of twenty but sometimes thirty, even fifty years. Usually two or three members of the agency firms are also members of the board of directors of the company. The agents therefore occupy such a dominating position that they usually formulate policies and carry them out while the board of directors merely gives assent to already accomplished facts." D. H. Buchanan, *The development of Capitalistic Enterprise in India*, p. 165.

Besides purchasing raw materials and machinery, selling finished goods and arranging for insurance of plant, buildings and stock-in-trade on behalf of the concerns they managed, it is said that they rendered three important services which helped the Indian large-scale manufacturing industries to reach at the present developed stage: (1) pioneering, (2) running the routine management of the concerns, and (3) providing finance. The managing agents, it is said, did the preliminary prospecting to bring the concern into existence and placed it on its legs. They also carried on day-to-day business. They had also provided finance as shareholders and or debenture holders, they arranged for finance from the banks where their personal guarantee was almost invariably necessary. Their reputation and standing induced moneyed people to place their money with the mill as deposits. It is also said that since a large number of companies worked under one managing agency concern, various internal and external economies arising out of horizontal and vertical integration were reaped by the companies.

The most important claim made for the managing agency system, however, is that "there are many industries which would never have been established in the country but for the initiative and risk taken by the managing agents."[10] This traditional thinking, as quoted above, ignores the historical laws of economic development in a country. According to this line of thinking, it was Managing Agency System which envisaged, created and charted the course of industrial growth in our country, and not the reverse. They were, as if, the creators of history, and not its products. The forces of production and distribution of wealth (or the laws of capital accumulation and investment) necessarily developed the institutions which facilitated and promoted better and further accumulation. And if these institutions could not cater to the needs of these historical forces, then the institutions were suitably refomed to suit these historical laws. The traditional view as expressed in the Industrial Commission and such other reports, pointed out that the *raison d'e tre* of the system lay in the peculiar economic conditions obtaining in India, especially with regard to the availability of managerial talent and the development of capital market in the shape of joint stock companies, issue houses

10. P. N. Banerjee, *Indian Economics*, p. 444.

etc. But this view failed to show why these 'peculiar economic conditions, were themselves created, and how the then historical forces simultaneously created necessary conditions and the suitable institutions to serve them.

The report of the Company Law Committee stated in 1952 that 'history, geography and economics all combined to create and develop a system which, in some of its distinctive features, still retains its unique character.' And what was the history, the geography, and the economics which combined to originate such an institution in India during the first half of the nineteenth century? If we recall "history" we would see that during the later decades of the eighteenth century the rising indigenous capitalism was nipped in the bud by technically and militarily more developed British capitalism. The accumulations of capital was drained off from India to England. The landrevenue settlements endeavoured to soak off the entire surplus or the fruits of labour of the producer class. The decline of handicrafts ruined the artisans. The protectionist policy pursued in Great Britain left no scope for markets and export-traders were eliminated. The monopoly of trade was maintained by the East India Company till 1833, impoverishing the Indian traders. Land became 'a bait which would divert the native traders and merchants into a different alley, leaving a vacuum for British mercantile enterprise'.[11]

In the thirties and forties of the nineteenth century land holding became such a lucrative and honourable profession in the imagination of the natives that Indian capital became shy, and there developed the so called "great dearth of entrepreneurial ability and power.[12]

The "geography" of the origin of the Managing Agency System was outlined in the need of developing an institution which must help the owners of capital residing in a distant land to effectively run, manage and control actual production operations in a colony. The geographical separation between the imperial

11. Nirmal ch. Sinha, *Studies in Indo-British Economy Hundred Years Ago*, p. 36.

12. As Asoka Mehta puts it in *Who Owns India* (p. 23) : "Before the might of Morgans and Mellons our oligarchs look puny, but that is a commentary on our economy, and not on their ability or will to power."

country and the colony thus necessitated the control of companies by the managing agents. The system originated from the "Agency Houses" of Calcutta in 1830's. These "Agency Houses" did not import capital from England. Thomas Bracken, a partner of a Calcutta Agency House named Alexander & Co. described the origin as follows: 'the Houses were chiefly formed of gentlemen who had been in the civil and military services, who finding their habits perhaps better adapted for commercial pursuits, obtained permission to resign their situations and engage in agency and mercantile business. They had of course a great many friends and acquaintances in their respective services and from those gentlemen they received their accumulations. They lent them to others or employed them themselves, for purposes of commerce; they were in fact, at first the distributors of capital rather than the possessors of it. They made their profit in the usual course of trade, and by the difference of interest in lending and borrowing money, and by commission. In the course of time, carrying on a successful commerce, many became possessors of large capital, and returned to this country leaving most part of it there; but the persons who succeeded generally came in without capital of their own, the same system being continued, and those houses became the usual depository of a great portion of the savings and accumulations of the military and civil services in India.'

And what was the "economics" of the period which led to the birth of this system? The Charter Act of 1833, which paved the way of British industrial capitalism on Indian soil, also facilitated the growth of the Managing Agency System. In England, the development of capitalism could be roughly charted into three stages, that of mercantile capital, industrial capital and finance capital. The mercantile capital traded but did not produce; the industrial capital produced but did not trade; the finance capital owned and controlled both the trade and the production but entered into none. Finance capital was the titular king who reigned but did not govern. Mercantile capital handled commodities in transit, the industrial capital handled commodities in production, the finance capital handled the ledger books and bank accounts. It arose out of gradual differentiation among the owners of capital and consisted of the upper strata which dominated, utilised and employed that middle and the lower strata of the owners of capital. The managing agency system revealed the superior bargaining power of finance capital over petty entrepreneurs, the special privileges of the big bourgeoisie over the petty bourgeoisie.

What then was the historical role it served or how and in what direction the course of development of Indian economy was directed by the managing agency system? The British finance capital was working through the mechanism of the managing agency houses to control the indigenous enterprise and to share in its accumulation. The native merchants were from the beginning 'go-between dalals' or 'Barden carriers' (i.e. persons who carry cotton bales),[13] they were diverted from their interest in land to industrial investments. These native merchants who accumulated capital by profiteering in the cotton boom, opium, yarn and cloth trade in the East—now started making industrial investment, building cotton mills in Bombay and Ahmedabad areas. The development of capitalism through way No. II started taking place within the Indian economy. The stimulus for this transition of the native merchants from sheer middlemanship to industrialism came from British finance capital via this managing agency system.

This system was also responsible for the present pattern of capitalism in India. In England, the Mercantile capital gave way to Industrial capital only for a temporary period, soon the huge accumulated funds of the merchants endeavoured to control the industrialists by various means. Fabulous prices were offered for the stocks and through stock market speculation the old merchant houses cornered shares enough to control the industries. The law of competition inevitably led to monopoly, the success in competition required growing bigger and bigger through mergers and combinations. In U. K. such process of monopolisation or concentration, developed the system of 'managers' or 'agents' under similar managing agency contracts. In the U. S. A., the industrial combinations developed their own institution, e.g. the holding company system. The holding company or the controlling company manage and control a number of concerns—the key positions in the companies are held on the nomination of the holding company which receives a fee based on

13. P. S. Lokanathan, *Industrial Organisation in India*, p. 22.

gross revenues or net profits, for the various services rendered.[14] In India also the special form by which monopoly and concentration of capital and ownership developed in the industrial structure was the managing agency system. A salient feature of the highest stage of capitalism was brought into being in an industrially backward country. Our industrialisation process thus started not in an atmosphere of free competition with inherent pressure for cost-minimisation, technological improvement, expansion of output and improvement of its quality; but in an economic environment controlled by monopoly, with no inherent pressure to remove the vestiges of feudalism and rapid transformation through technological progress. Managing Agency Houses remained the monopoly units through managerial integrations or interlocking directorships, not even bringing the economies of integration as the producing firms continued to remain under them scattered and separated. Our industrial development thus started under monopoly with all its restrictive features, but none of its socalled economic benefits.

The voice of the middle and lower strata of Indian entrepreneurs could be heard in the criticisms made against the system through decades. Though the industrial Commission reported in its favour, the majority of the Central Banking Enquiry Committee raised objections to the system. The Tariff Board which enquired into the Cotton Textile Industry in 1925 mentioned innumerable defects and malpractices such as the arrangement of secret commissions, investment of surplus funds with firms of the shroffs who might be identical with the managing agents, the appointment of the relatives of the managing agents as auditors, shady transactions relating to purchase of supplies, the shifting to mill of any loss sustaind by speculatvie purchases, undertaking of the job of the brokers for purchase, sale and borrowing of funds for the mills they managed, and failure to study market situations. The Tariff Board found that, of the 174 directors of the Bombay mills, only 11 had received practical training. The Directors were mere dummies whose only function was to sign the balancesheets and who, had they ventured to assert themselves, would have to quit. Considering all these Prof. Buchanan concludes, "However necessary the managing agency

14. Nabagopal Das, *Industrial Enterprise in India*, p. 77.

system was for the building up Indian industry, it has been expensive."[15]

One of the most powerful indictments of the work of the managing agents came from the Coal Mining Committee of 1937,[16] and the Shareholders Association. Its memorandum pointed out, "Borrowing have been made for illegitimate purposes; loans and advances of a non-trading nature have given to friends and nominees: interlocking dealings and transactions in the form of advances and investments have been entered into allied concerns, and assets of financially sound concerns have been mortgaged, and debentures issued, not because the concerns themselves were in need of funds, but because their managing agents wanted funds for their own purpose or in furtherance of their own plans."[17]

Dr. Lokanathan has very ably pointed out the defects of such rule by Finance Capital: 'Finance, instead of being the servant of industry, has become its master.' Mr. Manu Subedar in his minority report of the Indian Central Banking Enquiry Committee pointed out that, in actuality, capital accumulation and genuine industrial

15. "A member of the managing agency firm told the writer that they were drawing about one lakh of rupees a year for managing a concern capitalised for Rs. 15 lakhs. In the year 1924 one of the oldest cotton mills in India suffered a loss of Rs. 437,000 but the managing agents drew for their interest in the management a "poundage" of Rs. 438,000. D. H. Buchanan, *The Devt. of Cap. Ent. in India*, p. 169.

16. It observed: "The methods of the managing agents place a premium on high outputs, big sales and large profits and are generally calculated to focus effort on immediate rather that future gains, it being remembered that these managing agents control mills and other industrial concerns which benefit by cheap fuel... ...Shareholders seldom attend the general meetings of these companies in any numbers, two holders of ordinary shares personally present at such meetings constituting a quorum to chose a chairman and declare a dividend. So far as we are aware no firm of managing agents has a technical expert on its calcutta staff, but it is from calcutta that the policy of every coal company is directed with reference to commercial considerations. Some witnesses told us in confidence that they have on occasions been faced with the alternative of adopting unsound mining methods or loosing their livelihood, and though they are held legally responsible they do not actually have "control, management and direction of the mine", as is contemplated by Section 15 of the Indian Mines Act."

17. *Memorandum of Shareholders' Association*, 1949, p. 41.

investment has been checked by the speculative dealings of the managing agents. He observed: "The managing agency system tends not to encourage but to check the flow of capital in industry. The managing agents take advantage of a rise in prices to boom their shares and unload them at top level, leaving the public to hold the baby. In this they not only play with loaded dice, but they discourage the bonafide investor and give to industrial investments a bad name."[18]

All these criticisms and agitations, however, could not remove the system and its stranglehold on the Indian economy. Attempts at modernisation were undertaken by amending the Indian Companies Act in 1936. The nationalist economists pointed out: "The Amended Act of 1936 was not, however, comprehensive enough to meet with the abuses associated with the managing agency system." The National Planning Committee under Pandit Nehru opined that even after so called reforms, 'the system is rotten, root and branch, leaf and bark and blossom.'

3. The Indian Working Class

For the development of capitalism 'two very different kinds of commodity possessors must come face to face and into contact: on the one hand owners of money, means of production, means of subsistence, who are eager to increase the sum of values they possess, by buying other people's labour-power; on the other hand, free labourers, the sellers of their own labour-power......With this polarization of the market for commodites, the fundamental conditions of capitalist production are given. The capitalist system pre-supposes the complete separation of the labourers from all property in the means by which they can realise their labour......The so called primitive accumulation, therefore, is nothing else than the historical process of divorcing the producer from the means of production......The expropriation of the agricultural producer, of the peasant, from the soil is the basis of the whole process.'

A. The origin of the wage-earning classes

In India, before the growth of wage-earners as a class, the greater portion of the people lived in villages; where either collective

18. *The Central Banking Enquiry Committee Report, vol.* I, Part II, p. 331.

or individual ownership of land prevailed. In either case the ryot or cultivator was economically bound up with the soil. In any kind of landlordism which might have prevailed, the ryot had only to pay a fixed share of his produce as rent. The economic position of the domestic menials or household slaves was worse than that of the ryots. The artisans engaged in various handicrafts production were bound by customary rules and conventions set by the caste guilds, controlled by the leaders of the community. In case a productive operation need additional hands, it was met by voluntary exchange of men from different occupations, who were generally paid in kind at the customary rate. Labour thus was not free in the village. In the towns also, industries were generally in the hands of craftsmen or trades people. They used to draw apprentices from among the pool of younger members of the caste. Free labourers, the class of the wage-earners, working people with only labour-power as a commodity, were thus mostly absent in our economic strucure.

The rise of the wage-earning class in India, as elsewhere, is the result of demand for them and their supply. In other countries, the demand created its own supply. Here in India, the process of the evolution of wage-earning class revealed the opposite trend, the supply of pauperised labour preceded the demand for it. The pressure of Lancashire-machine production supported by the unjust political arm of the British rulers broke down the economic organisation of Indian handicrafts. The British traders and their gomastas completed the task by uprooting the small traders. The handicraftsmen, artisans and traders, all lost their occupations and were thrown on land. There on land, a system of landlordism was being evolved which impoverished the tillers of the soil through high revenue demands and the uncertainty regarding proprietory rights. The commercialisation of agriculture, money rent and overcrowding in land gradually made the stage ready for the newly rooted small land-lords and the uprooted small traders lending money at usurious rates. Under new land systems, land was sought to be made a commodity, saleable and mortgageable. Increasing indebtedness led to the transfer of land from the tillers to the moneylenders. The result was like that of England, the expropriation of the tillers of the soil, the removal of time-honoured traditions, conventions and customs. The inevitable result was the emergence of agricultural

proletariat. This class went on increasing with years due to famines, normal increase of population and further breakdown of the agrarian economy. This process of emergence started with the later years of the eighteenth century and the beginning of the nineteenth. The process gained in momentum gradually with the increase in demand for such labourer, but there was a gap between the supply and demand leading to untold misery and impoverishment. Out of this pauperised peasantry, artisans and petty traders, came the industrial proletariat of India. Wage-earning loosened the joint family bonds and the consequent insecurity speeded up wage-earning. The railways not only created demand, but also helped the impoverished with the necessary knowledge of jobs and cheap transportation facilities.

The demand for free wage-earning labourers arose long before the the middle of the nineteenth century. Such demand came from British colonies in Africa and other less populated regions of the world. The primitive tribes of those regions were being pushed out of their traditional abodes by British capital with the help of such Indian immigrant labourers, as the traditional knowledge of cultivation was absent in those tribes. In India the British plantations were the first to demand a class of farm labourers as such. Indigo and coffee plantations atracted the wage labourers as attempts were made to introduce capitalist farming of the British type. But it was not until the tea plantations were established that the demand for such a labouring class was keenly felt. With the construction of railroads there appeared a new demand for labour. The public works of the government, such as road construction, bridge building or maintenance works gradually demanded more wage-earners. The demand for labour in mines started with the opening of coal fields in different parts of the country, especially Bihar, Orissa and Bengal. In 1885, there were 24,541 labourers engaged in coal mining. Mining labour came from the most backward and primitive tribes like Santals etc. Factories originated in 1850's in Bombay and the surrounding regions and in Bengal. The Cotton and Jute factories also started demanding labourers from this labour pool. In the earlier years the degree of proletarianisation i.e. separation of labourers from land and the village economy was slow. It gradually increased with years.

B. The Emigrant Labour

As more and more countries of Asia and Africa came under British domination, the British planters started plantation farms in those colonies. In their own country farming was being conducted on capitalist modes and, since it was more profitable, they implanted capitalist agricultural farms in these colonies too. These planters used to mobilise labour through slave trade, the aboriginal tribes of these colonies were being captured and sold as commodities by the colonialists to the planters. In 1807, the slave-trade was banned and in 1833 the slave system was abolished. This gave rise to a very acute shortage of man-power in the colonies. The planters started recruiting 'free' labourers from India. Transportation of Indian workers started as early as 1819 in other colonies, but it increased very much after 1833. In 1842 and 1848, two committees were instituted by British Parliament tó enquire into the affair. We come to learn from the report of the first committee that 'in consequence of the emancipation of the Negro there had been a diminution in the stable production'. The committee further stated that 'the principal causes of the diminished production (of sugar) and consequent distress are the grear difficulty which has been experienced by the planters in obtaining steady and continuous labour.'

In 1835, 17315 workers were sent out under the emigration law to Mauritius, Natal, British Guiana and the West Indies. Between 1834 and 1837 as many as 7000 emigrants left Calcutta for Mauritius. In 1838 two ships carrying 400 emigrants left for British Guiana. The first consignment of labourers were shipped to Trinidad 1844. Indian emigrants were introduced into Jamaica in 1845. By 1847 the colony had received 4000. Natal got its first supply in 1860. To lesser islands like Granda, St. Lucia and St. Vincent emigration started in 1856, 1858 and 1861 respectively.

It would be wrong to think that the Indian workers were free and they willingly left the country. In fact, they were virtually kidnapped by means of fraudulent agreements. The planters propagated that the labourers were free men entered into these contracts willingly. But the social-reformers of Great Britain, the champions of anti-slavery, always pointed out that such indentured labourers could never be called free labourers. One of the social reformers Mr. Nowell Buxton said that 'the natives of India who were exported into Mauritius and the West Indian colonies were in any degree regarded as slaves.'

Till 1837, the Indian emigrants had no legal rights or safeguards. The situation deteriorated so much that some sort of legal safeguard became a necessity. Following the recommendations of the Law Commission of 1837, the Government of India passed a law known as the first Emigration Act (1837). The system of indenture introduced under the emigration Act was worse than slavery itself. While slaves were to be housed and clothed and fed, this new system freed the employers from such obligations.[19]

Within India also, especially in the plantations, the system of indentured labourers continued for a pretty long time. From the employment of labour under indenture or the system of penal contract and of private arrest by planters, acquiesced in by the illiterate and gullible rural folk—who are apt to be deceived by the rosy pictures given to them by itinerant *Arkathis* or professional recruiters—to the free movement of coolies without being recruited has been a long path of advance in India. Various kinds of abuses were connected with the indenture system. False allurements were given by the *Arkathis.* The planters advanced money to these intermediaries who withheld a part of it and gave a smaller amount to the recruited coolies. The journey was under inhuman conditions, the life in plantation was hard and akin to slavery. Any one who once accepted contract money was doomed forever and there was no way of escape left. The housing conditions beggared description and no medical facilities could be

19. The rate of emigration can be gauged from a single instance; the situation in Mauritius :

Years	*Men*	*Women*	*Total*
1851	64,282	13,714	77,996
1861	141,615	51,019	192,634
1871	141,804	74,454	216,258
1881	151,352	97,641	248,993
1891	147,499	108,421	255,920
1901	143,100	115,986	259,086
1911	138,974	118,723	257,679
1921	139,150	126,374	265,524

expected. Generally, the ptantation-owners did not themselves spend after housing, a plot of jungle was leased out to these workers to be developed, ploughed and a residential hut built therein by the workers' own labour, equipments, and materials.

C. *The Agricultural Labour*

In the pre-British Indian economy, or before the nineteenth century, farming was not carried on by hired labour. Within the self-sufficient and self-perpetuating village communites, the cultivators used to farm lands with the assistance from the members of his own family and there was no distinct class of working people whose main source of livelihood was labour on other people's lands against wage in cash or in kind. In 1842, Sir Thomas Munro as Census Commissioner reported that there were no landless peasants in India. This was undoubtedly an incorrect picture, but this indicated that the numbers were not considered large enough to require statistical measurement.

With the attempt to introduce new capitalist spirit in Indian agriculture through new land systems and the breakdown of the traditional Indian handicrafts leading to increased dependenec on agriculture, this new class of agricultural labourers gradually emerged out of the decolonised tribal people and of the lowest strata of agriculturists. The most powerful instrument in this process was collection of rent in cash which threw the peasants into the hands of rural money lenders. The process of capital formation in the rurul countryside in the hands of money-lenders and the process of de-feudalisation of landrelations continued simultaneously, whose structural end-result was the rise of a floating mass of agricultural labouring class. The members of the Orissa Famine Commission in 1865 observed the formation of this class. 'All our commerce and our enterprise, our great works and improved systems', they stated, 'create or increase the class of labourers depending on regular wages: and all increase of private wealth, enabling the richer to entertain labourers who are no longer slaves or serfs, add to this class.'

The process of growth of an independent class of agricultural labourers, uprooted from soil but bound to it, has been thoroughly analysed by modern scholars.[20] From an analysis of census date,

20. Surendra J. Patel, *Agricultural Labourers in India and Pakistan.*

Dr. Haraesur Bhattacharyya

1871-1931, it has been shown that during the last three decades of the nineteenth century, the agricultural labourers formed a very small proportion of the total agricultural population. This proportion was 18 per cent in 1871-72, 15 per cent in 1881, and 13 per cent in 1891. It has not been possible to state clearly whether the decline in the proportion of agricultural labourers was real or was merely caused by the changes in classification and coverage.[21]

Amidst the expectations of a 'period of comparative prosperity[21] and 'considerable increases in the incomes of the landholding and culti vating classes',[22] the nation-wide famine of 1896-97 came as a rude shock to the whole country. 'Hardly a few years passed and there was another famine in 1899-1900. Though not as widespread as the previous one, it was certainly more severe. This half a decade of disastrous years, in which famine followed famine, washed away the effects of the preceding period of relative agricultural prosperity, leaving in its deadly trail fields devasted, cattle destroyed and the people prostrate. The Indian Famine Commission of 1898 pointed out that as a consequence of the famine, the class of rural labourers far from contracting, seems to be widening, particularly in the more congested districts'[23].

The 1901 Census data amply justified the conclusions of the Famine Commission. The proportion of agricultural labourers to the total agricultural population jumped from a mere 13 per cent in 1891 to 25 cent in 1901, or virtually doubled. The number of persons classified as 'unspecified labourers' (who were normally regarded as agricultural labourers) was exceedingly large in this year. With the return of relatively normal times in 1911 a part of the agricultural labourers resettled themselves on the soil. This was reflected in a small decline in the relative proportion of agricultural labourers to the total agricultural population, which fell from 25 per cent in 1901

21. 'It appears that the decline in the proportion of agricultural labourers from 18 per cent in 1871-72 to 13 per cent in 1891 is likely to have been more apparent than real.' S. J. Patel, *Ibid*, p. 13.

22. D. R. Gadgil, *The Industrial Evolution of India*, p. 63, *Report of the Indian Famine Commission* p. 363.

23. *Ibid*, p. 363

See S. J. Patel, *Ibid*, p. 13.

to 22 per cent in 1911. Barring this decline, this proportion has thereafter shown a consistently upward tendency. The great depression of agricultural prices led to greater disintegration of the institutional framework of the agrarian society. This was reflected in the emergence of agricultural labourers as a distinct and the largest group of all the occupational groups in India. The proportion of agricultural labourers to the total agricultural population jumped from 26·2 per cent in 1921 to 38 per cent in 1931, nearly three times higher than that in the last decade of the nineteenth century. The Census Commissioner of 1931 was amazed and alarmed. In his opinion 'the change in ratio is somewhat remarkable even when adopting the lowest ratio which can be compared with that of 1921.'

This was the period in which a tremendous increase in population took place, it rose from 253·8 million in 1881 to 352·8 million in 1931. There was an increase in the absolute numbers of agricultural labourers and also a very significant increase in the relative proportion of agricultural labourers.[24]

The *Report* of the Bengal Land Revenue Commission (1938) stated that 'the next census will show a considerably larger increase' in the number of agricultural labourers. The results of 1941 census were not known. The Indian Famine Enquiry Commission (1945) however in the *Report* on Bengal estimated the agricultural labour as 26·6 per cent of agricultural families. In other provinces the rise was greater.[25]

24. "This increase in their relative proportion cannot be explained by the increase in population alone. The mere increase in population should have affected all groups constituting agricultural population in identical proportions with the result that the relative proportions of these groups would not change at all. The changes in the relative proportions, therefore, indicate shifts within the groups. As a result of such intra-group shifts other groups within the agricultural population have lost heavily to the group of agricultural labourers." S. J. Patel, *op. cit.* P. 17-18.

25. Karyanand Sharma, the President of the All India Kisan Sabha for 1948 expressed his opinion that this proportion has risen from more than 30 per cent in 1931 to about 45 per cent in 1947-8.

D. *The growth in the number Factory Labour*

Apart from Emigrant Labour, Plantation Labour and Agricultural Labour, there grew up in India from the middle of the nineteenth century, the modern Factory Labour. The growth in the number of such factory labourers or of the industrial proletariat in the true sense of the term, naturally coincided with the growth of modern factories or the spread of industrialisation as such.

Records as to the number of cotton mill workers were not kept until 1879-1880, when 47855 such persons were found in the mills of the country. Labourers in jute mills, recorded still later, numbered 59,222 in 1889.

The first systematic record of all labourers in all classes of factories, working under the factory act of 1881, was taken in 1892 and their number was found to be 316,715. The increase since that time is shown in the table below :

Growth of Factory Labour from 1892 to 1918

Year	Number of factories		Number of persons employed		Average member of persons per factory
	Total	Percentage increase compared to 1892	Total	Percentage increase Compared to 1892	
1892	653	—	316,715	—	485
1900	1,207	85	468,956	48	388
1910	2,271	248	792,511	150	349
1918	3,318	408	1,123,072	254	338

The above table indicates the comparative growth in the number of factories and labourers in the 26 years period, the number of factories having increased 408 per cent and that of labourers 254 per cent. The decline in the average number of workers in each factory (shown in the last column) was due to the gradual inclusion of many smaller establishments within the scope of the factory Act. Of the 316715 workers engaged in different factories in 1892, there were 2,54,236 men, 43,392 women and 18,887 children. In 1918, the total number of workers rose to 11,23,072, of whom 8,97,619 were men, 1,61,343 women, and 64,110 children. The increase in the number of different classes of employees in 1918 as compared with 1892 was 252 per cent of men, 270 per cent for women and 254 per cent for children, showing a higher rate of increase among woman employees than among other groups.

Though the rate of increase of numbers of factory labourers increased from the beginning of the nineteen-twenties, yet the rate was slow. The slow growth was due to many reasons. (1) First, the labouring classes in India have been freeholders and are slow to leave their old positions, whereas in the west the ancestry of the present wage-earning classes was remotely connected with serfdom and it was natural for their descendants to get away from their hard lot and humiliation at the first opportunity. (2) Secondly, the joint family system in India holds together all the members of the family system in Indsa holds together all the members of the family and even when some of them leave for distant towns they retain their attachment for home. (3) Thirdly the conditions of work and living in the towns are really sordid, the labourers thus continue to long for a peaceful and better living conditions in the villages.

E. The supply and Mobility of Factory Labour

The availability of a work force untrammeled by traditional restrictions or social and sentimental barriers to mobility is one crucial element in the economic development of an industrial society. Several questions may be asked : (a) to what extent has the lack of such a mobile labour force inhibited the growth of Indian industry? (b) How greatly have the sentiments of agricultural attachment, the religious tenets of caste and family and the continued existence of rural occupations operated to limit the mobility of labour and the free flow of a work-force into the factories of India? In other words, is the problem of achieving this precondition of industrialization in India different in kind or merely in tempo from the pattern elaborated by countries of the North Atlantic nucleus?

Although there is complete agreement that in India today both open and disguised unemployment is widespread, there is almost equally uniform agreement among industrialists, officials and scholars that industrial development in India before 1947 was seriously handicapped by the difficulty of organising a stable, disciplined labour-force of adequate size. This was the considered judgement of the

Indian Factory Labour Commission of 1908 : "The position of the operative has been greatly strengthened by the fact that the supply of factory labour undoubtedly is, and has been, inadequate ; and there is, and has been, the keenest competition among employers to secure a full labour supply." The classic statement on the subject appeared in 1931 in the report of the Royal Commission on Labour in India : "Throughout the greater part of its history, organised industry in India has experienced a shortage of labour. A generation ago, this shortage was apt at times to be critical...(After 1905) the position became easier in the factory industries, but even in these, before the (first world) war, few employers were assured of adequate labour at all seasons of the year...Perennial factories...have now reached a position in which most of them have sufficient labour at all seasons and there is a surplus of factory labour at several centres...Speaking generally, it would be true to say that the turning point came during the last five years, up to that stage, labour tended to have the upper hand in that there was competition for its services ; since then the tendency has been for the workers to compete for jobs."[26] The same point was recently made by an American scholar who referred to "the excess of jobs over jobseekers which typified Indian industries for the period between 1900 and 1935" and by the official historian of the Indian cotton textile industry.[27]

Shortage of labour is supposed to have (i) directly affected the rate of industrial growth by reducing it : and also (ii) indirectly shaped the behaviour and attitudes of the workers coming into industry. The behaviour pattern of the Indian workers is generally described in one of the two wholly contradictory ways : (a) labour being scarce, employers had to scramble for workers and had to make unnecessary concessions which weakened control and discipline. They were allowed too frequent returns to the villages. And (b) labour being abundant, employers were able to abuse workers unmercifully. Since working conditions in the factories were intolerable, labour tended to remain in the villages or was very quickly forced back to the land by utter exhaustion.[28] These two essentially contradictory

26. *Report of the Royal Commission on Labour*, p. 21.
27. Oscar A. Ornati, *Jobs and Workers in India*, p. 35.
28. *Indian Factory Labour Commission*, pp. 18-19 ; 81-93 ; *Jathar and Beri* pp. 76-77 ; Gadgil, *Industrial Evolution of India*, pp. 127-130.

hypothesis (labour scarcity and labour-abundance) however led to the same general conclusion that workers constantly endeavoured to retain their rural links to an extent which limited the supply of labour for industrial development. As a consequence, disciplined urban-industrial or proletarian types of behaviour did not developed. This was supposed to be quite necessarily accompanied by high rate of labour turnover and the slow growth of trade unionism in our country. It was also argued that the institutions of the older social order seriously inhibited the creation of an industrial labour force ; claims of kinship, caste and village supposedly served as bonds keeping people on land or operated as powerful forces to bring them back. Thus any movement towards city was a temporary one.

The recent research works, based on fresh historical data and interpretation, however, attempt to disprove these timehonoured hypothesis and conclusions.[29] Prof. David Morris has shown by analysing the growth of the Bombay Cotton Textile Industry, that quite different conclusions emerge as historical truth. 'Not only did the industry steadily expand the size of its labour force, but the evidence suggests that during the critical period, the half-century before 1920, mills were able to obtain new recruits without any significant upward pressure on the wage rates at which novice mill hands were employed. If labour shortages had persisted for long periods of time—i.e., if market conditions had favoured a more rapid expansion of output than actually occurred—we would expect to find evidence of steady upward trend of hiring-in wage rates, particularly when labour costs were relatively small proportion of total costs and profit expectations were quite high. Moreover, we would have expected evidence of a shift in the industry's technology increasingly in the direction of more capital-intensive methods of production. Neither of these two tendencies can be found in the period before 1920'.

'Nor can it be argued that wage rates, for cultural reasons specific to India, were unresponsible to a labour shortage when it appeared...'

29. The most important research work disproving the old notions which were based on little systematic historical evidence and were untested by historical material is by Prof. Morris David Morris. *The Emergence of an Industrial Labour Force in India, a study of the Bombay Cotton Mills, 1854-1957* (1965).

The data collected by Prof. Morris with regard to the place of origin of the labourers suggest an additional feature about the labour force 'one running counter to the widely accepted view that the industry depended almost entirely on workers who migrated only temporarily from the countryside and returned to the countryside at the end of the period of service...The fact is significant because it casts very serious doubt on the propositions which attributed labour force instability to the persistence of a rural nexus'.

'Just as the analysis supports the view that a growing proportion of the labour force was permanently tied to the industry for its livelihood, a reassessment of the materials on absenteeism suggests that these rates have been grossly overstated. It is likely that willful absenteeism by mill-hands was typically less than 10 per cent, and much of this could be attributed to illness. Moreover, statistical evidence does not support the claim of an enormous seasonal swing in absenteeism associated with agricultural requirements of the rural sector'.

'Just as other traditional institutions did not seem seriously to inhibit either the movement of people to Bombay or their recruitment into the mills, so traditional village caste (*jati*) divisions apparently did not have overwhelming effect on the mobilization of a factory labor force......The traditional subcaste distinctions of the country-side did not affect the employer's ability to recruit as much labor as he needed of the type that he wanted......Moreover whatever, distinctions did persist survived only because they were irrelevant to mill operations. Whenever and whatever industrial functioning required the disruption of traditional distinctions, they were apparently swept away with ease.'[30]

4. The Labour Movement in India

A. The Origin

Except for the movement for national government, no movement in India was historically so important as that of labour. Considered from the view point of economic and social history, it is in fact the most significant movement in the whole history of our country. The

30. Morris David Morris : *The Emergence of an Industrial Labour Force in India, a study of the Bombay Cotton Mills* 1854-1947. pp. 198-210.

labour movement was a means to (i) the economic improvement of labour by getting a larger portion of national dividend for wage-earners, (ii) the reclamation and fertilisation of the physical and mental creative energy of the traditionally inert and vegetative masses of India, (iii) the build up an effective shield of countervailing power in relation to the united capitalist class.

The labour movement in India falls into three distinct periods according to the dominant forces which influenced the course of its development. The first period started with the object of regulating child and woman labour in factories and lasted from 1875 to 1891. The abolition of the indentured system was the main purpose of the second period which lasted from 1891 to 1917. The third period began in 1918 with the principal aim of organising the workers into trade unions and is still in the process of growth. These three periods might be conveniently called as the regulation, abolition and organisation periods.

The underlying cause of the labour movement was use of women and children in growing numbers in the cotton factories of India which started springing up rapidly during the seventies of the last century. The initial cause was the rivalry of Lancashire manufacturers, who sent in 1874 a deputation to the Secretary of State to urge upon the necessity of factory legislation, especially the regulation of working hours in Indian factories. On the advice of the Secretary of State, the Government of Bombay appointed a Commission in 1875. At the same time the philanthropists in Bombay like Mr. Sorabjee Shapoorjee Bengalee started agitation for legislation, which formed the nucleus of the labour movement in India.

The majority of the Commission suggested no action. This revived the agitation of the Manchester interests, which were shortly followed by counter-actions by cotton-manufacturers in India, minimising the grievances of the labourers. As usual the Manchester won, and this resulted in the enactment of the first factory act and in the regulation of child labour in 1881. But the failure of the act to regulate woman labour led to agitation for its amendment. Out of these agitations emerged the first labour leader in India, Mr. Narayan Meghajee Lokhanday who started life as factory labourer and worked for the cause of labour till the end of his life.

A second commission was appointed in 1884 to consider the desirability of amending the factory act. Mr. Lokhanday organised a conference of the workers and drew up a memorandum, asking for the redress of their grievances. It was signed by 5500 workers and was presented to the Commission. In October, 1889, the workers in the spinning and weaving industries of Bombay submitted a petition to the Governor-General asking for the amendment of the Factory Act. In April 1890 a mass-meeting of factory workers was held in Bombay. Two women addressed the meeting and demanded a weekly holiday which was granted by the employers.

In 1890, Mr. Lokhanday founded the first organisation among the working people of India, the Bombay Millhand's Association. He also started a labour paper, called the Dinabandhu, or the friend of poor, which became the clearing house of the grievances of the workers in the city of Bombay.

In the same year another Factory Commission was appointed and Mr. Lokhanday represented Labour in that Commission. In 1891, the second factory act was passed which tried to regulate the labour of women and to raise the minimum and maximum ages of children. Thus ended the first period.

The second period of the labour movement was a protest against the indenture system by which the Indian labourers were sent out to British Colonies to take the place of Negro slaves emancipated in 1834. The system was introduced in Mauritius and Trinidad in 1834 and later on into Natal, Fiji and other Colonies. Discriminating laws against the Indians were passed by the Transvaal Government as early as 1883. In 1891, Natal started a series of repressive measures, which made the condition of the indentured Indians very severe and brought the question to the public notice. The Indians in Natal started passive resistance. 1906 the Transvaal government brought about a new bill against Asian immigration, which was passed in 1907. The new wave of popular political consciousness in 1905 through movement against proposed Bengal partition deepened the anguish and determination. Protest meetings were held all over the country. In 1910 a resolution of Mr. G. Gokhale was passed in Legislative council to prohibit the emigration of Indians as indentured labourers to Natal. Early in 1912 Mr. Gokhale again moved a resolution for the abolition of the system itself, but the Government opposed the motion. The pressure of the movement by the Indians forced the South African Government to enact the Indian Relief Act, 1914. The India Government prohibited emigration during the war. By the Act of March 1922, the system was finally abolished.

or the third period

The organisation period started from the end of the First World War. The growth in the numbers of factories and the labourers and also the rise of class-consciousness among workers were the fundamental causes of the movement for organisation. Although the first labour union was founded in 1890 and the second in 1910, it was not until 1918 that the movement for trade unionism started. In that year an industrial union was organised among the textile workers in Madras. By 1919 there were 4 unions in Madras Presidency with a membership of 20,000 persons. From Madras the movement spread to the other parts of the country and similar unions were founded in Bombay, Calcutta, Ahmedabad and other industrial centres.

The political unrest in the country, the higher cost of living, the news of the working class state in Russia and the propagation of the working class philosophy of social change through the movement of classes—all these operated together to generate a higher degree of consciousness among the industrial workers of India. In December 1919 a conference of Bombay factory workers was held and about 72 factories were represented. They drew up a memorandum demanding the reduction of hours and the increase of wages. The employers did not meet these demands, the workers revolted and organised the waves of strikes till the whole industrial organisation of the country was paralysed.

Gradually the labour movement went on its natural course with the development of organisational structures. It assumed national importance in 1920 when the first All-India Trade Union Congress was held at Bombay with Lala Lajpat Rai as President and Mr. Joseph Baptista as Vice-President. In its second congress next year at Jharia there were 10,000 delegates from 100 unions representing 10,00,000 members and a constitution was adopted.

In summary, in the first period, the movement had no definite aim and only petitions and appeals were the main objects ; in the second period, the movement was led mainly by intellectuals and

agitation against the indenture system was at its centre ; in the third period, the movement assumed the proper economic nature or the proper Trade Unionism has begun. Labour unions sprang up and it became a movement for and by the workers ; although for leadership, it still had to depend upon outside help.

B. History of Trade Unions or Labour Organisations in India

Report of the Royal Commission on Labour in India observed that 'prior to war, organisation scarcely extended beyond the better paid railways employees and some classes of Government servants.' In 1890, at the time of the amendment of the Indian Factories Act, *Bombay Mill Hand's Association* was formed. But it was not a Trade Union in the correct sense of the term. It was a 'loosely organised body' with no definite aim or constitution. In 1897, the ***Amalgamated Society of Railway Servants of India and Burma*** was formed. Its membership was limited to the Anglo-Indian and European employees of the railways. It was merely a friendly society and cannot be accepted as a trade union proper. There was the ***Printers' Union in Calcutta*** in 1905, and the ***Bombay Postal Union*** in 1907, both sporadic and of ad hoc nature. Some philanthropists of Bombay started the Kamgar Hitvardhak Sabha in 1909 to carry on welfare activities among the labourers. In Calcutta, there were other minor labour organisations like Mohammeden Association and the Indian Labour Union.

The real history of trade unionism started after the end of the First World War, when many factors combined together to promote its growth. During and after the war several elements brought about a revolution in the social, political and industrial life of India. First, the Great War, which stirred the whole world, affected also the masses of India, who had to bear the burden of recruitment, loans and taxes. Second, the national movement became very strong in power and adopted defying methods for the achievment of Swaraj. Third, some of the repressive measures of the British Government, such as the martial law, Jallianwalabagh massacre, Rowlat acts and imprisonment of national leaders, aroused a spirit of defiance among the people. Fourth, the agitation against the discrimination by colonies and dominions created a feeling of national self-respect on the one hand, and of sympathy and responsibility towards the labouring classes on the other. The last, but not the least, was the revolution in Russia, especially the establishment of the Soviet Republic, which awakened hope for a new social order.[31] The new consciousness was related to, as the Royal Commission on Labour had written, 'the realisation of the potentialities of the strike.'

'From the earliest time, the labour movement has been guided by two distinct doctrines. The first is that iniquities of modern industrial society, of which labour problems are a part, have resulted from the capitalistic system and cannot to remedied without breaking down the system itself. This is the doctrine of the revolutionary wing of the labour movement and consists of several phases from philosophical anarchism to state socialism. The second is that the present iniquities have been caused by employees to make a better bargain with their employers and can be remedied by labour organisation which will give labourers the same advantage as the employers have. This is the doctrine of that wing of the labour movement which aims at the solution of labour problems through collective bargaining. It accepts modern socio-economic institutions and attempts only at equalising the bargaining power of labour with that of capital.'

The first Trade Union in India was the Madras Labour Union established in the first quarter of 1918. It became the forerunner of trade unionism of our country. It started as an organisation of textile workers, but subsequently it became a general union of all sections of the workers namely, the workers of Railways, Printing Press, Railways Workshop and the Rickshawpullers. The Madras Labour Union was the first systematic attempt at trade union organisation, with regular membership and dues and relief fund. There was also a trace of the workers' union formed in Ahmedabad in 1917 but its basis was very weak. At a somewhat later stage Craft Unions, Spinner's Union, Folder's Union, Weaver's Union, Union of Sizers, Winders, Blowers and Farmers was formed by Mr. Gandhi in Ahmedabad, and federated into the Majur Mahajan, the textile labour association in Ahmedabad in 1920. After 1919 trade unionism spread all over the country, to centres other than Madras, Ahmedabad and Bombay. But most of the unions in the beginning had very little continuity. That was why the Industrial Disputes Committee of

31. R. K. Das, *The Labour Movement in India*, P. 33-34.

Bombay reported on the lack of stability of these unions. In most cases the unions were little more than Strike Committees consisting of a few officers and perhaps a few paying members ; the rest rallied in times of trouble. After work was resumed the unions dwindled and in most cases disappeared.

A modern scholar has made the following observation on this point. "One historical fact may be emphasised here. The beginning of modern trade unionism in relatively weak industrial centres at Madras was simply accidental and personal, because during the whole period 1921-23 the number of strike-days in Madras was 2·8 million against 20 million in Bengal and 60 million in Bombay. Moreover, the influence of two centres of Madras and Ahmedabad, where modern trade unionism had its early start, on the future course of the Indian labour movement was very little. The centre of the stage was constantly occupied by the unions of the cotton textile industries of Bombay."

In 1920 the All India Trade Union Congress was formed as India's first central organisation of labour. Its object was 'to co-ordinate the activities of all labour organisations in all trades and in all the provinces in India and generally to further the interests of Indian labour in matters economic, social and political. The AITUC was intended to bring about an apparent cohesion in the movement as a whole'. Though the creation of the AITUC is said to be hastened in order to secure representation of the Indian labour at the I. L. O. conference at Geneva, nevertheless there was a genuine need of a permanent national centre of trade unions in India. Men like Andrews and Gandhi, of course, did not support the creation of the AITUC.

'The promoters of the AITUC were distinguished public men and nationalists, who wanted to build a labour movement in India after the English model. Even the name Trade Union Congress was borrowed from England. But a labour organisation after the English model was not possible in India because of absence of any sharp craft division among industrial workers, the vastness of the country and the extreme slowness of the growth of modern industries in India. After having lived a nebulous existence for nearly four years the AITUC could have its definite constitution, which too was modelled on the lines of the British Trade Union Congress.' For a number of years the AITUC remained oriented towards the national movement as one of its integral part.

An analysis of the membership-structure of the trade unions affiliated to the All India Trade Union Congress in 1920 shows the existence of 64 unions distributed according to industries as detailed below :[32]

Industry	No. of affiliated unions	Membership of affiliated unions
Railways	11	91,427
Textiles	9	7,719
Shipping	3	19,800
Transport	2	2,470
Chemical	6	856
Engineering	7	7,590
Post & Telegraph	5	1,685
Printing & Paper	3	1,844
General	18	7,463
	64	140,854

In addition, the Ahmedabad Textile Labour Association (not affiliated to the AITUC) was started in 1918 and claimed a membership of 16450 in 1920. It is estimated that between 2,50,000 and 5,00,000 workers were organised into unions at that time.

The spread of unionism was accompanied by a large number of strikes. In 1919, there were important strikes in Madras, Bombay, Bengal, Bihar and Orissa; and 1920-21, industrial strife became almost general in organised industry. In 1921, industrial unrest was at its height and there were 376 stoppages.[33]

The strikes during this period were aimed towards an increase of wages and the securing of a ten-hour day. A feature of these strikes was their short duration and the success which attended them. Two-thirds of some 100 strikes which took place in the jute industry in the second half of 1920, for example, were completely successful from

32. Mathur & Mathur, *Trade Union Movement in India* p. 18.
33. *Report of the Royal Commission on Labour in India*, P. 333.

the point of view of the workers. The success was undoubtedly due to the fact that the industry was in a prosperous position and also owing to the sudden growth of the trade union movement, whose strength the employers found difficult to resist.

The period from 1925 to 1934 was remarkable for the effect of communist influence on the development of industrial relations. The communist influence resulted in providing a class-philosophy for the working people as guide to action of industrial workers in our country, shifting of emphasis from national liberation movement to class-struggle and building up of socialism. Their energy, enthusiasm and devotion resulted in the rapid increase in the trade union membership and intensification of industrial unrest. Their influence has also split the AITUC, accentuated political differences and has brought a permanent cleavage in the labour movement in our country.

Left-wing trade unionism during this period was marked by several factors. Political leaders of the left parties entered and guided the unions, socio-economic causes of capitalist relations were increasingly analysed and explained, an international outlook was developed among the working class. It advocated the boycott of the Royal Commission on Labour, condemned the participaiion in I. L. O. work. In many cases the interest of the industry or of unity of various interests connected with it, was submerged to the needs of class struggle. In spite of all these, the left wing trade unionists were helpful in building the trade union movement. Their uncompromising philosophy the challenge, the intense personal sacrifices of their leaders and cadres did surcharge the Indian working class with a sense of honour, discipline, unity and glory. The historical caste domination of the capitalists whose modus operandi of exploitation for profit creation was mostly feudal or even tribal has sometimes necessitated this intense hardship of a group of selfless idealist people from the middleclass intelligentia. But for them, the embryo of trade unionism might have been crushed to death by the foreign rulers with the open and tacit support of foreign and native capitalists.

'The Government wanted to put a check to the growing communist influences. A trial of communist leaders was held in Kanpur in 1924 on the charge that they were organising conspiracy to overthrow the

Government by violent means. The Kanpur trials could not check the popularity and the growing influence of the communists. They organised the Workers and Peasants party in Bombay and Kirti, Kisan and the Nawjawan Sabhas in the Punjab. Another attempt to crush the communist movement was made by the Government in 1929 when the famous Meerut trial was held. The Government spent £170,000 and the prosecution lasted for four and a half years. The young trade unionists were sentenced for very heavy sentences which were later on reduced on appeal. The Government, however, could not check the growing influence of communists.[34]

The story of labour movement from 1938 is full of splits and unity. The first split occurred at the tenth session of the AITUC in Nagpur in 1929. The moderates formed the Indiàn Trades Union Federation. The communists gained control of the AITUC with the help of left nationalists. The alliance of the communists and the left-nationalists also broke up in 1931 at the eleventh session of the AITUC in Calcutta. The difference between the extremists and the main group of nationalists led by Subhas Ch. Bose became acute. The extremist communists led by B. T. Ranadive and S. V. Deshpande left the AITUC, the parent body and formed the All India Red Trade Union Congress.

Just when the employers were trying to shift the incidence of economic depression through rationalisation and wagecut, over to the working class, such divisions in the labour movement was proving very costly. In 1933, more than 50,000 workers in Bombay city were thrown out of employment, and by 1934 almost every mill in Bombay brought down wages by a substantial portion. The split kept the workers powerless to resist. The Jute workers' strike in Calcutta, Tata Colliery workers' strike and the Textile worker's strike in Bombay city were thrown out of employment, and by 1934 almost every mill in Bombay brought down wages by a substantial portion. The split kept the workers powerless to resist. The Jute workers' srike in Calcutta, Tata Colliery workers' strike and the Textile

34. Mathur and Mathur, *Trade Union Movement in India*, p. 26. Prof. Harold Laski has compared Meerut trial to the most ill-famed political trials of the world, e. g. the Mooney trial and the Sacco-Vanzetti trial in the U. S., the Dreyfus trial in France and the Reichstag Fire Trial in Hitler's Germany.

worker's strike in Bombay ended in complete failure. The communists took the determined offensive against such 'rationalisation' in 1934, which resulted in general strikes in textile industry in Bombay, Nagpur and Sholapur. In 1934, the man-days lost were 47·7 lakhs as compared to 21·7 lakhs of the previous year. The Government actively helped the employers by banning the Communist Party, and declaring more than a dozen registered trade unions illegal. The Government used the Emergency Powers Ordinance and the Trade Disputes Act to check the growth of Trade Unionism durlng this period.

In 1935 the Red Trade Union Congress joined the AITUC. The Congress socialist party at this time also joined the AITUC. In 1936, the AITUC and the National Trade Union Federation decided to unite. The unity was achieved in 1940.

In 1937-38, when congress ministries were formed in seven provinces out of nine, there was new upsurge of industrial unrest culminating into big strikes. In 1937, the number of strikes reached 379 which was the highest number since 1921; 6,47,801 workers were involved, the largest number on record; and the total number of man-days lost was 89,82,257, the highest since 1929. There were general as well as particular causes of this outburst. Strike-wave of 1937-38 was a part of the world strike wave consequent on the temporary recovery in the capitalist countries due to armament race. Another cause, was psychological, it was related to the workers' expectations from the Congress government. And lastly, there were genuine economic difficulties and the intransigence of the employers.

While in the earlier war years, i.e. 1939-40, the large strikes were of mostly political character, in the strikes of the later years the demand of dearness allowance due to high price was the predominant note. The unity of the trade union movement was very much short-lived as the dominant groups fell out between themselves with regard to the attitude towards the war. The first to secede was the Royist group in 1940, who wanted to support the war and formed the Indian Federation of Labour. Next defection came in 1942, when the communists started supporting the war-effort and the nationalists were maintaining the anti-war posture. The nationalists and the congress

Socialists went out of the AITUC. The labour unrest was kept in check by war-time regulations, i.e. the defence of India Rules, National Service (Technical Personnel) Ordinance, and the Essential Services (Maintenance) Ordinance.

The impact of the second world war on the trade union movement was very favourable. The I. L. O. reported : "The wartime influences that gave a considerable impetus to industrial production in India were not without an effect on the labour movement. The workers' organisations have gained in strength. They are able to participate with some authority in negotiations with employers, and in the tripartite collaboration with Government and employer's representatives that was inaugurated during the war with establishment of the Indian Labour Unions, the membership grew far more rapidly. The wartime profit-earning situation helped the workers to earn more money-wages through trade union pressures."

The post-independence period was marked by rapid rise in the trade union movement. Among other factors, the most important were : (a) the international connections and influences, (b) the pressure of trade union rivalries, often based on political or ideological differences, acting as the spur of competition, (c) the Government's industrial relations policy under the Industrial Disputes Act, 1947, with its provision of compulsory adjudication machinery. The Communist domination of the AITUC, the worsening industrial relations and record number of strikes, workers involved, man-days lost and the resulting shortage of goods set the leadership thinking and with active support and encouragement from congress leaders, and with blessings from Mahatma Gandhi the INTUC was organised in 1947. Its object was to develop the labour front of the Congress Party, it wanted to bring about a peaceful and non-violent solution of industrial disputes.

The short survey of the history of the trade union movement in India sharply reveals a few of its characteristics prevailing at present. From its start it was initiated and supported by institutions in the foreign countries, it was a mixed politico-economic movement, led by

35. I. L. O. *Wartime Development in Trade Union Organisation in India* (1946) p. 60.

middle class intellectuals of strong communist or socialist leanings. Due to shortage of funds, it was built up by hard labour and personal sacrifices of these intellectuals, and not of the actual labourers. These unions could not develop the educational, cultural and welfare activities of their members due to shortage of funds and unsympathetic attitude of the employers themselves. Due to feudalistic traditions in most of our factories, these trade unions could not develop as strong collective-bargainers, and could not therefore, build up strong countervailing power necessary in the capitalist state structure to maintain the necessary social and political equilibrium.

5. Role of the State in Economic Development

A. *The Nineteenth Century background in several countries*

There had been various degrees of State participation in the initiation and direction of development process in the countries that are now industrialised. The nineteenth century State has played a large initiating and active entrepreneurial role in some countries : for example, in Japan after 1870, in Imperial Germany and in USSR since world war I. In contrast, the economic development of U. K. and the U. S. A. occurred with much less deliberate State action. In England, the rise of the new industrial and commercial bourgeoisie actually led to a freeing of economic enterprise from old governmental restrictions, and rapid growth was associated with a laissez faire environment. In the U. S. A., State promotion was restricted mainly to providing settlers and railroads with land, establishing land grant colleges, developing roads and harbours, and fostering some industries through protective tariffs and subsidies. Let us discuss these countries a bit-more fully, before we evaluate the role of State in the economic development in India in the past two hundred years.

The nineteenth century industrial growth of the U. K. took place within a framework of minimal State intervention. The commercial capitalism grew up under State patronage, but the industrial bourgeoisie had to establish the freedom of individual action in the sphere of production and trade. The State did not engage directly in production to any significant extent. Manufacturing industries and even basic public utilities like the telegraph and telephone systems, railroads, canals, turnpikes and waterworks were developed in private sector.[36] The public and the economists both believed in the benefits of competition, in the struggle for existence, survival of the fittest and the elimination of the unfit. Many state activities in the early nineteenth century were directed towards removing the earlier governmental interferences in economic life, those remnants of the mercantilist period. The Corn Laws were repealed in 1846. The Navigation Laws were liberalised gradually and were completely repealed in 1853. The law prohibiting the emigration of artisans was repealed in 1824. In the same year restrictions on the import of machinery were withdrawn. The monopoly of the East India Company in India and China was removed in 1813 and 1833 respectively. Exclusive privileges in the insurance and banking field were withdrawn in the 1820's.

The State power was in the hands of industrial bourgeoisie, and that was why the free enterprise was enforced only where it helped the industrialist class. Economic freedom was kept restricted wherever the interests of British industries needed such restrictions. The State allowed no freedom to the labourers to combine. Liberalism meant the freedom of the employers to combine but not of the workers. The common law of conspiracy restricted the formation of labour unions. The complete freedom in all affairs may prove suicidal to the capitalists, thus the Bank Charter Act of 1844 regulated the system of note-issue. Non-regulation in the capital market might lead to many South-Sea bubbles, thus necessary regulations were imposed. Tariffs were mostly removed, but imports from India (not of raw materials, of course) were severely restricted by duty.

In the U. S. A., the federal government likewise did not "interfere" to accelerate the growth. When Columbus discovered America there was no mercantilism or such other restrictions, which the new settlers, the firm-believers in free enterprise and individual rights, had to remove. In the United States, monopoly appeared along with free enterprise. The State played the referee, while the private entrepreneurs played the game. It aided domestic development to a small extent by partially financing turnpikes and canals in the early part of the nineteenth century. The State contribution of $ 7 million was the most notable project. The federal land grants, however, were

36. The Telegraph was nationalised in 1868 and Telephone in 1911.

more important in promoting internal improvements than direct financial help. In fiscal policy, however, the U. S. Government followed the protectionist arguments of Alexander Hamilton rather than the classical economists. The infant industry argument was widely accepted by the public and was put into practice throughout the nineteenth century. Federal Government followed a "hands off" legislative policy with regard to labour. While labour unions were subject to the doctrines of conspiracy and restraint of trade, capital was not subject to anti-monopoly laws till the end of the nineteenth century (Inter-state Commerce Act, 1887, and Sherman Act, 1890). Industrial Monopolies were regarded as desirable in the field of invention and Congress passed several patent laws to assure monopolies. The U. S. government exercised some control over banking and note regulation. Thus though the State did not engage itself to business, its help was very much important. Sometimes the State Governments purchased shares of railroads and other transport facilities ; they also tried to exercise control over rates, profits and service performance. In the South, several states owned, established and operated banks. Subsidies and rewards were offered for the establishment of new industries. Thus in the U. S. the state participation and help was relatively greater than that of the U. K.

In France and Germany, State-sponsoring activities were more than those in either U. K. or the U. S. France followed the traditions of Colbertism. German intellectual circles gave up the "classical economics" and developed instead the German Historical School. The French Government, for instance, constructed an extensive road system. In 1818, Government drew up a large scheme of canal construction. At first the costs were met by private sector, but after 1850 most of them were nationalised. In railroads, the State contributed the land and built the roadbeds, but private companies operated the lines and provided the rolling stock, tracks, and working capital. In Germany, many railroads were constructed and operated by the State until 1912 when all were nationalised. The Bank of France was a quasi-official organisation, it was the depository and disburser of Government funds. In 1852 two important financial enterprises established were *Credit Foncier* and the *Credit Mobilier*. The former one was to lend to the peasants and the town people, the latter was to finance the industries In 1900 there was also *Credit Agricole* to provide additional low-interest credits. In Germany credit to industry was larger in volume and for longer periods. The German State financed the private industries to a large extent till this function was taken over by the German Banks.

Following the tradition set by the great mercantilist Colbert the French State established schools of civil engineering and mining. There were generous rewards and subsidies for the development of new industries. Business organisation laws were liberalised to permit limited liabilities. In Germany the guild organisation slowly disintegrated. In 1821 the Institute of trades was established to train and foster new entrepreneurs. Germany had no laws against cartels. In the labour field, the French and German policies were just like that in U. K. and the U. S. A. All labour combinations were illegal in France until 1868 and in Germany until 1869. Fiscal policies were protectionist in both the countries.

Japan, in the late nineteenth century, pursued much more interventionist policies to foster industrial development than most of the countries discussed above. Between 1868 and 1882, the State financed and operated enterprises in both the public utility and manufacturing. Railroads and telegraph lines were constructed, owned and operated by the State. Shipping was subsidised. And what was more important, the State established iron foundries, machine shops, silk and cotton spinning factories, and cement, paper and glass factories. After 1882, the State denationalised all these industries and at very low prices sold most of these projects to private sector. The Iron and Steel was dominated all along by the State firm (Yawata Iron Works). Public utilities were State-owned. Trunk railways were nationalised. The telephone and telegraph industries were controlled by the State. Education of industrial techniques was fostered by the State. Foreign specialists were brought to Japan. To finance all these the State relied more on land and consumption taxes. Personal and business income were taxed only at moderate rates. The Bank of Japan was State-controlled, so also other private banks which were encouraged to finance industries. Joint stock principle was favoured. No anti-monopoly legislation was undertaken. Labour-unions were treated as criminal organisations. There were

more bilateral treaties than tariffs until 1899, thereafter the Japanese State consistently followed a protectionist policy.

6. Role of the State in India

A. The Company, the Crown and Economic Development in India

Considering what State had done in other countries for facilitating economic development directly and indirectly, we can perhaps conclude that the Government of India failed in this respect. This was rather natural as the State-power was in the hands of British bourgeoisie. Economic development is facilitated if the owners of capital can create suitable conditions for its investment, use, and gradually more rapid increment. The owners of capital therefore are always eager to use the apparatus of the State-power,—its law-making, executing and judicial powers to remove the obstacles set before such a path. In the case of India, there was a Government which administered but did not rule. The rule was enforced by the British State situated in London, managed by the owners of British capital. The Government, therefore, could not, in the classical manner, play its positive role for economic development.

Prof. Buchanan observed that, 'the new Government was in fact not well-fitted for the chief task of bringing about an economic reorganisation. In spite of its many virtues, it had serious limitations'[37]. According to him, the first limitation was the barrier or the lack of communication between the British rulers and the Indian people. This antipathy grew up for many reasons, the feeling of superiority, the Anglo-Saxon attitude towards the coloured persons, the attitude of an outside ruling race generated from a sense of guilt in the subconscious mind that the prosperity of England was based on Indian poverty. And secondly, the British rulers in India came mostly from English aristocratic classes with training in the philosophy of Bentham and Mill and were strong believers in laissez faire. They openly despised business and trade and believed in paternal administration and in the idea of an 'administrative state'. They were not trained in industry and did not consider the men

37. Buchanan, *op. cit.*, p. 455.

engaged in money pursuits as gentlemen. They could thus only administer, but not industrialise.

This analysis by Mr. Buchanan was superficial enough to delve deep into the problem. The question was not merely that they did not try to develop India industrially. Before 1858, when India went to the administration of the crown, she was ruled by the East India Company, a private British Joint stock firm. The company was the State. There was thus a formal merger of the State and private enterprise. It was thus impossible to disentangle public enterprise and administration from private business. Adam Smith commented sharply on this paradox of a trading company, set up to make money for British shareholders, becoming the Government of India.[38] Interest of the company and the Crown clashed too much about the methods of exploitation. The East India Company's mercantile policies and prejudices clashed with the crown's policies and interests dictated by the needs of industrial bourgeoisie. The latter favoured the production of manufactured goods in England and their export in return for raw materials and bullion, while the former stood to gain by the export of Indian textiles, which led to a drain of bullion out of England. As the President of the Manchester Chamber of Commerce declared in 1840 : "The whole question with respect to our Indian trade is whether they can pay us, by the products of their soil, for what we are prepared to send out as manufactures."[39] 'These pressure for greater quantities of Indian resources and the development of India as a market for British goods resulted in 1815 in partially

38. "It is the interest of the East India Company, considered as sovereigns, that the European goods which are carried to their Indian dominions should be sold there as cheap as possible ; and that the Indian goods which are brought from thence should bring there as good a price, or should be sold there as dear as possible. But the reverse of this is their interest as merchants. As sovereigns, their interest is exactly the same with that of the country which they govern. As merchants, their interest is directly opposite to that interest. No other sovereign ever were, or, from the nature of things, ever could be so perfectly indifferent about the happiness or misery of their subjects, the improvement or waste of their dominions, the glory or disgrace of their administration, as from irresistible moral causes, the greater part of the proprietors of such a mercantile company are, and necessarily must be." Adam Smith, *Wealth of Nations* (1776), Book iv, ch. vii ; Book v, ch. i.

39. Quoted in R. P. Dutt, *India Today*, p. 105.

opening up India to the free private enterprise of British traders through the abolition of some of the monopoly privileges of the East India Company. In 1833 the Company was forced to cease its trading activities ; and a 10½ per cent dividend on outstanding Company stock became a first charge on India's annual revenue.'

It has been claimed by the British economists and historians that the East India Company did take certain steps which furthered Indian economic development and increased India's raw material exports. 'As the British conquered a section of India, they established British peace, law and order. They transformed the institutional framework of India in the interests of a private enterprise type of economic development. Western legal institutions turned the land of India into a commodity which could be bought and sold and used as collateral for loans. The sanctity of property and the freedom of contract were established and enforced by British courts backed by British power. The gradual elimination of export duties and inland transit duties and tolls also stimulated trade and widened local markets, as did the standardisation of the currency. The Company took the initiative in expanding India's plantation crops, bringing in indigo planters from the West Indies and encouraging tea growing after 1833, when the Company lost its monopoly of China tea trade The Company invested some capital in tea plantations, enabled the. British to buy land in India after 1834, and sold land for tea plantations to retired British army officers at nominal rates.[40]

Since the eclipse of the Company and the rise of the Crown in 1858 in the political firmament of our country, there were more intense clashes of interests between the British millocracy and the potential and rising Indian owner of capital. The Famine Commission observed in 1880, 'the unfortunate circumstances that agriculture forms almost the sole occupation of the mass of the population, and that no remedy for present evils can be complete which does not include the 'introduction of a diversity of occupation.' It noted the better results from State encouragement of the tea industry and especially from State

40. Article by Helen B. Lamb, "The 'State' and Economic Development in India" in *Economic Growth ; Brazil, India, Japan*, edited by Kuznets, p. 468-9.

help in railways development. It suggested 'the manufacture and refining of sugar ; the tanning of hides ; the manufacture of fabrics of cotton, wool and silk ; the preparation of fibres of other sorts, and of tobacco ; the manufacture of paper, pottery, glass, soap, oils and candles,' and thought that these manufactures 'might be expected to find enlarged sales, or could take the place of similar articles now imported from foreign countries.' Yet this commission considered it 'almost self-evident that such a change......could not be brought about by any direct action of the State.' And its recommendations reached up to wholly inadequate technical training, transportation and information.

The Government took a number of minor steps, viz., studies of commercial products in India by Sir George Watt, a series of monographs on certain handicraft industries dealing with certain handicrafts was written, 'but these had as much relation to British commerce as to Indian industry.' The report of the Indian Industrial Commission pointed out that the State initiative was limited to 'a very imperfect provision of technical and industrial education and the collection and dissemination of commercial and industrial information......All that was done was due rather to a few farsighted individual officers than to any considered and general policy on the part of the government.' Even at the beginning of this century the positive hostility of the State towards actively fostering the development of industries was very clearly revealed in a despatch from Lord Morley, the Secretary of State for India in 1910, when the Madras Government tried to do something through its department of industries. Lord Curzon became Viceroy in 1899 and showed his sympathy for economic improvement. In 1905 a new Department of Commerce and Industry was set up in the central government, though it made very little headway. The first world war, however, forced the events to take place and few industries were helped to get established.

The tariff policy was clearly unhelpful to the growth of industries in India. Till the end of the first world war there was laissez faire for India, which kept open the Indian market for British goods, but restrictive policies were adopted in England against the entry of Indian goods. It was on the question of textile tariff policy that Lord

Northbrook, the Governor-General of India resigned in 1876 after a dispute with Lord Salisbury, the Secretary of State for India, Northbrook had maintained that the government of India, not London, should decide the question of India's tariff policy and had been over ruled by Lord Salisbury. Even when the policy of discriminating protection was haltingly accepted, the Imperial Preference was imposed on India. The excise duty on Indian cloth production since 1896 was, in effect, a protection for Manchester and Lancashire.

The Land revenue policy and the tax policy were set in a manner inimical to growth of savings and capital formation in private hands, while the exhorbitant Home Charges drained off the savings out of the country and could not help the formation of capital in public hands. The Stores purchase policy was also not much helpful in fostering domestic industries. Furthermore, the currency system was used to hinder Indian foreign trade. Bullion was drained away, fall in the price of silver adversely affected Indian trade but no gold standard was allowed. The ratio of foreign exchange artificially appreciated Indian Rupee to the detriment of her foreign trade. The government did not establish a system of Indian banks to foster her industries. It allowed the British banks or the Indian banks set up on British model to finance trade and commerce only and not the industries.

The system of education, its structure and content were also not at all favourable to industrialisation. There was undue emphasis on literary education and English language and very little on practical education and technical training. The quality of schools and colleges was poor. As Tagore has repeatedly pointed out, 'the Colleges and Universities were geneally cheap imitations of London University.' Education was considered dangerous for British rule and was therefore not at all fostered with care.

B. The Railways, the State and Economic Development

The 'beneficial' role of the British State in fostering India's economic development is generally exemplified by the introduction of Railways with British capital under State guarantee. According to some writers the railways are the biggest gift of the British State towards the Indian economic development. Some modern Indian historians tried to show how, when railways have been built up, the Government had to give up the attitude of laissez faire and activity engaged in building up new industries.[41] The tempo of railway set the pace for other industries, and the State, in spite of its wishes had to help the growth of ancillary industries, thus directly involving itself and helping the industrialisation.

The direct and indirect impact of railways on Indian industrialisation is a difficult thing to assess quantitatively. In England the agrarian revolution was followed by industrial revolution and then the transport revolution had set in. In India, however, the de-industrialisation was followed by transport revolution, which helped the commercialisation of agriculture within a stagnant agrarian economy. The railways could not, therefore, play the necessary role, either by earning profits and accumulating capital in the hands of the State or by helping the growth of other auxiliary industries. While the State neglected irrigation and rack-rented the peasantry, the railways were left to carry the pilgrims and the soldiers. There must be regular increase in the volume of agricultural and industrial goods to make the transport system pay, to let it play its positive role in industrial growth. The railways were quite unable to establish and maintain a significant rate of growth. While there was no extension of the market and there was little output to carry, the railways could not play the significant role it might have played in some other country. The 'State' guaranteed the capital and the 'people' shouldered the burden, it was 50 million pounds by 1900. 'The planning of India's railways net

41. It has been a constant theme of Indian economic historians that the Government pursued a *laissez faire* policy stubbornly opposed a policy of protection to infant Industries. It seems that the focus of economic enquiry should change. Could the Government consistently pursue a *laissez-faire* policy? In 1882 all import duties were abolished except on salt and liquour, and Lord Ripon's Government period in the fact that the Indian customs Tariff had been remodelled on the basis of "free trade principles." In 1894 financial consideration led to the re-imposition of a general import duty. The Government could not avoid participation in the productive process and had to be engaged in the manufacture of iron and in the working of coal mines. The State was obliged to step in when private enterprise did not come forward, without financial assistance from the State, to undertake the heavy capital expenditure which railway building in India entailed. The State also directly, undertook the construction of railways. The State incurred considerable expenditure in the development of ports and harbours. A great body of Company Law had to be developed in order to regulate and control joint stock enterprise; and greater State control was in the offing. *Laissez faire* did not correspond to reality." Dr. Sunil. K. Sen, *Studies in Industrial Policy and Development of India*, p. 9.

work was in no way related to any all-round, integrated development. India suffered some of the disadvantages without reaping the valuable benefits of State responsibility for railway development. The railways were not unplanned; rather they were planned with British ends in view.' 'The layout of the railways favoured the chief ports, Bombay, Calcutta and Madras, giving India three rival capitals, and sacrificed interior cities which either had no rail connection with other interior cities or had connections via a different railway gauge, making transshipment expensive. The ratestructure also favoured the long haul of food and raw materials to the port and of British manufactured goods inland from the port.'[42] Miss Helen Lamb pointed out: 'The great impetus to the revolution in transport did not grow out of indigenous forces. It was a hot house growth urged on India from abroad by groups in Britain and by British merchants in India whose economic base was overseas. Japan provides an excellent example of the impetus coming from within and leading to a simultaneous and synchronized attempt to improve transport and transform industrial production techniques. While the government of India played an active, dynamic role in bringing about the revolution in transport and communication, it played a completely passive role in relation to the development of modern industry in India.'

The conclusion, therefore seems to the obvious that 'the traditional British aim of developing India as a market for British manufactured goods in return for India's food and raw materials was achieve by the combination of an active State policy in the field of transport, communication, and irrigation development with a passive State policy in the name of laissez faire with respect to industrial development. It was possible to achieve the old goal of mercantilism without imposing any restrictions of a mercantilist character. Government possibility took two principal forms: absence of government aid to industry, and

42. Helen. B. Lamb. *op. cit.*, p. 476. Railways were planned with British ends in view, as outlined by an important advocate and architect of India's railways, R. M. Stevenson: "The first consideration is as military measure for the better security with less outlay, of the entire territory, the second is a commercial point of view, in which the chief object is to provide the means of conveyance from the interior to the nearest shipping ports of the rich and varied productions of the country, and to transit back manufactured goods of Great Britain salt etc. in exchange." Quoted in D. Thorner, *op. cit.*, p. 48-49.

absence of any direct effort to alter the caste basis of India's social structure.'

7. The Public Sector and Public Investment in India

The treatises of Kautilya and Shukra reveal that it was the duty of the State in India to run productive undertaking and provide securities that were considered to be essential to the prosperity of the community and might of the State. The construction of irrigation channels, wells, dams, reservoirs, ghats, fortresses etc. was commonly undertaken by the ancient Hindu kings. In fact the prominent nineteenth century sociologist Engels thought that artificial irrigation was the first and basic condition of Asiatic agriculture. It had to be administered by the communal authorities, the provincial or the central Government. "Government in the East always have only three departments : Finance, i. e. robbing the inhabitants of the country ; war (i. e. robbing citizens of one's own and other countries) ; and public works (i.e. concern for reproduction.)"[43]

The Mughal kings continued to pay attention towards the construction of irrigation channels, tanks, roads and fortresses. They also started conducting large manufactories of their own.

During the early years of company rule, there was widespread plunder and drain of wealth from India, and a total disregard for public undertakings traditionally maintained by the Mughal rulers. The already existing irrigation works were allowed to fall in disrepair and no new improvements were undertaken. The officials of mercantile capital could not comprehend the task of oriental feudal nobility. Sir Arthur Cotton, summed up the policy of East India Company rulers : "Public works have been almost entirely neglected through out India......the motto hitherto has been : do nothing, have nothing done, let no body no anything. Bear any loss, let the people die in famine, let hundreds of lakhs be lost in revenue for want of water or roads rather than do anything."

43. Engels concluded that the main lesson to be learnt from history was that the whole areas then in a state of desolution were formerly cultivated, and this was the result of breakdown in irrigation due to a war. A single war depopulated a country for centuries and put an end to its civilization. Marx, in his reply drew attention to the centralisation of all public works in the East and the decentralisation of the rest of life.

With the beginning of the nineteenth century the British industrial capital was for developing India's market for their goods, even then the considerations of revenue dominated their outlook. The western Jumna channels were restored during the second and third decades of the century. Encouraged by increased revenue from these channels the Court of Directors of East India Company agreed to spend over a million sterling on the Ganges channel. The innundation and permanent channels in the Punjab were also restored during this period and Bari Doab channel was constructed. Old irrigation were being renovated and improved. In all these improvements the main consideration was not of public utility but of land revenue. In 1845 the railway companies were floated with guaranteed return of 5% by the Government. The East India Company also improved the Grand Trunk Road and the Great Deccan Road. Telegraph lines were laid. Government buildings started growing up.

After 1857, with the transfer of Indian administration from the Company to the Crown, the British Government in India was confronted with two immediate tasks : (1) strengthening the security of its rule, and (2) facilitating the business activity of British traders, and manufacturers. Internal communications were rapidly developed, internal markets were opened and linked up. 'In addition to the earlier forms of direct State undertaking under some department of Government, an indirect partnership with private sector by way of State assistance, new form of public corporation was added such as a port trust and Community Boards'.[44]

The Railways were first constructed by private companies but with State-guarantee of minimum returns. This Stateguarantee system was gradually given up and direct State ownership had began since 1870. Though State ownership was given up and a new guarantee system was introduced, yet gradually old guaranteed companies were bought up by the State later, such as the East India Railway in 1880, East Bengal Railway in 1884, the Sind, the Punjab and Delhi Company's lines in 1885-86, the Oudh and Rohilkhand Railway in 1888, the South Indian Railway in 1890 and Great Indian Peninsular Railway in 1900.

44. For example, the Port trusts of Bombay, Calcutta and Madras were set up under the Port Trust Acts of 1879, 1890, and 1905 respectively. The Commodity Boards such as on Cotton, Coal, Lac, and Soft coke were set up in 1923, 1925, 1930 and 1929 respectively.

Irrigation works were almost entirely constructed by the Government, up to 1880, about twelve million sterling were invested, by 1901-02, this amount doubled to 24 million sterling. Throughout this period the controversy about the competing claims of Railways and irrigation works continued. The Indian nationalist public opinion complained that irrigation was being neglected. Even the suggestions of the Famine Commission on irrigation suggesting extension of irrigation facilities were overlooked. Their grievance was that though both railways and irrigation works offered protection against famines, extension of irrigation adds to the productivity of land and extension of cultivation. The Government, however, was not responsive to the Indian opinion and continued to woo the British trading and manufacturing interests with the extension of the market through State construction of Railways.

In a recent study on the role of the State in industrialisation and the growth of State enterprises during the closing years of the nineteenth century it has been asserted that the construction of railways released forces sufficients enough to dampen the cherished ideals of *laissez-faire* and the British Government in India had to participate, willy nilly, in varying degrees, in a variety of undertakings.[45] Towards the close of the nineteenth century and the beginning of the twentieth

45. Dr. Sunil Sen, *Studies in industrial Policy and Development of India.* The India Government endeavoured to pursue a *laissez faire* policy in India ; *laissez-faire* was the policy of the "Home Government." Interference by the State with industry was deemed to be a hindrance to efficient production. Freedom for enterprise was regarded as an ideal, and State control pernicious ; the business of the Government was to preserve law and order. It seems, however, that *laissez faire* was a dogma rather than a fact ; it was a dogma which very often conflicted with reality. The Indian Government could not ignore reality, and could not, therefore, consistently pursue a *laissez faire* policy. The Government had to participate, in a varying degrees, in a variety of undertaking. Government action was found to be necessary to help and accelerate development...There was considerable public expenditure on the construction and extension of the railways, on docks, ports and harbours. The State avoided, sometimes scrupulously, any association with productive process, yet it was force to participate in production and had to be engaged in the manufacture of iron, and steel and in the working of coal mines. The Government founded railway workshops, canal workshops, postal workshops, harness and saddlery factories, ordnance factories, and there emerged what may be called a "public sector". Public investment in the state enterprises was on a small scale ; nevertheless, the association of the state with the productive process was to reveal the importanee and necessity of expanding Government activity to accelerate development.

century there was considerable public investment. The growth of public investment, its rate and distribution during the period is tabled below.[46]

Gross Public Investment, Gross Public Fxpenditure and its Distribution by major items[47]

(At current prices : In crores of Rupees)

Period	Gross Public Expenditure	Gross Public Investment	Railways	Irrigation	Roads & Buildings	Others
1	2	3	4	5	6	7
I 1899-1900	101·94	20·19	9·00	2·53	6·84	1·82
to 1903-04		(19·81)	(44·58)	(12·53)	(33·88)	(9·01)
II 1904-05	127·49	33·02	18·04	3·43	9·62	1·93
to 1908-09		(25·90)	(54·30)	(10·33)	(28·96)	(5·81)
III 1909-1910	142·64	37·35	19·12	4·56	12·16	1·51
to 1913-14		(26·18)	(51·19)	(12·21)	(32·56)	(4·04)
IV 1919-1920	280·71	63·54	32·07	4·77	23·11	3·59
to 1923-24		(22·64)	(50·47)	(7·51)	(36·37)	(5·65)
V 1924-25	292·49	70·23	32·46	9·81	23·84	4·12
to 1928-29		(24·01)	(46·22)	(13·97)	(33·95)	(5·86)
VI 1929-30	280·49	52·88	18·79	8·82	21·20	4·07
to 1933-34		(18·85)	(35·53)	(16·68)	(40·09)	(7·70)
VII 1934-35	253·79	37·58	9·37	5·48	18·07	4·66
to 1937-38		(14·81)	(24·93)	(14·58)	(48·09)	(12·40)

The Government had, therefore, to depart from their cherished ideal and adjust their policy to changing reality. *Laissez faire* proved to be an elusive ideal. They were, however, consistently, opposed, during the period under discussion, to a policy of protection. Indian public opinion was almost unanimously in favour of a policy of protection. Indian public opinion was ignored. It seems that the opposition of the "Home Manufacturers" was a factor of considerable importance, and this could never be ignored." Pp. 98-9.

46. From the article by Dr. M. J. T. Thavaraj, *Rate of Public Investment in India*, 1898-1938.

47. *Notes to the table :* (a) The figures are quinquennial averages, except the last period which is an average for four years only. (b) The last period figures exclude Burma figures for last two years. (c) The figures in brackets represent percentages ; those in column 3 are in respect of the figures in columns 4 to 7 are in respect of the figures in column 3.

The figures indicate that there had been a steady trend of increase in both gross public expenditure and gross public investment between 1899-1900 to 1928-29, there after the rate declined. The change in the rate of public and private investment is important to assess the relative growth of State capitalism and private capitalism, but data regarding private investment are inadequate. It is also difficult in India to find out data on national income, therefore, the relationship between changes in public investment and that in the national income cannot be analysed. Available data show that few years prior to 1931-32 (i.e. prior to Dr. V. K. R. V. Rao's estimate) the proportion of gross public investment to national income varied between 2·0 to 4·1 per cent, the highest being in 1913-14 and showing a tendency of decline thereafter. This proportion shows a definite decline during 1931-32 to 1937-38 for which more reliable estimate of national income are available. As regards distribution of gross public investment among major heads the Railways have been the biggest claimant, Roads and Buildings came just after it, only in the period 1929-38 Roads and Buildings became the largest item. Irrigation came third.

The important problems connected with public investment in India are (*a*) its volume and nature, (*b*) direction, and (*c*) overall effect on the rate of economic growth. About the nature of public investment it should be made clear that the colonial India could not pursue the path taken up by independent Japan after Meiji restoration. Public Investment was small in amount and cautious in approach. The State sometimes did establish a firm, but its impact on the technique and processes of production was practically negligible. The Government owned and supervised, but operations were mainly left to private contractors and business houses. About the direction of public investment it was seen that the bulk was made in economic overheads ; very small portion was being spent on actual production process and sales of material commodities. Public investment did not go to manufacturing industry, let alone basic, heavy and key industries like Iron and Steel, Heavy Chemicals and Metallurgicals.

It was therefore no wonder why public investment in this period, however, meagre, could not initiate a process of sustained economic development in India. The question can be posed in this manner ; did government spending stimulate other industries, help the establishment of the new ones or expand the old ones ? The recent writings

revealed[47] that unlike other countries public investment was not of autonomous type in India. Prof. Sen's opined that 'The Government had, therefore, to depart from their cherished ideal and adjust their policy to changing reality.' The 'changing reality' was the need to meet the increased demand for iron, coal and others generated by railways. The government haltingly came forward to meet the needs of 'induced investment'. Policies regarding autonomous investment were taken up in London, the Government of India followed up with necessary induced investments. The Government in India did not originate any independent investment activity and could not thus make the public sector the leading controller of economic growth in our country.

In conclusion, it must be pointed out that though the contemporary Indian nationalist public opinion opposed free trade, asked for protection, but was it not united in favour of public sector. While the British opinion on free trade was mostly that put forward by Lancashire, the 'nationalist' Indian opinion was in reality, the 'textile' opinion. In no writings of R. C. Dutt and Dadabhai Naoroji one can find any demand for active State participation in industrialisation. Like the British free traders they were also liberals. But these two liberal trends could never meet on an equal plane, the British liberals fought for protection, and in terms of objective reality both fought for their own textiles. It was Ranade alone who pointed out the need for State help, ownership and guidance as the important way to remove poverty of the masses. On public sector and public investment Ranade must be considered as relatively more emphatic than the others.

Ranade raised his voice against the pernicious influence that the Ricardian and Benthamite doctrines were producing on the economic and social policies of the Government of India. He became a crusader of State action as a reaction to India government's policy of passivity and inactivity. He advocated State action to encourage large-scale farming as a diversion from petty farming, from agriculture itself to

47. *Notes to the table* : (a) The figures are quinquennial averages, except the last period which is an average for four years only (b) The last period figures exclude Burma figures for last two years. (c) The figures in brackets represent percentages , those in column 3 are in respect of the figures in column 4 to 7 are in respect of the figures in column 3.

industries, from 'rustification to urbanisation, from internal trade to external trade, and lastly, from labour immobility to colonial migration. He expected that the State would utilise 'indigenous resources, and organising them in a way to produce in India is *State-factories* all products of skill which the State departments require in the way of stores.' He pleaded to free the minds of the rulers from 'the fear of offending the so-called maxims of rigid economical science.' He pointed out that 'the conditions of Indian life are more fully reproduced in some of the continental countries and in America than in happy England proud of its position, strong in its insularity, and the home of the richest and the busiest community in the modern industrial world.'[48]

8. Some aspects of Rural Economy in Transition

A historical review of the not-too-stagnant rural economy in India in the nineteenth century is necessay as an important case-study. The relevant point is what happens when foreign merchant capital penetrates into the rural economy in a country. If the country is a new and open one, without any well established mode of production or economic relations based on old system of property ownership, the merchant capital does not penetrate at all or even if does so it allies itself with the agrarian capitalists, as in America, Australia, some parts of Africa etc. There it endeavours to produce raw-materials needed in the home country. But in India, the position was different. Here the agrarian economy was an old one, the mode and relations were already well-established. British merchant capital had no intention of breaking the old relations and setting up of large capitalist farms of American variety. The land-man ratio was such that it was just not possible to do. Their approach here broadly speaking, went on three lines. First, they attempted to appropriate more and more land revenue. With halting steps they endeavoured to bring about capitalist conception of private property in agriculture. They brought suitable reforms in land-tenure system with a view to raise their income from land-revenue. In this they were guided by methods or ideas born out of their own experiences. Second, they would like to increase their trade volume

48. S. K. Sen, *op, cit.*

in crops without any or as little as possible interference in the methods of production in the fields. Third, in the uncultivated areas where no such old economy existed, the plantations based on capitalist farming lines were developed.

While the basic character of the Indian economy continued to remain unchanged as semi-colonial and semi-feudal, certain changes of course did take place. It is quite wrong to conclude that rural economy remained as before and the nineteenth century brought no change at all in the agrarian relations in the Indian countryside. Let us analyse certain aspects of our rural economic transition.

A. Agricultural Marketing

The impact of money rent, increased rent and foreign planters led to commercialisation of agriculture. This commercialisation needed whole-salers and retail traders, with extensive cash-relationships replacing the non-economic sentiments of old village brotherhood. Isolation of village communities was broken through the operations of market-mechanism. At the end of the British rule the All India Rural Credit Survey estimated the presence of 22,000 retail markets linked up with 1700 *mandis*, i.e. wholesale markets. Through these markets, the rural economy was subordinated to merchant capital. As the volume of trade grew, the wholesalers accumulated larger funds and strengthened their position in the commanding heights of the rural economy. The peasants had to sell at a low price in order to pay rents in money in time. There were different exchange-values in the economy, in terms of money the peasants could get much smaller exchange value for his labour. The prices of manufactured articles kept on rising, and the terms of trade were set against agriculture. The whole-salers were generally connected with urban money-lenders, while the retailers were mainly financed by rural money-lenders. Foreign merchant capital stood at the top regulating the whole process through (a) exports, and export-financing through foreign exchange banks, (b) bank-financing of wholesale grain merchants and the money lenders, and (c) railway freights. The structure was analogous to that of industrial structure in a feudal economy, it may be termed as putting-out system in agriculture. The wholesalers advanced money i. e., *dadan*, (verlag system of

Germany) during the sowing season, the crops were contracted to be sold to him at the price determined not in an open market, but by personal relations based on financial dependence of the producer to the merchant. As in industry, the grain-merchants did not turn into capitalist agriculturists. Neither was it possible because (a) the rate of mercantile profit was high enough, and (b) semi-feudal bondage of the peasants by the landlords did not allow that. Even when the merchants purchased land, they let it out to the peasants on old feudal terms, thus appropriating both feudal charges and the mercantile profits.

It was as late as in 1928 that official recognition to such a state of affair came, when the Royal Commission on agriculture described the chaotic conditions under which the Indian agriculturist has to market his products. And according to the Report of the Sub-committee on Rural Marketing and Finance of the National Planning Committee, "Twelve years have passed since the report and some legislative steps were taken to improve the position. On the whole, however, the picture which was drawn at that time faithfully reflected the state of affairs in Indian markets even to-day." That the situation did not change during the war and the post-war years in testified in the studies conducted by the Rural Credit Survey and other research workers. The main recommendations of the Royal Commission were among others : (i) improvement of transport facilities including rural communications ; (ii) lowering of railway freight rates and other facilities ; (iii) establishment of regulated markets under State legislation ; (iv) standardisation of weights and measures ; (v) standardisation and grading of agricultural produce ; and (vi) appointment of marketing officers on the staff of agricultural departments. The recommendations did not suggest any concrete measure to weaken the system of forward sales and forward purchases based on human distress. They only made an attempt to 'rationalise' the existing state of affairs. Various estimates revealed that the peasant lost from 30 to 60 per cent of the exchange value of his products. The trading class appropriated from 10 to 13 per cent in respect of different commodities. The railways got between 7 to 17 per cent.[49]

49. M. G. Ranade, *Essays on Indian Economics*, p. 33.

The correct picture of exploitation of the peasantry which has led to the capital accumulation of the merchant classes becomes grimmer still because the traders constituted one of the most important sections of the usurious money-lenders. The amount of interest which they extracted was no less than the mercantile profits. This interlocking of merchant capital and usurious capital was best borne out by The All India Rural Credit Survey Report which noted that though only 60 per cent of the total borrowings of cultivators was from traders and commission agents, 37 per cent of the village money-lenders and 83 per cent of the urban money-lenders were also traders. The Committee of Direction thus generalises, 'often enough therefore, the cultivator's position is that of having to bargain, if he can, with someone who commands the money, commands the credit, commands the market and comes with the transport.'[50]

B. *Money-Lending*

Money-lending and usury is as old as civilisation itself, in India there are references of usury even in Rigveda. An Indian aphorism in verse tells that only that village is fit to live in which has "a money-lender from whom to borrow at need, a *vaid* to treat in illness, a Brahmin priest to minister to the soul and a stream that does not dry up in summer." Indian rulers in the past were conscious of this evil and tried to control it whenever it was possible for them to do. Codes of Manu condemn the 'Kusidjibi' or 'men who live indecently', who were also called 'Bardhushika' or 'men who live on increments'.

In the pre-British days there were two restrictions on the money-lenders ; (a) the existence of vigorous living village communities which maintained a village-conscience against which the money-lender could not charge an abnormal interest to the cultivator who never felt isolated but was a part of village brotherhood, and (b) non-intervention of the State with regard the recovery of loans. That function was performed by the village panchayats which settled questions of arrears etc., equitably, promptly and summarily. During British rule these two checks were removed. The weakening of the village community tightened the grip of the money-lenders and land-grabbers,

50. *Congress Agrarian Reforms Committee.* Also article by *Produval* on Prices. Trade and Marketing in *Studies in Indian Agricultural Economics*, p. 80.

their firmer grip further weakened the village unity. The new system of civil justice based upon the ideas of freedom of contract tilted the balance of justice against the ryot.

The British conception of freedom in personal matters and in matters of money-making positively helped the money-lenders. In pre-British days, custom limited the compound interest to 50 per cent. for cash and 100 per cent (*damdupat*) for grain. The contemporary British practice of rapid capital accumulation in private hands dominated their sense of justice, and no restriction on interest accumulation was recognised under British rule. Interest was being accumulated without limit. Land was now treated to be private property, saleable and mortgageable with the help of law. The old customary human relationship between the ryot and the sahukar gave place to contractual formal relationship between a creditor and a debtor, 'with no other tie than the cash nexus between them.' There is little wonder therefore that land began to pass, on an alarming scale, from ryot to sahukar and, particularly in Bombay and the Punjab, the peasant proprietory tenure began to degenerate into a 'Marwari tenure' and the 'cultivator capitalist' began rapidy to evolve into a 'sahukar's serf.'[51] The Indian conditions fully justify Marx's observations on

51. *Rural Credit Survey, Report*, Vol. II, pp. 101, 102.

"In India today there is an aggregate of private financial power, which in point of location is largely urban—and what is more important—in point of bias, that is to say of the practices, attitudes preferences and interests of the individuals and institutions who share the power, is almost wholly urban-minded. In appreciable degree, this may be regarded as the heritage of a colonial economy, which, seated in the bigger ports and cities, drew to itself for export abroad the raw-materials—the 'cash crops'—of the rural area and which in that process, signified also the advent of the cash economy to the countryside ; certainiy, in the details of its interpenetration from city to town and from town to village and in its main ramifications in the rural area it drew sustenance from the hoary inequities of caste and class and privilege. The cash economy brought with it charges which had inevitably to come to the rural area, for, the advent of the economy itself—irrespective of the historical accident of its colonial origin in this country—was inescapable in the conditions of the modern world. Money and the use of money assumed much larger significance than before even in those subsistence 'areas', usually also the remoter rural areas, where payments and transactions in kind, including a residual extent of barter, were significantly prevalent. As a rule, however, the powerful interests of export succeeded in imposing the each economy only within the periphery of their own transactions with the rural economy. In the cities and towns grew up bodies which were ancillary to the main institutions of export trade and finance. These subsidiary elements consisted of banks, firms, trading houses and individuals—agents, financiers, etc.—representing the indigenous interests which found it profitable to work for or in conjunction with the more powerful foreign institutions, into many of which, indeed, they later found entry and which is some instances they even replaced. Lower down in the rural area was the village money lender and village trader, often the same individual, as well as the small town money-lender and village trader, often the same individual, as well as the small town money lender and the small-town trader or commission agent, again often the same individual, who also aligned themselves to, for indeed they were the necessary instruments of, the new economic system which rapidly invaded the old. Where there was self-sufficiency before, these forces of commercialisation worked for the large production and outflow of particular commodities—cotton, jute, etc.—which were originally needed for export to the big manufacturing centres abroad and at a later stage for the urban industries which had meanwhile grown up within the country itself. Large tracts of the country retained their character as food crop or subsistence economies. But they too were affected in varying degrees by the new cash needs imposed on them through the gradual disruption of the older self sufficiency. At the same time, the banking institutions of the commercialised economy were little interested in these areas, and in them the money-lender, as distinguished from the trader in cash crops, assumed greater power in importance than elsewhere." pp. 274-275.

usurious capital : "Usury centralizes money wealth where the means of production are dispersed. It does not alter the mode of production, but attaches itself firmly to it like a parasite and makes it wretched. It sucks out its blood, enervates it and compels reproduction to proceed under even more pitiable conditions.[52]

Under the impact of money-lending there was pauperisation of peasantry and large land-transfer took place leading to increase in the number of share-croppers and agricultural labourers. But another recent tendency cannot go unnoticed. A section of landholders, especially during the war years when prices of food grains went up, could accumulate funds large enough to practice usury. The Rural Credit Survey Report shows that about one-fourth of the credit was supplied by 'large cultivators' who were not non-cultivators but rich

52. Jathar and Beri, *Indian Economics*, Vol. I., p. 244.

peasants.[53] The fact that rich peasants have became creditors was also noticed by the Census Report of 1951 : "After 1943, the cultivator began to increase in importance as creditor, until, in 1946, he supplied a third of the credit to owner-cultivators. He became a new class of rich peasantry who combined agriculture with money-lending and probably settled his lands, acquired in outright sales during the famine, with bargadars (share-croppers). It is possible to deduce that this new class of rich peasantry reoriented its strength from money-lenders and traders." This is how monetisation led to differentiation among the peasantry.[54]

In conclusion, mention must be made of the utterly unhistorical approach with which this problem of money-lending was analysed by the majority of the economists of the thirties. The Central Banking Enquiry Committee clearly pointed out why he should be treated as an indispensable feature of rural economy : "He is easily accessible. His methods of business are simple and elastic. He maintains a close personal contact with the borrower, often having hereditary relations with his family. His local knowledge and experience and his presence on the spot enable him to accomodate pers ons without tangible assets and yet protect himself against losses." The various malpractices associated with private money lending, however, was discussed by *Bengal Famine Commission* in its report (p. 294) : "The money-lenders obtain bonds on false pretence ; enter in them sums larger than agreed upon : deduct extortionate premiums ; give no receipt for payments and then deny them : credit produce at fraudulent prices ; retain liquidated bonds for sums not advanced ; charge interest unstipulated for, and commit a score of other rogueries—these

53. Marx, *Capital*, Vol. II., p. 583. Also, "Usurer's capital employs the methods of exploitation characteristic of capital yet without the latter's mode of production. This condition also repeats itself within bourgeoisie economy, in backward branches of industry or in those branches which resist the transition to the modern mode of production." p. 584.

54. "That a very large number of the money lenders were also cultivators is independently confirmed by the fact that roughly 68 per cent of the village money-lenders who answered the relevant question stated that they were also cultivators, while about 10 per cent said that they were non-cultivating landlords. It may be assumed that approximately one-fourth of the total available credit was found internally by the agriculturist classes themselves. But it was mainly the large cultivators who were in a position to lend." *Rural Credit Survey*, Vol. II., p. 169.

are facts proved by evidence." In spite of all these, the Reserve Bank was asked to put more funds at their disposal in the name of 'integration'. 'We think it inevitable', writes the Bengal Famine Commission, 'that the private money-lender will continue for a long time to come to be the main agency for the distribution of the rural credit."[55]

C. *Rural Indebtedness*

The changes in the land-tenures and increasing land revenue, the decline of handicrafts leading to over population in agriculture, neglect of irrigation, activities of the money-lenders—all these combined to increasing rural indebtedness in the countryside. There was not only no rural capital formation in the hands of the cultivators, on the other hand, capital-depletion or capital-consumption took place to an unprecedented extent. Thus, in a very rough way, the rate and volume of rural indebtedness measure the rate and volume of capital-accumulation in money-lender's hands, the amount of the contribution of the agricultural sector to mercantile capital accumulation in our country.

The increasing volume of indebtedness was officially noticed after the Deccan riots. In 1875, the Deccan Riots Commission, analysing the situation in twelve villages in Ahmednagar district (Bombay) estimated that one-third of the occupants of Government land were embarrassed with debts, that these debts averaged about eighteen times the assessment, that two-thirds of the debt was secured by mortgage of land and that the average debt per occupant amounted

55. The Central Banking Enquiry Committee made the following observations in 1931 : "The Bombay committee report that the agriculturist money lender is often more exacting than professional money-lender...The Punjab committee report that there is no great difference between the methods of the agriculturist money-lender and those of the professional money-lender, though his rates are probably lower. He is said to be avaricious and exacting, and being to some extent in a stronger position than the professional money-lender, he recovers a large proportion of his dues. His main and sometimes his sole object is to get possession of the land of his debtors. The united Provinces committee also report that the methods of the agriculturist money-lenders in such matters as security, the renewal of bonds, the rates and calculation of interest, but they necessarily regard their operations in a somewhat different light. Money-lending to them is not always a mere investment ; it often has an ulterior motive." *The Indian Central Banking Enquiry, Committee* 1931, Majority Report, pp. 75-6.

to Rs. 371. The Famine Commission of 1880 inferred from evidence collected from all parts of India that one-third of the land-holding classes were deeply and inextricably in debt, another one-third, although in debt, were not so beyond the power of recovering themselves. In 1892, Mr. Thorburn, in an intensive enquiry in 12 villages of the Punjab found that 'out of 742 families, 566 are now practically ruined or heavily involved—the beginning of both conditions usually dating after 1871—and out of the whole number who were at any time indebted (650) only 13 or 2 per cent have succeeded in extricating themselves." The Dufferin Enquiry of 1888 revealed the existence of a considerable indebtedness among the cultivators in Bengal, Central Provinces, N. W. P, and Oudh.[57] In 1895, Sir Frederick Nicholson estimated the total rural debt from Madras at Rs. 45 crores. In 1901, the Famine Commission of that year estimated that 'at least one-fourth of the cultivators in Bombay Presidency have lost possession of their lands: that less than a fifth are free from debt; and that remainder are indebted to a greater or less extent.'[58] Sir Edward Maclagan calculated the total agricultural debt of British India to be about Rs. 300 crores in 1911 on the basis of Nicholson's estimate of Madras. M. L Darling, preferred the Punjab figure of 1924 as a more reliable basis than the Madras figure of 1895, and arrived at the figure of 600 crores for 'British' India. The Royal Commission on Agriculture suggested that periodical reports on money-lending should be prepared so as to throw some light on the different aspects of rural debt (*Report*, para 368). In 1929-30 investigations were made by various Provincial Banking Enquiry Committees, on the basis of which the Central Banking Enquiry Committee in 1929 estimated total rural debt for the whole of British India to be Rs. 900 crores. The real burden of this debt became extremely heavy with economic depression, falling prices and smaller sales. The Preliminary Report on Agricultural credit by the Reserve Bank of India stated in 1936 (para 13) that 'measured in commodities, it must now be twice as large as a result of the fall in prices since 1929.'

56. For a most uninhibited manner in which the money-lenders' case was pleaded one may look at Jathar & Beri, *Indian Economics*, Vol. I. pp. 244-5.

57. B. M. Bhatia, Economic condition of Agriculturist in 1888, *Contributions to Economic History*, Vol. I.

58. *Famine Commission Report*, Para 334.

Moneydebt, consequently, went on increasing, it was believed to exceed Rs. 1200 crores for British India alone in 1941.

That the large rural debt was not a sign of capital-creation but of capital-consumption in the agricultural sector had been pointed out by all the earlier economists. *The Report of the Bengal Banking Enquiry Committee* stated (para 104): 'one peculiar feature of agricultural indebtedness is that it is in most cases a mark of distress, whereas in the case of other industries, borrowed finance is a normal feature. As the loans are mostly for unproductive purposes, the pressure of indebtedness falls very heavily on the ryot...A high debt necessarily imply substantial assets leading to increased productivity. Therein lies the tragedy of agricultural indebtedness.'

There were, however, many views, widely different from one another with regard to the causes of such indebtedness. Some economists only moved about on the surface without going into the fundamentals of the malady. They stuck to the remarks and conclusions of Governmental enquiries and did not go deeper into the problem. According to them the causes were: (*i*) The excessive pressure of population on land; (*ii*) the excessive subdivision and fragmentation of the soil; (*iii*) The decline of cottage industries and the loss of income to the ryot owing to the absence of a subsidiary occupation in the off season; (*iv*) The ill health of the ryot; (*v*) The insecurity of harvests due to vagaries of the monsoons; (*vi*) The loss of cattle owing to famine and disease; (*vii*) Depreciation of cattle and implements; (*viii*) The excessive love of litigation; (*ix*) The improvidence and extravagance of the ryot on marriage, social and religious ceremonies; (*x*) Ancestral Debt; (*xi*) Private property in land which has made it easily mortgageable; (*xii*) The money-lender and the system of usury.

R. C Dutt and many others like him regarded the heaviness of the land tax together with the rigidity of its collection as the main causes of rural indebtedness. Their contention was that there has been an increase in the amount of land revenue in spite of many years of famine or a partial failure of crops and the diminishing yield of land in many parts of the country. The Famine Commission of 1901 faintly supported the views of R. C Dutt: 'In good years the cultivators has nothing to hope for except bare subsistence and in bad years he falls on public charity.' The country view that high land revenue was not the main cause or even an important cause, was held by the British civilians. They took their viewpoint from the remark of the *Famine Commission Report*, 1880 : 'The fact that landowners, who have no land revenue or only a light quit-rent to pay, are often also deeply embarrased proves......that the payment of the land revenue is not the main cause of the doubt. If a man spends all his income on himself and borrows to pay his rent or taxes, it can hardly be said that his indebtedness is due to the fact of his having rent and taxes to pay, when these charges bear so light a proportion to income as the land revenue does to the gross outturn of the land.' (*Report*, p. 132.)

In conclusion, money-lending and rural indebtedness combine to give us a more or less clear picture of the historical process of capital-formation in a composite underdeveloped economy. What happened in India was increased rate of capital formation in the capitalist sector through the inflow of a share of the product of the pre-capitalist sector, appropriated by the traders and money-lenders. And, when from the process of capital formation we pass to that of investment it is seen that no investment of this capital flowed back from the capitalist sector to the agricultural one which could have raised the productivity and real income of the cultivators. In industry, capital is raised by the exploitation of labour, but reinvestment takes place, under the spur of competition and innovation, and labour productivity is raised which sometimes raises his income. In Indian agriculture, capital outflow from agriculture went on in one-way traffic, agriculture was not made capitalistic, the funds brought out of agriculture did not go back to finance the incorporation of the precapitalist sector into the capitalist one. The 'dual economy' became increasingly more pronounced, a particular one constantly went on feeding the other, and the interpenetration of these two sectors, so much necessary for economic development, did not properly take place.

9. The State in Relation to Agriculture

That the State, or the Government as the executive organ of the State, directly and indirectly shaped the institutions of a country to promote economic development, was clearly outlined by the

classical economists like. Adam Smith and later on even by Marshall Economic activities are undertaken by individual residents, but the direction and content of such economic activities are determined primarily by the market mechanism of profit-loss calculas or by government directives. The functioning of the market mechanism or the economic system is profoundly influenced by the institutional framework within which it takes place ; and this institutional framework is set up by the State through governmental directives.

From time immemorial, the communal authorities, the Provincial or the Central Government administered the irrigation system in India, where artificial irrigation system was the first and basic condition of agriculture. Marx also drew attention to the centralisation of all public works in the East and the decentralisation of the rest of life.[59] The Mughals continued to maintain and extend these public works. Even with the disintegration of the Mughal State power the provincial rulers continued these works for the sake of collection of revenue.

The East India Company, however, was a private merchant body with the privilege of monopolising trade between India and England. The character of this institution was mercantile, and when the Company became the Government of India, there was a formal merger of the State and private enterprise. No proper distinction could be made, in this situation, between public enterprise and private enterprise.[60]

59. This explains, in Marx's view, the static character of life in Asia, despite all movement on the political surface.

60. Adam Smith connected sharply on this paradox of a trading company, set up to make money for British shareholders, becoming the Government of India : "It is the interest of the East India Company, considered as sovereigns, that the European goods which are carried to their Indian dominions should be sold there as cheap as possible, and that the Indian goods which are brought from thence should bring there as good a price, or should be sold there as dear as possible. But the reverse of this is their interest as merchants. As sovereigns their interest is exactly the same with that of the country which they govern. As merchants, their interest is directly opposite to that interest......No other sovereigns ever were, or from the nature of things, ever could be so perfectly indifferent about the happiness or misery of their subject, the improvement or waste of their dominions, the glory or disgrace of their administration, as from irresistible moral causes, the greater part of the proprietors of such a mercantile company are, and necessarily must be." *Wealth of Nations*, BK IV Chap. VII, BK V Chap. I.

With the transfer of Dewani, after 1757, the merchant body saw itself the owner of the land revenue of the areas under its suzerainty. Before that it was interested in the land revenue as it had to pay it to the Mughals, after the transfer of power it was interested in getting it through maximum collection at minimum cost. When a particular area was subverted and taken over, its treasury and land revenue were used to hire Indian soldiers to conquer other parts of India. The East India Company, therefore, built up the State relying on the appropriation of agricultural surplus-value in the shape of land revenue. Such was the relation between State and agriculture in the early years.

The Company transformed the institutional framework in agriculture in the interests of a private enterprise path of economic development. British legal institutions turned the land in India into a commodity, saleable and mortgageable at will. The sanctity of private property and freedom of contract replaced the communal land holding and traditional occupancy rights of the ryots, and they were enforced by British courts backed by British power. The Company was interested in the rapid commercialisation of agriculture, it brought in indigo planters from the West Indies and encouraged tea-growing after 1833, when the Company lost its monopoly of the China tea trade. The 'Company' (not the State) invested some capital in tea plantations, enabled the British citizens to buy land in India after 1834, and sold land for tea plantations to retired British army officers at nominal rates.[61] The land settlements made in India, especially the permanent settlement, reinforced the power of the old order, the old revenue-farmers or members of the higher caste. Their interest became the interest of the State. State policies endeavoured to strengthen them.[62] Tenancy legislations to protect the ryots had to be introduced due to various reasons, the need to pacify popular agitation, safer and increased collection of revenue, the liberal conscience of individual British administrators,

61. Rammohun Roy pleaded to withdraw the restrictions on the British entrepreneurs purchasing lands in India. His hope was their initiative and enterprise might be followed by the Indian cultivators.

62. As late as in 1938, the Maharaja of Mymensingh, the President of the All-India Landholder conference, declared : "If we are to exist as a class, it is our duty to strengthen the hands of the Government."

etc. But the main direction of the State policy was towards raising maximum volume of land revenue from agriculture, other State policies were sub-servient to this dominant objective. Various aspects of State policies to improve agriculture were noticed : promotion of irrigation, promotion of scientific agriculture, provision of credit and cooperation, development of natural resources, i.e. forests and fisheries, etc.

We would discuss below in more detail the following aspects of the State policy vis-a-vis agriculture: (a) Tenancy laws; (b) Irrigation; (c) Scientific agriculture ; and, (d) provision of rural finance and building up of the cooperative movement.

A. Tenancy Laws

The main objectives of the large volume of tenancy legislation in India were : (a) to limit enhancements of rents by the landlords or intermediaries ; (b) to prevent arbitrary ejectments of the ryots ; (c) to confer occupancy rights on tenants ; (d) to restrict the right of distraint for arrears of rent, and exempt attachment of tools, seeds, etc ; (e) to provide for reduction or suspension of rent when there is reduction or suspension of land revenue by the State ; (f) to ensure compensation to the tenant for improvements made by him ; and (g) to protect the tenant from exaction like *salamis*, *abwabs*, etc.

The defects of the land tenure systems evolved by the Britain exposed themselves from the start, because they were built-in within the systems.[63] In the permanently settled areas in Bengal, the need for reforms were being felt since the days of Raja Rammohan Roy. In his evidence on the Revenue system of India before the Select Committee of the House of Commons (which discussed the renewal of the East India Company's Charter) in 1831,

63. In their replies to the questionnaire issued by the Bengal Famine Enquiry Commission (1945), the then Provincial Governments condemned the Zemindari system. *The Orissa Government* wrote : "The Zamindars in general, whether of permanently or temporarily settle estates, not only do not introduce any improve- to get better field or to the protect the lands from floods or drought but exploit every opportunity for realisation of enhanced rent or other dues from the tenants." *The Bihar Government* wrote : The landlord has no incentive to provide any facilities to the tenant and merely collects his rent." The *Assam Government* wrote : "While ryotwari tenure induces increased production, the opposite is in the Zamindari areas. *Bengal Famine Enquiry Commission*, Final Report, Appendix II pp 449-56.

Raja Rammohan Roy gave an excellent objective observation on the position of tenants in the permanently settled Zemindari areas.[64] He observed : 'At the time when the permanent settlement was fixed in Bengal (1793), government recognised the Zamindars (landholders) as having alone an unqualified proprietory right in the soil, but no such right as belonging to the cultivators (ryots)......the landholders (Zamindars) through their local influence and intrigues, easily succeeded in completely setting aside the rights, even of the Khud-Kash cultivators, and increased their rents' (Q. 9). 'There is in practice, no fixed standard to afford security to the cultivators for the rate or amount of rent demandable from them although such a standard in laid down in theory' (Q. 11). He was asked (C. 30) ; What is the condition of the cultivator under the present *Zamindari system of Bengal and Ryotwari system of the Madras Presidency ?* His answer was the most illuminating one : 'under both systems the condition of the cultivators is very miserable ; in the one they are placed at the mercy of the Zamindars's avarice and ambition, in the other they are subjected to the extortions and intrigues of the surveyors and other government revenue officers'. 'I deeply compassionate both, with this difference, in regard to the agricultural peasantry of Bengal, that there the landlords have met with indulgence from government in the assessment of their revenue, while no part of this indulgence is extended towards the poor cultivators. In an abundant season, when the price of corn is low, the sale of their whole crops is required to meet the demands of the landholder, leaving little or nothing for seed or subsistence to the labourer or his family'. On being asked, 'can you propose any plan of improving the state of the cultivators and inhabitants at large' (Q. 31), he answered '......the very least I can propose, and the least which government can do for bettering the condition of peasantry, is absolutely to interdict any further increase of rent on any pretence whatsoever : particularly on no consideration, to allow the present settled and recognised extent of the land to be disturbed by pretended re-measurements' :.........'that no further measurements or increase of rent on any pretence whatsoever, should be allowed'......'The collector should be required to prepare a general register of all the cultivators, containing their

64. *Rammohun Roy on Indian Economy*, Edited by Susobhan Sarkar.

names, their respective portions of land and respective rents as permanently fixed according to the system proposed.' (Q. 34)[65]

"When the cultivator," says Alfred Marshall, "has to give his landlord half of the return to each dose of capital and labour that he applies to the land, it will not be in his interest to apply any dose the total return from which is less than twice enough to reward him."[66] The shortfall in production on the one hand, and stagnation in the purchasing power of the cultivators on the other, compelled the administrators to enact various tenancy reforms regulations.

A very short summary of various tenancy reforms is attempted below. (A) ***Relief of tenants in Permanently Settled Zamindari Areas.*** ***(i) Bengal*** : In 1893, land revenue was fixed here at 9/10th of the rent and was to be collected by the accredited Zamindars. It was not till 1859, that the the Rent Act was passed in Bengal. It was amended in 1885. It gave some protection to tenants who had held the same land for 12 years. They could not be ejected without the decree of a competent court nor could their rent be increased at intervals of less than 5 years. In 1907 the Act was further amended to guard against enhancement of rent by collusive compromises. In 1928 another tenancy Act gave the tenant the right of transfer his holding and the landlord the right of pre-emption. The Act further strengthened the under-ryot. In 1938, the Congress Ministry passed a Tenancy Act to abolish the illegal exactions and cesses charged by the landlord and reduced the interest on arrears of rent to $6\frac{1}{4}$ per cent. The right of pre-emption was taken away from him and given to co-share tenants. The Act was further amended in 1939 and 1940 to prevent fraudulent practices in respect of enhancement of rent and to protect the mortgagors. These laws gave some protection to the

65. Dr. Bhabatosh Dutta writes : "Writing about forty years after the introduction of the Permanent Settlement, The raiyats, in his opinion, had not shared in this prosperity and he felt that a permanent settlement for the raiyats also would be a logical corollary to the permanent settlement of the landlord's revenues. His specific proposal was that the raiyat's rent should be reduced and stabilised and that along with this, the revenues payable by the landlords should also be lowered. It is striking that Rammohun Roy had a better understanding of the Permanent Settlement in 1831 than Romesh Dutt had nearly seventy years later." *The Evolution of Economic Thinking in India*, P. 4.

66. Marshall, *Principles of Economics* P. 614.

occupancy tenant and under-ryot, but the position of Bargadars who cultivated one-fifth of the land in Bengal on a crop-sharing system remained as ever. The Bengal Land Revenue Commission recommended limited occupancy rights for them and a reduction in the share of the produce given by them to the landlord from one-half to one third. (ii) *Madras*: In Madras, the tenants' rights were protected by the Estates Land Act of 1909. Tenants cultivating the estate lands were given occupancy rights and could not be evicted so long as they paid prescribed rents. Rents could be enhanced only on certain clearly defined grounds. The congress Ministry tried to confer further rights on tenants in 1939 but failed. In 1946, an Act for the Prevention of Eviction of tenants was passed. In 1947 the Reduction of Rents on Estates Act was passed. It fixed land rents according to those paid in 1802 and cancelled all enhancements in excess. Ryots on permanently settled area got the right of occupancy which was heritable and transferable. (iii) *Bihar*: In Bihar, the Act of 1934 made heavy exaction like *salamis* and *abwabs* by landlords illegal, but they went on. In 1938, the congress Ministry passed a Tenancy Act and gave absolute right of transfer of his holding to the tenant, fixed rates of interest on arrears of rent at $6\frac{1}{4}$ per cent, made *abwabs* punishable and disallowed increase in rent except on grounds of improvement made by landlords. In the same year, the Bihar Restoration of Bakasht Land and Reduction of Arrears of Rents Act was passed. It provided for restoration to the ryot of lands sold in years of depression on payment of arrears of rent at a reduced rate. Similar help was given to the ryot in Chota-Nagpur. These measures, however, gave no relief to the tenants at will working on a crop-sharing basis and no less than 20% of the area is cultivated by such tenants who resemble the Bargadars of Bengal. In 1947, this was redressed by commuting crop shares into cash rents at the pre war prices. This has given some relief to the cultivators. (*B*) *Relief to tenants in Zamindari Areas Temporarily Setteled* (*i*) *Uttar Pradesh*: The Bengal Act of 1959 was extended to Agra, giving rights of occupancy to tenants occupying land continuously for 12 years or more. The Agra Tenancy Act of 1901 provided that a change of holding or dipossession for less than a year should not be taken as a break. It was provided that leases of 7 years or more would work towards occupancy rights. In 1926,

non-occupancy tenants obtained life tenure and in return the landlord's rights over *Sir* or *Khudkasht* land were extended. 1939, the congress Ministry passed the U. P. Tenancy Act which conferred hereditary rights on occupancy tenants, restricted the grant of *sir* rights to landlords and limited the area to 50 acres. It further restricted rents to the rates existing between 1895 and 1905, and they could not be increased for 20 years. The rate of interest or arrears was reduced to $6\frac{1}{4}$ per cent, and ejections were disallowed, unless there was prolonged default. This legislation provided an effective check against rack-renting in U. P. The tenancy Act was amended in 1947, to restrict the landlord's power of acquiring land and to allow the tenant to pay rent either direct to the landlord or by postal money order or by depositing in a court of law. It was also laid down that if the tenant paid the rent within a month of ejectment for non-payment, he would have his holding restored. (*ii*) *Orissa*: 'Orissa', it has been aptly described by an economist, 'is an example of tenancy chaos'. The congress Ministry of 1938, gave the ryot the right to transfer his holding, *abwab* punishable with jail, reduced interest on all arrears of rent to $6\frac{1}{4}$ per cent, and disallowed all increases in rent except for improvements made by landlords. This raised a storm of protest. The Estates Land Act was amended in 1946 to give occupancy rights to the tenants of Inamdars; the Tenancy Act was twice amended in 1947 to give security to ryots and to enable reduction in rent. (*c*) *Tenancy Relief on Ryotwari areas*: Ryotwari tenure, prevalent in Bombay, was guided by the Bombay Land Revenue Code of 1879, as amended in 1939. Originally, the revenue settlement was made by the Government with the cultivators. But gradually the peasant's land passed into the hands of moneylenders and other non-cultivating absentee landlords. The peasants were turned into tenants-at-will under the absentee landlords. The Tenancy Act of 1939 gave some protection to the permanent tenants of large landowners as tenants-at-will, though they were holding land continuously for generations. 'The Act of 1939......gave protection to tenants who had occupied lands continuously for 6 years preceding 1 January, 1938......The Government undertakes to fix the maximum rents for certain areas. Any relief given to the landlords by the government is revenue to be shared by the tenants as well. The provision does not, however, apply to crop-sharing tenants.'

The brief survey made above would reveal that relatively larger attempts for tenancy reforms were made mostly in the permanently settled Zamindari areas, and less in the ryotwari areas. The British rulers claimed those measures as 'beneficiary acts' in favour of the tillers of the soil. Their claim to 'benevolence' however, was not accepted by the economists and historians. The Superintendent of West Bengal Census (1951) wrote : "Between 1793 and 1882, a series of regulations was passed assuring protection to the *ryot* and between 1859 and 1885 another series of Acts. But behind everyone of these enactments was either a serious famine or a tale of peasants rising in revolt and desperation. It would not be simplifying history to say that behind the great Bengal Tenancy Act of 1885 were the Report of the Famine Commission of 1881 and behind that again the agrarian movement of 1873, when *ryots* in some areas combined in a kind of land league to resist landlord's exactions and defeated them by united opposition, leaving them no alternative but to bring suits against every tenant on their estates—a result which a contemporary official publication described as an agrarian revolution by due course of law. It is perhaps no accident that the population of Bengal began to register real, if not tardy growth only after 1885."[67]

It is now common place that the occupancy tenant whose rights were being protected by these laws was generally, not the actual cultivator of the soil. Ryots were constantly creating under-ryots. As soon as a ryot could find a job outside agriculture and was in a position to leave the village or self-cultivation, an under-ryot was created with more uncertain tenancy rights. The actual cultivator very often was a mere tenant-at-will or a Bargadar or Bhagchashi working on the *Batai*, *wandai* or *metayer* system. Tenancy legislation did not benefit him. He was rackrented as before and enjoyed no security against arbitrary ejectment.

As late as 1943, i. e. after about 100 years of tenancy reform legislation, the Bengal Famine Enquiry Commission found that three tendencies were common in respect of tenancy situation. ***Firstly***, a tendency towards the increase in the number of tenants ; ***secondly***, rack-renting of tenants, especially tenants-at-will ; and ***thirdly***, an increase in absentee ownership. The review of the tenancy problem by

67. *Census of India*, 1951, Vol IV. Part I-a P. 449.

the Bengal Famine Commission indicates that the proportion of land cultivated by non-occupancy tenants is quite substantial : 'The crop-sharing system generally predominates in all provinces'. And as regards the efficiency of such economic organisation the commission opines : 'It seems to us *prima facie* probable that production must suffer where the tenure of the cultivator is insecure, and the incidence of the rent so heavy as to leave the cultivator inadequate returns for his labour and enterprise.'[68]

B. *Irrigation*

There was no doubt that wells, tanks, reservoirs and canals existed in India even before the advent of the British Raj as instruments of artificial irrigation maintained by the central political authority. No notice was taken at all during the eighteenth century, and no responsibility of the State was accepted in this matter. Lord Cornwallis expected to entrust the Zeminders with the task of maintaining and improving these works within their respective areas. In 1800 when Dr. Buchanan under took a journey from Madras to Canara through Karnatic, Mysore, Coimbatore and Malabar, he noticed many irrigation works in the Madras Presidency. There were many canals in the North India. Feroz Shah constructed the western Jumna Canal in the fourteenth century, this was renovated by Akbar in 1568 and remodelled by Ali Mardan Khan in 1628. The Eastern

68. In reply to an open letter by R. C. Dutt and others criticising the land revenue policy of the Government, the Governor-General adopted a resolution in 1902 supporting the measures taken hitherto. The Superintendent of west Bengal Census (1951) comments : "In the first place, it is necessary to point out that the tenancy legislation which the minute held up as a great act of benevolent rule came as an inevitable corollary to bolster up the Permanent Settlements, to keep it from crumbling away under its own economic imbalance. Thus the first object was to strengthen Permanent Settlement and remotely to administer justice. Secondly, although these legislations were designed to protect the cultivator from rack-renting and ejectment, their real effect in practice resulted in safeguarding only the rural middle class and the *jotedar* at the cost of not the landlord but the tiller......Thirdly, it is necessary to point out, in the spirited extracts the failure of the government to acknowledge its responsibility for irrigation...Fourthly, in its anxiety to absolve the Government of any responsibility for famines, the Resolution fights shy of analysis of the *Zamindari* system, and the resultant industrial and commercial malaise that overtook the country in the last century like a creeping paralysis."

Jumna Canal was known to have started during the reign of Shah Jahan. The original Bari Doab and some of the Innundation canals originating in Sind were also existing from earlier times.

The local administrators or collectors of land revenue many times wrote to the court of Directors for improving the existing irrigation works and erecting new ones, but with no avail. In 1886, the collector of Coimbatore wrote to the Court of Directors : "The formation of wells is by far the greatest improvement of which land in that part of India is susceptible. A well places the crops of the land, which it suffices to water, beyond the accidents of seeson, so variable and often so fatal in India. Nothing, therefore, can be more useful than to give encouragement to the formation of wells". The collector was heartily supported by Sir Charles Trevelyan. But the pleadings of local officers brought no result.

The progress of irrigation as a whole was, however, very slow. Only with famines, minor irrigation works were sometimes undertaken, as in Deccan and elsewhere. On account of their heavy cost and irregular demand for water by the cultivators these works did not pay their way. The Government was mainly interested in revenue calculations, and railways were pushed through by the leaders of industrial capital in London. After the famine of 1877-8, it was decided to set apart Rs. 150 lakhs every year as the Famine Relief and Insurance Fund. A portion of this grant was spent upon the construction of protective works. Sir Arthur Cotton, the builder of Godavari and Kaveri works, tried for an enlarged irrigation policy, which was turned down by the Select Committee headed by Lord George Hamilton as chairman because the proposals were not considered remunerative enough. The Famine Commission, however, pleaded for more irrigation works. R. C. Dutt in his *Economic History of India* (Vol II) mentioned that at the end of the nineteenth century the total irrigated area was about 11,368,591 acres only.

The recurring famines towards the end of the last century led to the appointment of Irrigation Commission of 1901 by Lord Curzon's Government. This Commission was headed by Sir Colin Scot-Moncrieff. This Commission reported in 1903, and held that railway construction had already played its part in the policy of famine

insurance, and it was now important to develop the supply of food. The Commission maintained that the field for the construction of remunerative works was limited to the Punjab, Sind and parts of Madras, all of which are not so vulnerable to famine. The Commission suggested irrigation projects for each of these areas and recommended that these works should be increased as fast as possible, because they would be profitable to the State and increase the total food supply of the country. In respect to famine areas, the Commission recommended the construction of protective irrigation works which, though not directly paying, would dispense with the large expenditure on famine relief which would otherwise be necessary. The subsequent irrigation policy of the Government has been based upon mainly these recommendations, and presents a contrast to the earlier policy of concentration on railways, to the detriment of irrigation, which called for the adverse criticism of Gokhale and R. C. Dutt.

Irrigation was made a provincial subject under the reforms of 1919. The sanction of the Government of India and of the Secretary of State was required only in the case of works estimated to cost over Rs 50 lakhs. 'Moreover, the use of loan funds was no longer restricted to productive works and money became available from the Provincial Famine Insurance Grant when it was not required for actual famine relief.'

Royal Commission on Agriculture (1926) recommended the establishment of closer relation between the Irrigation and Agricultural Departments ; creation of local advisory committees (on the analogy of the local railway advisory committees) to deal with the complaints about irrigation matters ; and the establishment of a Central Bureau of Information at Delhi. In April 1945, the Government of India set up a Central Waterways Irrigation and Navigation Commission, a central factfinding, planning and coordinating organisation, to examine the potentialities of India's rivers and to assist in the coordinated and multipurpose development of rivers passing through more than one province or State.'

The discussion can not be completed without a pecuniary balance-sheet of such 'beneficial act.' Little was done in the permanently settled areas, where no increase in the revenue would be possible from these irrigation works. Not only that, the total capital outlay on productive works at the end of the year 1941-42 amounted to Rs. 103 crores as against Rs. 42·2 crores in 1900-01. The net revenue was Rs. 10·66 crores, giving a return on capital of over 10 per cent. This was not an unsatisfactory return from the view point of public investment. But this is one side of the ledger. This over 10 per cent was the average rate. Since Rs. 38·79 crores of the total have been spent on 'unproductive' works most of which return less then 1 per cent, much higher rates had to be collected from the 'productive' works in order to reach at the average. And any student of economic history would like to compare this rate of return with the low return earned by the railways. Thus, which section of the Indian population had to pay relatively more to the public revenue.

Water-charges have been levied in different ways in different provinces. For instance, in Sind, the ordinary land revenue assessment included also the charge for water, nine-tenths of this assessment being regarded as due to canals. In others, as in Madras and Bombay, different rates of land revenue were assessed according to whether the land was irrigated or not. Their revenue, therefore, included the charge for water. But generally, over the greater part of India, water was paid for separately. The area actually irrigated was measured, and a rate was charged per acre according to the crop grown. The rates varied considerably between provinces, or even areas within a province, on the water of a particular canal.

No scientific enquiry has been made on the incidence of water-charges and details of the pattern of such incidence have not been historically traced. Yet one may visualise, who had to pay ultimately the burden of water-taxation. The rise in productivity of the soil due to irrigation raised the price of land and only the moneylenders and the traders and not the tenants or the ryots could purchase land at speculative prices. The real cultivators, could not share the rise in the productivity of the soil. Irrigation therefore, accentuated the differentiation among the peasantry and accelerated the process of land-transfer and growth of agricultural labourers. Mention must be made in this connection of the famous Haw and Schmit report of the U.S.A. which states that, "The farmer's repayment should be fixed at irrigation value. In addition, the farmer should be able to

obtain land title at unirrigated value, free from speculative increase."[69] Historically speaking, therefore, the net effect of irrigation, in our country, on capital formation in the hands of the producers or on their asset-formation, cannot perhaps be taken to be highly conducive to economic welfare or growth in the agricultural sector.

C. *Scientific Agriculture*

Bringing science to agriculture was a problem which had to be dealt with by the State in India, while in Great Britain or the U.S.A. it was done by the capitalist' agriculturists themselves. As mechanisation in agriculture did not develop here as it did in the West the rising plantation industry and the commercial crop producers forced the opening of experimentation centres and training of cadres on the State.

The organ of the State through which this task was to be undertaken was a special executive department of agriculture. The idea of a special Government department was first mooted in connection with the Orissa famine of 1866. It was later on taken up by Lord Mayo's Government, but materialized only in 1884 as a result of the recommendations of the Famine Commission of 1880, and on the representations of the Lancashire Cotton Industry which was interested in the growth of long-staple cotton in India. The Provincial Governments, however, took a long time to organise these departments, which gradually consisted of Directors, Deputy Directors, Superintendents and Overseers. Although the earlier idea was to take up agricultural enquiry, famine relief and land improvement, not much was done beyond little amount of statistical work and maintenance of village records. 'The botanist explored and classified the flora, the geologist examined the rocks and the strata; scientific research was in the classificatory or systematizing stage.."[70]

In 1889, the report by Dr. J. A. Voelcker of the Royal Agricultural Society drew pointed attention to the problems of Indian Agriculture and the measures to be taken. In 1892, an agricultural chemist to the Government of India was appointed. In 1901, an

69. *Report of an Economic Survey of certain Federal and Private Irrigation Projects*, p 99.

70. *Moral and Material Progress Report*, 1901-02, p. 329.

Inspector-General of Agriculture was appointed to advise the Imperial and Provincial Governments. The administrative institutions through which the State was to influence the productivity rapidly increased with the passing of the Co-operative Act in 1904, the establishment of the Central and Provincial Departments of Agriculture in 1905 and the constitution of the All India Agricultural Service in 1906. Since 1919, when agriculture became a State subject, the Central Government confined its activities to 'superintendence, direction and control' of the works of the State Governments. In 1926, a Royal Commission on Agriculture was appointed which submitted a comprehensive report in 1928. It stressed the importance of Government initiative in promoting agricultural progress. Even with the introduction of provincial autonomy in 1937, the governmental activities in agricultural sphere have produced little impression, as the funds were small, and any improvement needed a radical change in the land tenure system which was outside the comprehension of these ministries.

The main functions of the Provincial Departments of Agriculture comprised of the supervision and control of (i) Agricultural Education; (ii) Agricultural Research; (iii) Demonstration and Propaganda; (iv) Technical Improvements; and (v) Distribution of improved seeds, implements, artificial manures, etc.

The processing of the oriental flora to raise its commercial value was always kept in view by the British rulers. Even before 1870, the Government-aided European agri-horticultural societies experimented with exotic plants and for that purpose started the botanical gardens. These efforts could have no important effect as the main problems were the poverty of the cultivators and the agricultural framework. The Famine Commission observed about these early efforts : 'In some cases men have been sent out to teach practical agriculture who were not agriculturists, and too often when they were beginning to learn the elements of the problem before them, the Government has thrown up the attempt as expensive and as a failure.'[71]

The Pusa Institute was established in 1903, together with a college for more advanced trainning and special short practical courses. The Agricultural College at Poona was started in 1908 together with a research unit. Educational institutions increased in number in the

port, Part II, chap IV, p. 138.

inter-war period. According to the recommendations of the Royal Commission, the Imperial (now Indian) Council of Agricultural Research was established in 1929 'to promote, guide and co-ordinate agricultural research throughout India, and to link it up with agricultural research in other parts of the British Empire and in foreign countries.'

The achievements of agricultural research have been very disappointing. In the words of Russel Report, 'In view of the fact that Indian experiment stations have been functioning for many years it seems at first surprising that so little of the work done as found its way into the general body of agricultural science as expounded in standard treatise.' The laboratory has failed to establish a living and organic link with the field, the scientist failed to serve the needs of the man behind the plough. Unless 'the stream of knowledge is duly canalised so as to fertilize the actual fields and farms,' its research work was of little use. Secondly, research was being conducted in an isolated fashion and there was little co-ordination. 'As in our agriculture, so in our agricultural research, fragmentation has been the bane.'

Dr. Burns in his Report on Technological Possibilities of Agricultural Development in India (1944), continued the same mistaken line. Keeping the agrarian structure undisturbed, he expected that the yield per acre under various crops could be substantially increased by effecting small improvements in the equipments of the farmer, like supply of better seeds to him, provision of compost manure and fertilizers and extension of irrigation facilities.

D. *Debt Legislation*

The debtor peasant, for all practical purposes, had to turn a slave. With loss of his land, he lost the economic freedom. He lost his land but could not become a 'free' labourer. On the one hand, the inherited and essentially unchanging socio-religious complex was too over-powering for the man whose tribal unity was no longer present to protect him, and on the other, the rate of industrialisation was slow enough, and rapid migration to cities therefore was not possible. When, however, industrialisation started, such landless and debt-ridden peasants were collected by *Arkathis* for Sardars or labour-contractors of a feudal variety. Under these Sardars and contractors economic bondage was no less pronounced, even the city air could not make him free In most of the provinces such servitude prevailed. In Bihar and Orissa, the *Kamiauti* agreement and in Madras the *Pannaiyal* system were such conditions of servitude. A similar system prevailed in Madhya Pradesh. Prof. P. J. Thomas wrote : 'A labourer borrows a small sum to celebrate a wedding or funeral, but in return he has to work for the lender. He can never save up the amount needed, and the transaction becomes an indenture for life.'[72] The *Kamiauti* agreements were declared illegal by an Act of 1920. "But it would appear," wrote the Agricultural commission, "that the Kamia is too poor to set the law in motion and the Act has proved ineffective." (1935).

The measures taken the Central and Provincial Governments in the past could be classified as follows : (i) Measures of relief, (ii) Restrictions on the borrower, (iii) Restrictions on the lender, and (iv) New agencies for Rural credit.

(i) The relief measures consisted of Acts with regard to (a) Settlement of old debts, (b) Moratorium,[73] (c) Debt conciliation legislation, (d) Compulsory scaling down and liquidation with a view to (i) reduction of outstanding debts so as not to exceed twice the principal, less all payments received by the creditor, (ii) reduction of arrears of interest, and (iii) fixing the rate of interest for subsequent years.

(ii) Restrictions on the borrower consisted of the legal restrictions on the transfer of land as laid down by the Punjab Land Alienation Act of 1901. A similar Act was passed in U.P. 1903. Restrictions on the alienation of land existed in Madhya Pradesh and Bombay too till these Acts became unconstitutional in 1950. In addition to the restrictions on the attachment or the sale of implements and cattle necessary for tillage and the agriculturist's house.

The importance of Land Alienation Acts lies in the encroachment on the 'sacred' rights of individuals for free purchase and sale of land thus limiting the growth of rich peasantry. How far such Acts slowed

jee, *Economic Problems of Modern India*, vol I. p. 172.

atorium' implies stay of proceedings in courts with regard to the ts.

down the process and rate of land concentration on the one hand and an emergence of rural proletariat on the other, has not been scientifically assessed. But that the money lenders or the rich peasantry opposed these measures in particular is evident from the great controversy which the Punjab Act generated. The Royal Commission on Agriculture stated (*Report* p. 420.) : "In accordance with its provisions certain castes and groups were styled as agriculturist. Within such groups alienation was left free, subject to the ordinary customary law of the tribe ; sales and mortgages by members of a group to any one not such a member were restricted by the Act." The opponents of the Act predicted many evil consequencess. "The value of land would be depreciate, the provisions of the Act would be evaded, the moneylenders trade would become impossible, and the borrower would be pinched.[74] Such Acts failed in their object as they have merely changed masters for the debtor-peasant. In place of non-agriculturist money lender, the agriculturist money lender bought up his land and reduced him to the status of a tenant.

(iii) The restrictions on the borrower also put restrictions on the lender, but some direct restrictions on the money-lender were also devised, like the provisions for his registration and licensing, regulation of his accounts, limitation of chargeable rates of interests, and such others. Several provisions related to the protection of the debtor from molestation, as in M. P., Bengal and U. P. These laws exempted the peasant's holding from attachment in payment of debt.

(iv) Attempts to provide credit to the agriculturist by the State through the departments of the Government started in the nineteenth century. Under two Acts passed in the last century, local governments were empowered to make loans to agriculturists from state funds. The Agriculturists Loan Act (1884) provided for the short-term credit, while the long-term needs of agriculturists were to be met under the Land Improvement Loans Act (1883). The Royal Commission on Agriculture considered the working of these Acts satisfactory, but such a view was not shared by the Provincial Banking

74. Calvert, *Wealth and Welfare of the Punjab*, p. 268.

Committees.[75] The beginning of the present century saw the building up of the cooperative institutions by the State.

E. *The Cooperative Movement*

Organisation of cooperative institutions in India, mistakenly called a movement, was initiated as a policy by the Government early in the present century and has been sustained by Government assistance. Extraordinary high receipts in usury and money lending led to the formation of several 'companies' in nineteenth century. Mrs. Vera Anstey points out that, no less than forty five loan banks and companies were formed between 1869 and 1900 in Bengal, whilst the "Nidhis" of Madras and similar associations in the United Provinces also aimed at providing credit on reasonable terms, and were comparable with the English Friendly and Building Societies.[76]

At the end of the American Civil War when the high demand and price of cotton suddenly slumped, the peasants' financial situation sharply declined, the burden of debt became heavy. Oppressed peasantry revolted against the money lenders leading to Deccan riots. A proposal for the establishment of Agricultural Banks to work as the main credit agency in the rural areas was first proposed by Sir William Wedderburn. In 1881 a scheme was drawn up to start an Agricultural Bank at Poona and a bill to establish such an institution was introduced in the Legislative Council by Mr. Mandlik. The Secretary of State refused to allow such institutions at the time and attempts were given up. In 1892, the Madras Government appointed

75. An important defect in the administration of the Land Improvement Loans Act was the grant of loans for a short period—some times of one year—although under the rules loans could be advanced for longer periods of 20 to 35 years. Adequate information about the facilities provided by these Acts was often not available to the poor ryots, and many agriculturists were not even aware that the government was advancing money for agricultural operations. The rules were kept secret by many low-paid and corrupt government servants. However, even a knowledge of of the rules did not help the cultivator much, as he could have no redress against ...llingdelays in sanctioning applications for loans, unfair recommendations by dis... the restricted scope of the rules themselves. The loans made were ...en for the short-term needs of the agriculturists.'

...areful examination it will appear that the natives of Bengal or ...dia, are not so apathetic and indolent as asserted in some quar... *The Economic Development of India*, p. 189-90.

Mr. Frederick Augustus Nicholson 'on special duty for the purpose of enquiring into the possibility of introducing into this Presidency system of Agricultural and other Land Banks.' Nicholson stated that 'the substitution of organised credit for that of the moneylender is a necessary development of civilization : the individual system is only an elementary stage which must be eventually passed as general wealth, order, business confidence and habits of business association develop.'[77] For 'bringing to the peasant that continued everfluctuating credit which he needed', Nicholson favoured the establishment of Cooperative Credit Societies, based on Raiffesen model. According to him, what was necessary in India was 'the zeal, energy, patience and continuous devotion so thoroughly exemplified in that great reformer and of the spirit of cooperation, thrift, self-help so thoroughly developed in the above and similar systems.' He, therefore, summed up his report in two words, 'Find Raiffesen.'

The report was submitted in 1895 and no action was taken on it for several years. Various officers, however, started experimenting with such societies, but these were scattered and uncoordinated. Such attempts were being made by officers like Sir Edward Maclagan and Captain Crossthwaite in the Punjab, Mr. Dupernex in the U P. and and Mr. Lyon in Bengal. In 1901, Lord Curzon appointed a strong committee under the chairmanship of Sir Edward Law and the recommendations of this committee resulted in the passing of the Cooperative Credit Societies Act, 1904. The Act provided that any ten persons living in the same village or town or belonging to the same class or tribe could form a Cooperative Credit society 'for the encouragement of thrift and self-help among the members'. Non-credit cooperation was postponed, the main objects of the society was 'to raise funds by deposits from members and loans from non-members or, with the special permission of Registrar, to other Cooperative Societies'. A distinction was made between rural and urban societies, the former were defined as those where four-fifths of the membership were agriculturists and the latter where this proportion consists of non-agriculturists. A Registrar was to be appointed in each province to exercise supervision over the organisation and control of the 'movement'.

77. *Nicholson's Report.* reprinted by the Reserve Bank of India, P. 5.

Many such societies grew up rapidly and a change in the 1904 Act was felt to be necessary. The growth is described below :

Year	Number of Societies	Number of member of primary societies	Amount of working capital in Rupees
1906—7	843	90,844	23,71,683
1907—8	1,357	149,160	44,14,086
1908—9	1,963	180,338	82,32 225
1909—10	3,428	224,397	1,24,68,312
1910—11	5,321	305,058	2,03,05,800
1911—12	8,177	403,318	3,35,74,162

The new Act, The Cooperative Societies Act, 1912, removed the lacunae found in the old Act. It provided for the formation of non-credit societies and higher credit agencies. This Act recognised three kinds of central societies, namely unions of primary societies, central banks comprising partly individuals and partly societies, and provincial banks, consisting of individuals. The old classification of societies into rural and urban was discarded, and societies were classified as limited or unlimited liability societies. It was ordained that credit societies which were mostly agricultural should be ruled by unlimited liability. In case of societies, the liability should be unlimited. Societies which did not fall within these categories were left free to adopt either principle (limited or unlimited liability). Societies governed by unlimited liability were now permitted to declare dividends, and all societies were allowed to spend not more than 10 per cent of their profits on charity and education after diverting at least three-quarters of their profits to the reserve fund.

The effect of this Act was immediate and spectacular, within two years the number of societies in the country nearly doubled. A committee was appointed in 1914 under the Chairmanship of Sir Edward Maclagan, to review the progress of the movement and to report wheather the movement was progressing on sound lines. It reported in 1915 with many constructive proposals for healthy development of the movement.

Cooperation became a provincial subject in 1919, and hencefor-ward, many new Acts or amendments of the 1912 Act was passed by the Provincial Governments. The Royal Commission on Agriculture in 1926-27 was not satisfied with the rate of progress of the 'movement'. It however, considered cooperation as the best way of improving the lot of the cultivators. "If cooperation fails", wrote the Commission, "there will fail the best hope of rural India."

Just before the Great Depression of 1929, the number of societies had risen to 1,04,187 and their membership stood at 4,181,904. Land mortgage Banks were also established during this period. Greater progress was made in the ryotwari areas of Madras, Bombay, and the Punjab than in the Zemindari areas of Bengal, Bihar and U. P. This was due to opposition by Zemindars and indistinct occupancy rights of a large number of sub-infeudatories in the Zemindari areas. One can say, however, that this shows relatively better the economic plight of the cultivators in the Zemindari areas and thus R. C. Dutt stands vindicated.

The thirties brought a crisis in cooperation. With a fall in the prices of agriculture products and the repaying capacity of the agriculturalists, the debts of the societies remained unpaid. The whole 'movement' was thrown out of gear. The establishment of the Agricultural Credit Department of the Reserve Bank of India did not help the 'movement' materially during the thirties.

During Second World War, agricultural prices rose and societies were strengthened. Scarcity of goods led to the establishment of a large number of supply societies or consumers' societies. From the five-yearly average of 116,960 societies during 1936-40, the number of societies in the next five years rose to 149,190, membership rose from 50·77 lakhs to 72·18 lakhs. Between 1938-39 and 1945-46, there was a 41 per cent increase in the number of societies, 70 per cent in the membership and 54 per cent in the working capital. The partition was a setback for the movement, particularly in the Punjab, but the progress was resumed after 1948-49. At the end of the period under review, in 1951-2, there were 16 State cooperative banks as apex institutions for distribution of capital through 509 central cooperative banks and Banking Unions, to the primary credit societies numbering 107,925 with a membership of 4,776,819.

Evaluation of the 'movement' is necessary before the discussion is closed. Without entering into the opinions of a large number of individuals, we may concentrate only on the *assessment by different committees*. In 1915, when the cooperative 'movement' in India was only ten years old, the *Maclagan Committee* said that no one "can fail to be struck by the magnitude which the growth (of primary societies) has already attained or to be convinced that the Movement has taken firm root"; but in the course of its summing up the committee also remarked: "We regret to have to say that the conclusion has been forced upon us that i the majority of cases primary societies in India fall short of the cooperative ideal. Speaking generally, even allowing for the backwardness of the population, there has been found a lack of true co-operation."[78]

In 1928, after more than a decade of further expansion, the *Royal Commission on Agriculture* made the following observations: "Few things have struck us more forcibly in the course of our enquiry than the comparative failure of the movement in some Provinces; ......our examination of the movement has however convinced us that the necessity for a high standard of efficiency in work......is not everywhere sufficiently realised......It has been made clear to us in some Provinces that the Movement does not inspire confidence amongst workers in allied fields and no small part of the disinclination to make use of it has been due to its internal defects."[79]

In 1931, *The Indian Central Banking Enquiry Committee* referred to some of the conclusions of the Royal Commission on Agriculture. Some of their observations are: 'It is not, however, denied that there are several defects in the working of the movement, some of them of a grave nature......The Royal Commission on Agriculture......stated members of societies delay the repayment of loans even when able to repay; understanding of the principles of cooperation and knowledge of the essentials of rural credit are lacking; office-holders refrain from taking action against defaulters......Even where defects are obvious and admitted, there is reluctance, as dangerous as it is regrettable, to liquidate societies whose condition is beyond remedy. The Provincial Committees substantially endorse these observations, and these defects are more or less common to the working of the societies in all Provinces. The features of overdues and its evil effects are specially emphasised by the Provincial Committees...... One of the weaknesses of cooperative finance is said to consist in its inelasticity, dilatoriness and inadequacy. Almost all the Provincial

78. *Report of the Committee on Cooperation in India*, 1915, p. XVI.
79. *Report of the Royal Commission on Agriculture in India*, pp. 473-4.

Committees have adverted to this weakness in the organisation and more or less admit its prevalence. One result is that the cultivator who is a member of a credit society has to resort frequently to the money-lender as well for accommodation......In order that the system should work properly, it is essential that a cooperative society should eliminate all differences in the status of the members and avoid the danger of the control becoming concentrated in the hands of some powerful interests, a tendency which is noticed in some places and commented on by some of the Provincial Committees. The emergence of these phenomena in the working of the central banks necessarily leads to undesirable results such as the over financing of societies to keep up dividends, the maintenance of high interest on deposits and the receipt of superfluous and safe investments to the controlling interests, and interference in the working of primary societies in the matter of sanctioning loans. The same phenomena in the primary societies tend to the interests of the small producer being neglected in favour of his more powerful colleagues."[80]

In 1937, the *Statutory Report of the Reserve Bank of India* stated: "...figures, however, do not reveal the real state of affairs and a closer scrutiny shows that the position is far from satisfactory in some of the areas......Since share capital in primary societies may in certain cases consist only of an inflation of the loans granted to members, it is doubtful how much of it represents real savings."[81]

In 1946, the *Agricultural Finance Sub-Committee* observed: "......the role of co-operative movement in the supply of agricultural finance was very small as compared to the needs of the country and that part of it which could be considered as efficient was smaller still. In many of the Provinces, the Movement was in difficulties in spite of the rise in prices of agricultural produce......A large number of societies are faced with the problem of frozen assets and have stopped functioning wholly or in part."[82]

In 1946, the *Co-operative Planning Committee* stated the causes of failure are 'the laissez-faire policy of the State, the illiteracy of the people, and the fact that the Movement did not, especially in its initial stages, take the life of the individual as a whole. Amongst the

80. *The Indian Central Banking Enquiry Committee*, pp. 132-3, 136, 138-9.
81. *The Statutory Report of the Reserve Bank of India.* pp. 12-13.
82. *Report of the Agricultural Finance Sub-Committee*, p. 35.

other causes are the small size of the primary unit and undue reliance on honorary services for even day-to-day work with resultant inefficiency of management.[83]

In 1950, the *Rural Banking Enquiry Committee* said : "From this review, it is apparent that a sound and satisfactory co-operative banking structure exists only in few regions, particularly in Bombay and Madras. The structure elsewhere is in a process of reorganization, consolidation or rehabilitation and it is as yet too early to say what the outcome of the effort now being made will be."[84]

The fundamental reason of the failure of the cooperative movement however, has not been dealt with in the observations given above. For this, one should better consult the *Report of the All India Rural Credit Survey*. In 1954, this Reserve Bank Report pointed out : "While, in theory, cooperative credit is *personal* credit based upon the character and the repaying capacity of the cultivator, the Survey data reveal that, in actual practice, a high proportion of the advances in many States is against the security of immovable property.......The second most noteworthy feature is......that the class-wise distribution of cooperative finance is preponderantly in favour of the large cultivators—as compared with the medium and the small—and, among large cultivators themselves, predominantly in favour of the cultivator."[85]

The Report, unfortunately did not proceed a little further to its next logical step. If landed property was the basis for credit and big cultivators received a substantial share of this credit then this credit must have found its way into usury and land purchase. That has created further differentiation among the peasantry and increased the tendency of land concentration in fewer hands. The role of the State, therefore, through the Reserve Bank of India, was for all practical purposes to constantly replenish the funds of the rich peasants to buy up the small ones.[86]

83. *Report of the Cooperative Planning Committee*, pp. 11-12.

84. *Report of the Rural Banking Enquiry Committee*, p. 18.

85. *Report of the All, India Rural credit Survey, vol 11, The General Report*, pp. 233-4.

86. And we can, therefore, positively conclude with Marx, "Cooperatives, i.e. associations of small peasants, while playing an unusually progressive bourgeois role, only weaken this tendency without eliminating it; one must not forget besides that these cooperatives do much for the well-to-do peasants, and very little, almost nothing for the mass of the poor peasants; also that the associations themselves become exploiters of wage labour." Marx, *Capital*, Vol. III.

SEVEN

Some Case Studies

"A vast deal of attention is naturally directed to the mill industries in India, to tea, indigo, and coffee, and to mining industries, as European capital is largely employed in India in these farms...however the number of labourers employed in these industries bears no appreciable proportion to the population of India. The problem of improving their conditions finds no solution in the encouragement given to British companies in India."—**R. C. Dutt.**

1. The Plantations : Indigo, Tea, Coffee, Rubber

Prof. Gadgil states that, 'The plantation was the first to be introduced in India ; from the beginning the industry was purely European. It was the beginning of European exploitation of Indian resources.' The restrictions placed by the East India Company on Europeans permanently acquiring land in India to safeguard its interests prevented foreign enterprise on Indian soil till the middle of the nineteenth century. With the termination of the trading monopoly in 1833, the field was thrown open to English adventurers. The enormous growth of tea, coffee and jute industries during 1860-70 bear witness to the 'industrial spirit' of the 'English' capital.

A. *Indigo Industry*

The history of Indigo industry is different from the others listed above in two respects, first, it began in India earlier than all, before the end of the eighteenth century, and second, the system was not strictly a plantation system but was mainly based on the old system of agrarian relationship. Indigo had been grown in India from ancient times, as early as 80 A.D., chiefly in Gujerat and Western India. After the discovery of the route around Africa it became a very important article of commerce in the hands of Dutch, Portugese and Spanish. The expansion of European (and more specifically British) textile industries enlarged its demand. It was purchased by the Europeans as an already manufactured article. The basis o production was the usual Indian custom of trader furnishing a large share of the capital to the producer. This system was almost a necessity to guarantee a steady and considerable supply. Due to competition from America where it was produced by negro slaves and on account of bad quality and adulteration of Indian dye, the 'Indian Trade almost ceased.' The increased demand, freedom of the negroes and English enterprise combined together and 'towards the end of the eighteenth century, under the influence of European enterprise,..... production of Indigo began to be developed in India, with its centre in Bengal, and India became the chief source of supply.' From 1780 to 1802 the East India Company spent large sums for it mainly in Bengal.[1] Experienced planters were brought from the West Indies, the Company's officers were encouraged to engage in trade, and other persons were licenced to enter the interior and set up plantations. The company began to buy indigo instead of bills of exchange as a means of providing funds for themselves in England and encouraged its employees to do the same.

'Planters seldom came out from Europe with capital. By 1830 none had done so. Rather they raised capital by borrowing from Indians, from European servants of the company or from 'agency houses' in Calcutta. Interest rates were high, often 10 or 12 per cent, and the agency houses which 'borrowed with one hand lent with another' charged a 2½% commission as well. They also became Calcutta agents for the plantations and received commissions on purchases and various other transactions, including 2 per cent on all sales. Mortgages were taken on the property, but the risks were great. The investments in buildings and land were not nearly so substantial as the outlays for advances to cultivators.'

The industry grew rapidly for next fifty years and by 1850 indigo was one of the main exports from India. The peasants were forced to cultivate indigo in place of traditional crops, low prices were fixed, and physical tortures were common. The planters were as a matter of fact, a body caring little for law, many of them kept a band of

[1] "It made an original advance of nearly £1,000,000 sterling and was said to have lost about £80,000 within a few years." Quoted from Knowles, *Economic Development of the overseas Empire,* in D. H. Buchanan, *op. cit.* P. 36.

desperadoes under them to fight neighbouring planters and Zemindars. And, as Prof. Gadgil puts it, 'being members of the ruling race had little concern for the interests of peasant.'[2]

Dinabundoo Mitra dramatised the oppression of the planters in his 'Nildarpan', an European clergyman translated it into English, he was fined and imprisoned. In 1860 an Indigo Commission was set up. The system of indigo cultivation was not strictly a plantation system. In plantation system the planter cultivated his own land by means of hired labour. But for indigo, the usual system was to enter into contracts with tennants of other Zemindars or of his own Zemindari, to sow indigo in a certain portion of their land, which was sold to the planter at a certain rate. The Indigo Commission Report stated : 'It matters little whether the ryot took his original advances with reluctance or cheerfulness, the result in either case is the same ; he is never afterward a free man.'[3]

Cultivation of indigo was highly profitable. Prof. Buchanan showed from parliamentary papers : 'The cost of the raw material is the chief factor in the price of the final product, as the conversion cost of Rs. 10 worth of indigo was estimated in 1860 at only one and a half rupees.' He also showed the high social cost or opportunity cost of indigo production : 'The mercantilist memorialist of Calcutta were impressed by the fact that indigo brought in £ 3,000,000 from foreign countries ; but the Lieutenant Governor of Bengal, the highest officer in the province, concluded in 1860 that in the deltaic area there was a loss of some twenty rupees (nearly 10 dollars) on every acre planted to indigo because the productive resources could have been devoted more profitably to other crops.'[4]

From the standpoint of economic development, the main interest lies in the impact of indigo trade on the mode of agricultural production in India, especially in Bengal and Bihar. The needs of commerce must eventually determine the pattern of relationship between the

[2] *Industrial Evolution of India.* P. 47.
[3] How this commercial crop production could not, in any way change the prevalent agricultural relationships was best described in Buchanan's *The Development of Capitalist Enterprise in India.* Ph. 41-51.
[4] Buchanan, *op. cit.* P. 39.

ryots and the traders, influencing the Zeminder-ryot relationship. More a ryot would lead on the trader, more could he break through the traditional and feudal bondage with his Zeminder or with the village Panchayats. Bengal Zemindars scented the possibility of loosing their grip on the ryots. The opposition from Zemindars continued and the traditional agricultural relationships could not effectively break. The planters themselves sometimes turned Zemin-ders and capitalism in agriculture could not evolve and the next forward stage in economic development was not reached. In the words of Prof. Buchanan, 'Thus, as the business of the East India Company had passed from simple purchase of fully manufactured cloth through a number of stages, each tending to give the company more complete control, until in manufactured silk and other articles under its own direction and at its own risk, so the business of the indigo planters passed from that of simple purchase through the various stages and methods of partial manufacture to that of *Nij-a-bad*, in which the planter both produced the raw material and manu-factured it under his immediate control and under his own direction. In the early stages it appears that the rural people work better under their own direction ; but with experience they have been gradually disciplined to a point at which they can be moulded and supervised as an organised labour force.'

Synthetic dyes made the cultivation of indigo unprofitable and the planters who owned estates were compelled to introduce other crops. The acreage and production of indigo fell rapidly from about 1897. In 1901-02 exports were less than half in comparison to 1896 and by 1912-13 they were only one-seventh of their amount in 1901-02. The acreage under cultivation also reduced. The shortage of dyes during the world war pushed up the prices, acreage also increased but the bubble soon burst. Thus ended the infamous story of indigo which in the words of Prof. Buchanan 'typifies the white man's greed, dishonesty and oppression.' From independent merchants buying finished indigo, the indigo dealers had become, by a gradual process of evolution covering roughly a century, owners of land and independent producers with every stage of the process under their own control.

B. Tea

In addition to Silk and Indigo, Tea attracted the European enterprise. There were large areas of land with suitable soil and climate and also a large supply of cheap labour. The stage was thus already set for capitalist penetration. The officials of the East India Company, however, suggested the introduction of tea-growing much earlier, but the Court of Directors in England did not approve, the reason for this was their monopoly of British trade with China, the principal item of import was Chinese tea. The abolition of this monopoly in 1833 'quickened their perceptions to the advantages likely to accrue to India by the establishment of a new industry, and in 1834 the court sanctioned the appointment of a committee to consider and submit plans for the introduction of tea culture in India.' Seed and plant and labourers were first brought from China.

An experimental garden was started by the Company in 1835, in 1838 first tea was marketed in London. In 1839, the Assam Company was formed in London with a capital of £200,000. After five years the experimental garden was given to Assam company. The company had a virtual monopoly yet for ineffective management dissipated all its capital. The early fifties started with profits from tea, the number of gardens began to increase, 'the foundations of the present tea industry were laid between 1856 and 1859'. The centre of activity was in Assam, at first in Upper Assam, but later in Sylhet and Cachar, in the lower part of the province and in the neigh-bourhood of Darjeeling. The speculation with gardens started, without proper surveys many jungles were sold and resold as 'tea-gardens.' Existing gardens were taken over by newly born companies at fabulous prices. The speculative bubble ultimately burst and a slump set in. Depression was shortlived and then onwards a rapid expansion took place in the number of companies, in area under cultivation and in output.

Land was given up by Government on long lease at abnormally low terms. (When sold the prices ranged from Rs. $2\frac{1}{2}$ to Rs. 5 per acre). Assam Clearance Rule of 1854 did not protect the rights of the native tribes inhabiting these tracts. Reckless speculation was first sought to be stopped through deposits for making proper survey.

The local officers at first exercised a good deal of discretion in favour of the rights of the native tribes. But in 1859 the speculators brought pressure on Government and 'the practice of requiring applicants to show that they had means to cultivate the land was forbidden'. The intense speculation followed.[5]

Tea has been almost entirely a large-scale enterprise in the sense that in spite of a great variety in the size of plantations the typical garden is large. The consolidation of uneconomic small gardens was stimulated under managing agency system to avert financial crisis in 1866, 1867, and 1868, and also to ensure expert management. But while production has been on a large scale, this has not been machine farming. 'The tea-plantations are rather like the cotton plantations of America before the Civil War when most of the works was done by hand-labour......This necessitates a very large number of workers......Another peculiarity of tea growing is that families come to the gardens and men and women are employed in nearly equal numbers, while the children are also regularly employed in the fields to pluck the leaves. About one-sixth of the force is under 14 years of age'.

[5] Mr. Edgar says in his 'Note on the Tea Industry in Bengal,' *Papers regarding the Tea Industry in Bengal*. P. 7 (1873) : In most cases the compass Ameen (i.e. the government surveyor) sent in a fancy sketch of an almost imaginary tract of land, which was generally found, when the professional survey went over the ground some times later, to bear very slight resemblance to the real grant. Sometimes the grant had no real existence whatever, sometimes it was far away, in wilds inhabited by wild tribes, who owed merely a nominal allegiance to the government and who would probably have taken the head of the grantee if he had attempted to take possession...But the grantee generally had no idea of taking possession ; what he did was to sell the grant to companies financed in London for the purpose of the working tea gardens ; and even if the grantee took possession he had no idea of taking the cultivation of tea seriously. The general attitude of the actual planters is reflected by a saying, current amongst them at that time 'that it was doubtful whether it would ever pay to make the gardens. The gardens were not only planted carelessly but often was a small garden made of 30 or 40 acres sold to a company as 150 or 200 acres. A most remarkable instance of such practices, given by Mr. Campbell occurred in the Nowgong district, where the Indian manager of a promoter of Companies in London was advised by his employer to clear and plant a certain area of waste land for delivery to a company to whom he had just sold it as a tea garden.

The tea production differed from indigo in many respects. Much more "home" capital was invested in tea than in indigo. Also, the tea period started during the end of the indigo period.[6] The method of production also reflected the change from the mercantile practices to industrial practices. In indigo, there was delegation of agricultural operations and risks to the ryots. In tea, the person or the firm who does manufacturing also undertakes to produce raw tea under his own management and at his own risk. That explains the relatively greater use of machinery and better cultivation techniques in tea than in indigo. While indigo was cultivated under feudal mode, the traders not influencing the techniques or relations of production, in tea it was capitalist agriculture.

The relative importance of tea plantation industry is illustrated by the increase in investment. The total registered capital invested during the first decade of the present century stood at Rs. 22 crores, of which companies registered in India had more than Rs. 4 crores and those registered in London had Rs. 18 crores. 'There was a further unknown figure representing the capital of pritvate owners who refused to furnish any information of their business so that the total had been estimated at 20 million sterling'.[7] In 1928 the total investment rose to Rs. 48 crores, of which companies registered in India had Rs. 12 crores and those registered in London had Rs. 36 crores. In 1942, the total investment stood at Rs. 52 crores, of which Rs. 39 crores formed the capital of companies registered in England. Of the total tea gardens in Assam 90 per cent were owned by companies and not by private persons. In 1945, there were 1,128 gardens in Assam and only 270 were owned by the Indians. The Indian owned gardens were small and the average size was 100 acres. The total area of Indian-owned gardens was 15 per cent of the area under tea in Assam. Most of the Indian-owned gardens were started within the last 25 years (i.e. since 1920). Some

[6] The major period of investment in tea was 1880-1910, 'when England had more to invest, and after the railways, the steel steamship and the Suez canal, not to mention the setting up of rule by the crown, had brought the two countries together.'

[7] D. V. Rege : *Report on an Enquiry into conditions of Labour in plantations in India*. Pp. 12-13.

of these gardens were like Zemindaries. A small portion was under tea and the rest of the area was given out for cultivation to tenants.

Up to about 1860 the local labour supply had been sufficient. During the expansion phase the demand for labour became insistent and coolies had to be imported from Bengal. Private recruiters (called *Arkathis*) were engaged by the tea gardens, who brought labourers direct to the gardens. The companies used to advance money to these *Arkathis* for transit per labourer. Rosy pictures and false hopes were propagated in the villages where underemployment, famines and undernourishment had already shattered the will to resist. Some used to die in the transit. The climate and working conditions were abnormally ill-suited leading to dissatisfaction, nostalgia and desertion. Flogging was very much common and for all practical purposes the system of slavery was prevailing in the gardens. The economic exploitation and racial antipathy combined to produce horrible concentration camps outside the civilised eye. So glaring were the abuses that the government appointed a Commission and passed an Act in 1863. The main purposes of the act were to provide that coolies understood what they were undertaking and to reduce the "fearful mortality" which, occurred on the long journey to the gardens. The law completely failed in its first purpose, and as 60 persons per thousand recruited during the first three years of its operation died on the way to the plantations, it had little success in the second. The government finally prohibited all recruiting for Assam except by garden foremen and subjected their recruiting to very elaborate regulations.

The indecent behaviour of the planters was economically irrelevant what was important in it was the manner in which the labour-effort was transformed into capital. The rate of exploitation could be roughly gauged if increase in the quantity and value of output is compared to the total wage bill, i.e. the number of works and the average rate of wages they received. The earnings of tea plantation workers are still now the lowest in India. Before 1865 it was less than two rupees a month. In Assam the act of 1865 fixed the monthly wages at Rs. 5 for a man, Rs. 4 for a woman, and Rs. 3 for a child. An Act of 1872 sanctioned an increase of one rupee. In

1901, the rates were increased by few annas. In actuality, however, the workers were paid far below the statutory standard.[8] During 1905-21, the monthly rate of wages increased from Rs. 7·11 to Rs. 8·97 for men, from Rs. 5·67 to Rs. 7·46 for women and Rs. 3·4 to Rs. 4·67 for children, among the workers not employed under contract system. During 1921-29 the rates rose to Rs. 14·08, Rs. 11·26 and Rs. 7·38 for men, women and children in Assam Valley. The rates of wages were much lower in Surma Valley. Earnings began to decline during the depression of 1930. This downward trend was further accelerated with the introduction of international control order in 1934. This control restricted output and led to a sharp fall in the earnings of the worker. In 1939 monthly earnings were Rs. 8-15-6 for men and Rs. 7-10-2 for women in the Assam Valley. The corresponding figures in the Surma Valley were one rupee less. The rate of exploitation was further speeded up during the second world war. When prices began to rise steeply, the Assam Tea Association decided to keep wages low.[9]

[8] For "payment of the rates was, however, made contingent upon the completion of daily tasks and a considerable number never earned their full contract rates. It was an invariable custom, as conditioned by the law, that when labourers did not perform the full task, corresponding deductions were made from the wages. In practice, the actual amount of wages earned by average labourers, therefore, fell considerably below the standard." R. K. Das, *Plantation Labour in India*. P. 145.

[9] An official analysis of movement of prices and wages in the Assam tea gardens during 1939-44 states: 'The general policy followed in Assam by the Indian Tea Association on the question of giving compensation to labour for the stupendous rise in prices during recent years was to leave the basic wage rates alone, to give no dearness or any other allowance, but to supply foodstuffs at concession rates and offer increased opportunities for earning by doing more work. A few gardens have also decreased the task. This ratio and prices prescribed by the Indian Tea Association are not strictly followed by all the member-gardens......It is therefore clear that though the cost of living has gone up by at least 200 per cent the earnings (including cash value of concessions in foodstuff and cloth) of labourers in Assam tea gardens have gone up only by 82 per cent...The standard of living of tea garden labourers in Assam is appallingly low. They merely exist. They have hardly any belonging except a few clothes (mostly tattered) and a few pots (mostly earthen). Their womenfolk have no jewelley except German silver bangles in a few cases. Their houses presented a picture of stark poverty. As some labourers said, "This has become our way of life." D. V. Rege, *Report on an Enquiry into conditions of Labour in plantations in India*, Pp. 53-56.

No systematic accounts, however, can be given on profits. Prof. Buchanan points out that, the profits to tea planters and to tea companies have been irregular but generally good. The earliest English joint stock companies produced no earnings for some thirteen years but showed handsome profit from then onwards. The Jorehaut Company paid an average of 15 per cent dividend during the first 30 years of existence, and ten London Companies earned an average of 9 per cent during the 9 years of 1878-1886. The first world war brought new prosperity to the industry, it also enjoyed the post-war boom, of 139 companies registered in India (capital 5 crores) 123 companies declared dividends of 32 per cent on their aggregate capital of Rs. 4·53 crores in 1927, and 95 companies declared dividends of 23 per cent on their aggregate capital of Rs. 3·28 crores. (*Indian Tea Statistics*. P. 7). In 1928, 98 companies incorporated in India paid dividends at the rate of 23 per cent, in 1929, 74 companies paid dividends at the rate of 20 per cent. The oldest company registered in England, i.e. the Assam Company paid an average of 22 per cent in dividends during the ten years 1917-26, while for the same period the Jorehaut Company paid an average of 30 per cent annually.

During the depression years rates of profits were low. But with the outbreak of second world war, tea industry again experienced the phase of new prosperity. For 1939, 128 companies declared dividends of 15 per cent on their aggregate capital of Rs. 5 crores 31 lakhs. For 1940, 123 companies declared dividends of 15 per cent on their aggregate capital of Rs. 5 crores 8 lakhs. For 1941, 124 companies declared dividends of 18 per cent on their capital of Rs. 5 crores 84 lakhs. For 1942, 147 companies declared dividends of 28 per cent on their capital of Rs. 5 crores 95 lakhs. (*Indian Tea Statistics*, 1942).

Japan and other countries under her occupation during the war used to supply, under normal times 31 per cent of world's tea export. With the outbreak of war this quantity of tea was practically closed to the Allies. Demand from India and Ceylon rose very high and production was expanded to the maximum. Profits also went on increasing : 'With larger production and better prices realised, the Indian tea industry enjoyed increasing prosperities during 1945 and 1946.' (*Review of the Trade of 1945-46 and 1946-47*).

Thus when we conclude that the impact of tea plantation on economic development was not considerable we mean that no acceleration of investment could or did generate from such plantationing, no auxiliary or subsidiary industries were developed along with it, faster rate of capital accumulation was not experienced in India, the tea gardens remained as islands surrounded by feudal agricultural practices, they could not help to spread mechanisation beyond their boundaries and did not raise labour productivity, and the total wage-bill was small relative to investment and profit.

C. *Coffee*

East India Company took interest in coffee growing as early as 1823, earlier than indigo. 'In 1830 it was stated that greater inducements had been given to coffee planting than to any other sort of economic activity.' The reason was that company had trade monopoly with China wherefrom indigo was being brought. Coffee plantation was favoured with grants of land on long lease, while indigo was being restricted.

The situation, however, changed with the abolition of monopoly by the Charter Act of 1833. There was experiment in Bengal in 1830 where the crops were poor. It was believed that the sun was too hot there for the plant. Within a few years Mysore and the surrounding hilly regions became an important coffee producing area. The industry steadily grew between 1830 and 1860. During this period there was a regular boom as in tea and banking, all due to American civil war. Tree borers and the competition from Brazilian coffee affected the industry and within the period of 1877-1887 as many as 263 plantations were abandoned. 'During the next decade coffee suffered still more, the industry has steadily deteriorated.' In most of the cases abandoned coffee lands were placed under tea. There had been a temporary filip during the first world war.

In comparison to tea, coffee was not much of a success, many coffee estates have been turned to tea and more lately to rubber. It was on a small scale than tea or indigo and has not caused similar social disturbances. Labour in these plantations was brought from the neighbouring districts and not by *Arkathis*. The number of labourers was small and place was much more healthy than Assam. Work was not so highly organised as on tea estates. Much simpler machinery was used. The demand for labour was more of seasonal nature. Unlike tea, most of its production was meant for exports and there was no home market to fall back upon. It also differed from tea in the ownership structure, relatively a larger portion was in the hands of the Indians. Buchanan concludes that 'coffee growing profits have not been conspicuous and there seems no prospect of great expansion in the industry.'

D. Rubber

Rubber plantation was of later attempt. It was initiated by the Government of India in eighteen seventies. It itself operated some estates in Assam, provincial governments also assisted the industry. Maharaja of Travancore attemped to introduce it in his state about 1900, from where the planting has spread to the neighbouring territories. Only a comparatively small area possesses the proper combination of soil, drainage, temperature and rainfall. The initiative has been mainly in European hands, often with large joint stock companies registered in London. In 1906, London rubber boom increased its growth so that by 1911 twelve European Companies had a total of 17000 acres planted in Travancore, and planting showed great activity. In Burma, which was within India at that time, rubber plantations were attempted. First world war really helped the industry. Acreage increased. Size of plantations varied widely. While profits were very high in 1925 and 1926, the slump affected it. Real attempt was not made by Europeans in this field because geographically more suitable climate was found in Malay and the neighbouring islands.

2. The Jute Industry

The manufacture of jute fibres into coarse cloth by hand spinning and weaving is a very old industry in India. The weavers used to grow the plants themselves and this sack-weaving caste was called *Kapalis*. From 1795 onward a considerable quantity of the woven

material was being exported.[10] The fibre was first sent to Europe for experimental purposes and it was in 1835 that pure jute yarn was being produced. Power weaving started immediately in Dundee. The industry gradually grew in Dundee for some fifteen years. During the Crimean war the supply of hemp from Russia failed which gave it the necessary impetus. Thus, like cotton manufacture, British took this jute industry also in England to renovate it under power machinery and the factory system. Like cotton again, along with coal mining and railway transport, this industry migrated back to India at the beginning of the second half of the nineteenth century. World conditions after 1850 were very much favourable for its growth. The expansion of railways, the development of merchant shipping, fall in freight, rates, opening of Suez canal—all these combined to increase the volume of trade, especially the bulk movement of agricultural commodities. With the growth of modern commerce there was large increase in the demand for packing materials. Jute goods are said to be the 'brown paper of international commerce,' and their demand increased steadily upwards along with the increased movement of raw materials and finished goods.

The first jute mill in India was built in 1854 by Mr. George Acland, an English man. In Scotland he was advised by a manufacturer of jute machinery Mr. John Kerr, to take jute machinery (which had then been working successfully in Dundee for about twenty years) to India and 'manufacture jute where it was produced.' The Acland Mill was established at Rishra. At the instance of another Scott Mr. George Henderson, the second Mill was started by Borneo company. In 1859 the mill started both spinning and power weaving, within five years it doubled its plant and within 13 years it had "cleared its capital twice over.' In early sixties two other mills were started, in 1866 another. They 'simply coined money, and led persons who had been investing in tea and coal to turn to jute. A real boom set in.

[10] "By 1825-26 the total was over 1,000,000 pieces of which America took nearly 200,000. In 1829-30 the export rose to 9,000,000 pieces. At least as early as the 1840's it was being used in America and also in western India as covering for bales of raw cotton." Buchanan, *op. cit.* P. 241.

In 1875 there were 17 jute mills owned and managed by British agencies. In 1891-92 there were 26 jute mills with more than sixty five thousand workers. Within ten years (1901-2) the number of jute mills rose to 36 with more than 1 lakh 14 thousand workers.' In two years the number of mills rose to 38 and that of workers to 1 lakh 33 thousand. As the first decade of the present century closed the total number of jute mills became 59. The first world war pushed up the industry, the number of mills became 73 and looms were almost doubled. In 1923-24, total investment in industry was almost 17 crores 32 lakhs plus 43 lakh pounds. In 1932 the volume of investment went up and the number of mills rose to 103. Just before the second world war the number was 108 and workers numbered 3,02,286. During the war years in 1939-44 another four new mills were added.

In an effort to regulate output the Indian Jute Manufactures Association was formed in 1884.[11] Its name was changed to Indian Jute Mills Association. In 1945, 103 mills were members of the IJMA, with a control over 95 per cent of the total loomage.

In 1947 the total value of jute manufactures was estimated at 127 crores of the total, more than half was exported, 1946-47, the total value of exports of jute manufactures aggregated Rs. 70 crores, in 1947-48 Rs. 127 crores, in 1948-49 Rs. 146 crores, and in 1949-50 Rs. 127 crores. Export of jute manufactures accounted for 60 per cent of India's earnings in hard currencies. The industry consumes 6 million bales of raw jute every year. The partition has cut off the industry from the source of supply of raw jute. East Pakistan

[11] Its objects were :

to encourage and to secure united feeling and action,
to collect and classify facts and statistics,
to open new markets,
to fix points of custom,
to work on one form of contract,
to obtain the removal of grievances,
to arbitrate on matters of dispute,
to communicate public authorities or kindred associations, and generally to promote and protect the interests of those engaged in the industry in all matters touching the interests of members.

grows the best quality of jute. The quality of raw jute is determined by the colour of the fibre and strength of the staple length. The jute grown in India (after Partition) is of inferior quality. India is short of 4 milion bales of raw jute. In the post partition period the industry was exposed to acute shortage of raw jute and was compelled to reduce weekly working hours and to seal looms. The government of India is making efforts to make up the shortage by expanding cultivation of jute and has met with limited success.

The main sources of prosperity in jute, as in other industries, were high prices of finished goods relatively to (i) low wages for labour and (ii) artificially maintained low prices of raw jute. Thus the labourers and the cultivators contributed to the prosperity of the industry. No statistics on the earnings of jute mill-labourers are available for early days of the industry. Workers were made to work unlimited hours. Wallace points out (*Romance of Jute, p. 54*) that, 'some of the mills with the object of conserving their labour supply from encroaching new mills decided to run their machinery 22 hours.' When commercial competition between Calcutta and Dundee became acute the Dundee millowners led a movement against the inhuman conditions of employment in Bengal jute mills. Two labour leaders from Dundee, in 1924-5, were shocked at the "scandalously low" wages and the "simply staggering" profits. Their calculations led them to conclude that during the decade 1915-24, the jute mills earned 90 per cent per annum on their capital and that "average annual profit is eight times the wages bill."[12] Prof. Buchanan also states : 'The jute mills are a great monument to Scottish enterprise and Indian labour. While Indians have furnished the land and labour for growing, and labour for manufacturing, Scotland has furnished the brains and the careful oversight. Capital has been built up mainly from earnings.'[12]

The Government started collection of wage data of heterogeneous group of workers in 1875. The early official investigations were neither methodical nor all-inclusive. During 1896-1914 wages in jute mills increased by nearly 50 per cent. The figures collected by the

[12] *Exploitation in India* by Thomas Johnston M.P. and John F. Sime, Secretary, Dundee and District Union of Jute and Flax Workers. Pp.5-6. Quoted in Buchanan, *op. cit.* P. 253.

Royal Commission on Indian Currency and Finance pointed an advance of fifty per cent, in 1925 over the 1915 level. The Royal Commission on Labour observed, 'No thorough statistical enquiry has been made in the jute mills of Bengal, but we have been furnished with statements of average wages by the Indian Jute Mills Association. The figures relate to 1929 when mills were working on a basis of 60 hours per week for single shift mills and 120 hours per fortnight for multiple shift mills, the machinery in the latter running four days (54 hours) in one week and 5 days (66 hours) in the next week. The maximum hours permissible to workers in the multiple shift mills were thus limited to 44 and 55 respectively, as compared with 60 hours in the single-shift mills.' The table is given bellow :

Department	Multiple Shift						Single Shift		
	4 days week			5 days week					
	Rs.	a.	p.	Rs.	a.	p.	Rs.	a.	p.
Sacking weaving	8	2	9	9	3	0	9	8	0
Hessian weaving	5	15	0	7	4	9	8	4	6
Sacking winding	4	9	6	5	1	3	5	12	0
Hessian winding	4	8	7	5	6	0	5	12	0
Sacking Spinning	2	9	6	3	4	9	4	2	0
Hessian Spinning	3	0	3	3	14	0	4	2	0
Batching	2	12	0	3	9	9	4	5	3

With economic depression the earnings of jute mill workers fell considerably. Dr. Radhakamal Mukherjee points out[13], 'the industry adjusted itself to the conditions of depression largely by trenching upon workers standard of living by large-scale concerted reduction of the number of working days per week, and sealing 10 per cent of the looms as well as diminution of wage rates, starting with a reduction of about one anna in the rupee and ultimately covering 10 to 15 per cent of the average earnings of the jute workers. The two general strikes in the jute mill industry, the first in 1929 and the second in 1937 were symptoms of acute discontent of the labour force.........The demands put forward by the strikers were : a minimum wage of Rs. 30 per mensem, free housing accomodation, doles for the unemployed.'

The years of the second world war were a period of prosperity for the industry. But while prices rose the wages did not, and profits

[13] *The Indian Working Class*. P. 165.

were very large. Towards the end of 1939 wages increased by 10 per cent (the result of past Trade Union actions). Early in 1940 production was restricted, European markets were in doldrums, underemployment followed. During the period when a worker had to be kept idle, a small *Khoraki* allowance were allowed which varied between 1-8-0 and 2-8-0 a week. In June 1941, the jute mill workers were granted an amenity allowance of Re. 1 per week. In August this amenity allowance was raised to 1-4-0. Towards the end of 1942 when the cost of living had gone up by 200 per cent the industry undertook to supply rice and atta at controlled prices. The compensation for the rise in prices thus made was worked out at Rs. 5 per month. By the middle of 1943 there was again under-employment and involuntary unemployment among the jute mill workers due to shortage of coal and conversion of a few mills into military depot. For the period of involuntary unemployment the workers were paid Rs. 3 per week in addition to the amenity allowance of Rs. 1-4-0.

In 1944 the Labour Investigation Committee conducted a wage census in 34 jute mills in Bengal. It converted 42 per cent of the total jute mills workers. The report sums up earnings of different categories of the jute mills workers. 'One striking fact which seems to emerge from an analysis of the wage data collected in the course of the wage census is that while wages vary between unit and unit in the same centre there is a marked similarity in the basic wage rates in the important occupation in all the centres of the industry.' According to the census, total weekly earnings (including all allowances) of 52 per cent workers varied between Rs. 5 and Rs. 7-8-0. 16·15 per cent workers earned less than Rs. 5 per week. Earnings of 19 per cent workers averaged Rs. 7-6-0 per week. 12 per cent workers earned Rs. 9-0-0 per week. Wages lagged far behind prices. The officer in charge of the investigation concluded : 'From such estimates as can be made of the present level of retail prices ruling in and round Calcutta, the cost of living is at last 200 per cent higher than during the pre-war period. Taking this into consideration, amenity or dearness allowance of Rs. 2 per week and a grain concession amounting to Rs. 1-1-9, the increase in the earning would not amount to even 100 per cent of the basic wage. It is thus clear that the jute mill worker in Bengal is very much worse off as compared to the prewar period in view of the rise in the cost of living unlike workers in most organised industries in the country, jute mill workers except those at Cawnpore receive no profit or prosperity bonus.'[14]

At the end of the war, in 1946, the IJMA sanctioned an increase of 15 per cent in the basic wage structure. The amenity allowance was increased to Rs. 4-8-0 per week in May, 1947. In September, 1948, the Industrial Tribunal West Bengal, fixed the basic minimum wage for an unskilled worker at Rs. 26 per month and the dearness allowance at Rs. 32-8-0 including the value of food concession (Rs. 8-10-9). The total amount fixed by the Industrial Tribunal falls far short of the minimum needs of a working class family in the industrial areas. The Tribunal recommended that compensation should be paid for periods of involuntary unemployment due to stoppage of work owing to fire, catastrophe, breakdown of machinery, stoppage of power supply, epidemics, civil commotion, shortage of coal or rawmaterials or of essential stores and other causes beyond the control of employers. During such periods every worker will be allowed to benefit to the extent of 50 per cent of basic wages and of dearness allowance and the food concession benefit in cash or kind. Such benefit is payable for one month in each half year from January to June and July to December. To qualify for the benefit a worker must answer to a muster-roll call once a day. In the post-partitioned period when the jute mill industry faced shortage of raw jute due to the breakdown of normal trade with Pakistan the mills reduced weekly working hours and sealed a large number of looms. The earnings of workers were reduced and those thrown out of employment were paid very small compensation.

The figures on papers cannot reveal the true picture as the actual earnings of the jute workers can only be estimated by subtracting the amount of deductions and penalties. Deductions are common. Deshapande points out, 'Enquiries made, however, reveled that the

[14] S. R. Deshapande, *Report on an Enquiry into conditions of Labour in the Jute Mill Industry in India*, p. 52.

workers, particularly in the weaving department, are frequently fined and the fines imposed are heavy. There are also complaints that the actual amount of fine is not shown in the wage book or that amounts shown are only permitted under the Payment Wages Act. The workers do not complain against these fines for fear that they may lose their jobs. Another method adopted by some of the mills for fining is to mark a man absent for a day or two even when he is present. Suspensions are also frequent.'[15]

How the poor cultivators have contributed to the prosperity of the industry may now be analysed. The demand for jute goods, i.e., the gunny bags, the 'brown paper of international commerce', depends upon the quantity of industrial and agricultural goods which transact internationally and therefore needs packing. The increase in the volume and mobility of such goods increase the demand for raw jute and vice versa. The Bengal ryots who produce raw jute are therefore much more directly vulnerable to the ups and downs of international commerce. The cultivator produces jute as its price is relatively higher than that of rice. When depression sets in, the jute manufacturers with superior knowledge of the market and organisation attempt to shift the entire burden to the cultivators by reducing the demand for raw jute. The price of raw jute falls and there is no question of the ryot waiting till it improves, because he lives by cultivation alone. But this selling at a lower price does not induce him to restrict his acreage or abandon its cultivation till prices rise. Because it is only when the price of jute falls to that point at which the cultivation of rice on the same area brings him a greater income that he changes the crop. But such a situation is never allowed to arise, and some difference in the prices of rice and jute is maintained so that the cultivators do not give up jute production.[16] Thus continuously for years together price level for raw jute stays low, but it does not fall sufficiently enough to induce abandonment of jute cultivation. The result is continued 'over-production' of jute output and unremunerative prices for the

[15] Report, *op. cit*, p 23.

[16] The *Report of the Bengal Jute Enquiry Committee* shows that in a single acre the average between 1904 and 1913 in case of rice and jute was Rs. 54.62 and Rs. 128.79 respectively.

cultivators. This situation persists due to individual cultivation in small plots and absence of producers' organisation.

Profits in the jute production were proverbially high. Prof. Buchanan states that 'Besides making handsome earnings, the jute mills are worth far more than the books show, having been enlarged and improved, provided with great stock of materials, and in some cases with such reserves as would allow the payment of good dividends even though the mills should burn the ground.' In 1872-73 the jute mill industry paid a higher dividend than tea and coal. The expansion of the industry was mainly from re-investment of profits. The first world war was very much profitable for jute barons. An official survey estimated the total profits earned by jute mill industry in four years (1914-17) at £16 million. During 1915-16, the rate of dividend rose to 110 per cent. During the first half of 1918 net profits earned by 36 jute mill companies amounted to half a million sterling. In short, the industry returned the capital more than twice during the first world war.

Re-investment process continued in the post-war period. Dundee jute trade union delegation calculated the annual return on the capital at 90 per cent for the previous ten years (1915-24).[17]

As usual, the industry could pass on the incidence of the depression of the thirties to labourer on the one hand, and the jute growing cultivators on the other. With the outbreak of the second world war the industry attained a high plane of prosperity in 1939. There was feverish demand for jute manufactures. 'So the industry had to take of various restrictions one after another to make the productive machine go ahead with requisite supply. Even an increase of working hours to 54 per week, which is the maximum allowed under the factories Act by issuing an ordinance to permit the mills to increase the hours to 60 per week.' (*Review of the Trade in India, 1939-40*). In 1940 profits earned by 60 companies amounted to Rs. 4 crores 16 lakhs and the relative index of profits rose to 48 from 13. When due to fall in exports the price of jute goods began to decline sharply, the IJMA reduced weekly working hours from 65 to 54. To stop the downward trend of price the

[17] Johnston and Sime, *Exploitation in India*, pp. 5-6.

government of Bengal fixed the minimum prices of hessians and jute in the future market by an ordinance. The weekly working hours were reduced to 45 and mills remained closed for one week in every four. 'In 1941 the industry experienced prosperous conditions throughout the year...and the general outlook remained hopeful in spite of the adverse development in the international situation. The factors which contributed to this prosperity were improvement in the shipping position until the outbreak of war with Japan, the reduction in stocks, the increased volume of war orders amounting to Rs. 10½ crores, and the resultant increase in working hours...The prices fixed for subsequent orders were much better than those for the previous ones'. The profits of 60 companies amounted to Rs. 349 lakhs. (*Review of the Trade in India, 1941-42*, pp. 52-57).

During the early months of 1942 'the jute mill industry in India cotinued to suffer from the repercussions produced by the Far Eastern war. The fall of Burma brought the Japanese army to the frontiers of India and for some time panicky conditions prevailed in Calcutta, the main centre of the industry. There was a marked deterioration in the shipping situation and the activities of the Japanese navy in the Bay of Bengal necessitated the closure of the port of Calcutta for several months...The cessation of trade with the Far Eastern countries meant a heavy loss to the industry. There was temporary fall in the exports of jute manufactures. The IJMA decided to reduce the weekly working hours from 60 to 54 and to seal 10 per cent of looms. Conditions in the jute mill industry showed a marked change from September onwards. In contrast with the dearth of export earnings in the preceding months, a strong demand for heavy goods developed, particularly from Africa, Australia and West Indies. The industry received an order from His Majesty's Government for about 25 million yards of hessians and 12·5 million gunny bags...On the whole, the demand for jute good was heavier in 1942 than in either of the two preceding years. The Government orders for jute goods exceeded Rs. 17 crores bringing the total value of Government orders for the period February 1939 to December 1942 to over Rs. 42 crores. During 1942 there was shortage of workers and total employment in the jute industry fell by 20,000. Wages were low and workers left the jute mills to seek employment in military depots in and around Calcutta where daily wages averaged Rs. 2. The IJMA requested the military authorities to reduce daily wages to one rupee. In 1942 profits earned by 61 jute companies amounted to Rs. 423 lakhs. (*Review of the Trade in India, 1942-43*, pp. 28-32). In 1943 'in spite of the shortage of coal, requisitioning of jute mills by Government and the shortage of labour, the jute mill industry was more prosperous.' There was no fall in profits, through production fell by 16 per cent. 'In order to get over the difficulties, due to coal shortage and requisitioning of mills, a system of pooling was organised among the mills by which the working units would compensate the non-working units, the working mills paid a cess on every loom. The rent paid by the Government for mills and godowns requisitioned was passed to the pool. Out of this pool was paid compensation to the companies, whose mills had been requisitioned'. A meagre compensation was paid to the workers thrown out of employment. In 1943, profits earned by 61 companies amounted to Rs. 336 lakhs. In 1944, profits earned by companies amounted to Rs. 361 lakhs. In 1945, profits earned by 61 companies amounted to Rs. 379 lakhs.

The partition of the subcontinent led to raw material shortage as better jute growing areas went over to Pakistan. In Pakistan also jute mills were being established in growing numbers. The industry enjoyed a rise in production and profits during the Korean war of 1949-50.

Thus concludes the early history of golden fibre, which has been aptly named by Wallace as 'Romance of Jute'. Its contribution to economic development is evident enough from the picture of India at 1950. Also, we can conclude with Prof. Buchanan, 'From the Indian point of view it is still unsatisfactory that this industry is so largely owned and almost wholly directed by non-Indians. While from one half to two-thirds of the shares are now owned by Indians, almost no progress has been made towards taking over the management. In no mills are Indians being trained, as they have been in the Bombay Cotton Mills, to carry out alone the whole process of manufacture.' (Buchanan, *op. cit.*, p. 254).

3. The Cotton Textile Industry

Cotton cloth seems today to be a simple and cheap commodity, yet it has great significance in the history of India and her relations with the West. It was the main commodity on which the Indian artistic acumen centred and evolved from the early days of 445 B.C. Due to limitations of market in the early days labour aimed at not much quantity of output but more at its superior quality. It brought a balanced economy by diversifying occupations in early stages of Indian economic history. Its export created a rich trading community and helped to bring gold, silver and other precious metals into India from other countries of the world.

It was this cotton cloth which attracted the Europeans towards India after their first contact with the East in the crusades. The desire to trade in cotton goods led to their search for a shorter route to India and sea-voyages and great geographical discoveries of the fifteenth and sixteenth centuries. The contact with India revolutionised the course of Indian and European history and led to conflicts between the European powers themselves. The centre of cotton production shifted to Lancashire and again returned to India. This new-power industry ultimately charted out the Indian path to capitalist growth. As Prof. Buchanan comments, 'For Indian, cotton manufacture is ancient glory, past and present tribulation, but always hope.'

'To this ancient industry, the factory system has been successfully applied and India is now one of the leading cotton manufacturing countries of the world. She ranks fifth in number of spindles, fourth in quantity of raw cotton consumed, third in number of persons employed, and second in raw cotton production. Besides about 380,000 employed in cotton mills, there are 1,40,000 in ginning and pressing of raw cotton and a very large number (possibly two million) engaged on handlooms of which there are some two millions in the country. If the cotton industry is chosen as the leading example of factory development in India, it is not because the cotton mills are by any means superior to jute mills, but because they have been developed largely by Indians, while the jute mills owe their success to Scottish enterprise, management and technique.'

The cotton manufacturing in India has influenced India's road to economic development in an unusual manner. In other countries either the master-artisans turned industrialists or merchants collected the indigenous artisans under a roof and, in various degrees, started controlling the mode of production. Here in Indian cotton industry, after the ruination of traditional artisans, no master artisan or merchant ever collected them under a single roof started production and gradually endeavoured for improving techniques. The dynamics of growth did not originate from below. A stage of development was stripped over or just bypassed. Technological improvement was not conceived or attempted by the entrepreneurs. The improvement in technique took place somewhere else, produced within different socio-economic pressures, and was just transplanted from foreign land to Indian soil. The tensions generated by inventions and discoveries, by the obsolescence of capital, the technological unemployment, the machine-breaking trade unions, the long run investment in science and laboratories, the calculations of interests or dividends from such capital use, all did not take place in India though she now possesses a very large modern manufacturing industry. We had an industrial growth without the growth of an industrial mind, of a scientific attitude and a passion for scientific development in pure and applied branches. Technology without science has led to feudal exploitation through machine production, feudal human relations, a wrong emphasis in educational structure and an anachronic social structure. Machines were transplanted from above, forcibly injected into the body, but did not dilute and adapted by the system. This was industrial feudalism based on the managing agency system.

About 1830, the European factory system and its auxiliaries became sufficiently developed and co-ordinated to be assembled and transplanted to any part of the globe. The machines have then become commodities themselves, to be purchased and used anywhere under any circumstances. The problem was only of finance. And how the indigenous Indian bourgeoisie could have the primary accumulation to buy the machines and plant them on Indian soil? How could they embark on such large 'industrial' enterprises?

On the Western coast of India the East India Company and its agents had developed independent trade channels and used to carry on trade in raw cotton and opium with many overseas countries.

Overseas trade during this period was mainly carried on by Parsis, a small community migrated to India centuries back and settled on the Western Coast. They acted as the local agents of the European merchants and used 'to dispose of their goods in the market and to secure in return cargoes.' Many Parsis had grown rich in this way and were in regular employment of the European merchants. The independent trade also had brought them immense wealth. 'The trade with China was most profitable, the export of opium being the principal. The Parsis... was the pioneer of the trade with China.' (D. E. Wacha, *Premchand Roychand*, p. 19).

The actual period of a more rapid accumulation of capital by the native bourgeoisie began with the outbreak of the American civil war (1861-65). Lancashire machines were by then well-developed and fed by American raw cotton. The civil war dislocated export of American cotton to England and Lancashire starved for raw cotton. 'The shrewd merchants of Bombay were able to gauge correctly the significance of the speck on the American horizon, and therefore bestirred themselves. They well prognosticated that the war colud may soon burst out which will have the effect of Lancashire making a large and unlimited demand of India for the supply of its cotton.' (D. E. Wacha, *A Financial chapter in the History of Bombay*, p. 28-29.)[18]

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[18] About the cotton boom period it has been written by F. R. Harrsi, *Jamsetji Nusserenji Tata* (pp. 6-7):

"The American Civil War had presented India with a brief spell of fortune, which her merchants had visualized as the beginning of a period of perpetual prosperity......For a period Indian-grown cotton fetched enormous prices, and reached a market which, in times of peace, rejected it for better quality staples...... Had they been content to conserve their profits all might have been well, but a wave of speculation overwhelmed them. Immense prices were realized upon shipments of cotton to Liverpool. Those who were content to make money in this simple fashion could do so with ease, but for many a man the temptation to multiply his gains was so great that the boom attained the character of a nineteenth century South Sea Bubble. Gold and Silver poured into Bombay......in profusion." D. E. Wacha writes in *The Life and Life Work of J. N. Tata* (p. 17). The merchants reaped a rich harvest of profits. These came mostly in the shape of nuggets of gold and silver which have been authentically recorded at 51 crores of Rupees..."

D. E. Wacha estimated the total amount of profits earned by the Bombay cotton merchants at Rs. 51 crores. P. S. Lokanathan also pointed out. 'The wealth acquired during the American civil war formed indeed, the basis for the promotion of cotton companies in Bombay city.' Besides that, 'the profits of finance and private banking were utilized for the development of industry in Ahmedabad at a rather later date.'[19]

In 1856, the first cotton mill owned by a Parsi Mr. C. N. Daver was opened in Bombay. By 1861 eight mills were working in Bombay, and in 1866 the total number of cotton mills in India was thirteen. In 1877 the number rose to 51 and the number of operatives was 44,000. Of the total mills, half was located in the island of Bombay and the rest in Bombay Presidency and other parts of India. Bombay Gazetteer states, 'it is to the Bombay Presidency that we must turn for the home of the industry and to the island of Bombay for its higher development.' Outside the city of Bombay other centres were Ahmedabad, Sholapur, Cawnpore, Madras and Calcutta.

The enterprise of the Parsis, accumulation in the hands of merchants of that region, the cotton-producing hinterland of Deccan, export-opportunities, the suitable climate of Bombay favourable for yarn production—all these factors were simultaneously responsible for the early concentration of textile factories in Bombay Presidency. 'In the earlier decades, Bombay was in an advantageous position because the mills produced only yarn and sent major portion to China for consumption on hand-looms.' Outside Bombay Presidency was constructed the biggest cotton Mill in India by late

[19] Another calculation puts this increased wealth at £ 70 million. Of the profits 'a large share went to the middlemen and ryots mostly belonging to the native states. But an equally large share came to the Bombay exporters.' That was the reason of scarcity of rupees. 'It is said that the cultivators made the tyres of their cart wheels of silver.' (Knowles, *op. cit.*, p. 316). In fact, there was a terrible scarcity of silver coins. This is borne out by a letter from an English merchant of Bombay addressed to the Chamber of Commerce : 'The demand for money has so far exceeded production that serious embarrassment has ensued, and business has almost come to a stand from the scarcity of circulating medium. As rupees have been coined and they have been taken into the interior, and have there speedily disappeared from circulation, either into the Indian substitute for stocking foot, or into the melting pot for conversion into bangles.' (Wacha, *op. cit.*, p. 20.)

J. N. Tata in 1874. 'In January 1, 1877, the day on which Queen Victoria was declared Empress of India, the mills started working. The factory was named the Empress Mills.[20]

'Growth was irregular until about 1900. By this time the total number of mills in the country was 193, of which 82 were in Bombay city and Island. After 1900 there was a five-year period of inactivity, due to plague and famine, and to some extent to the new currency regulations, which brought India's price level into line with the gold standard countries, while her principal market China was on a silver basis.' During the period there was a sharp decline in the export of Indian yarn and twist as Japan had turned to the manufacture of cotton textiles. Japan began to buy Indian cotton instead of Indian yarn.

The period of depression ended in 1905 and it was followed by a period of unparalleled prosperity for the industry. The boom lasted for three years. It was 'pronounced in the yarn industry and the spinning mills paid fabulous dividends. The demand for yarn was so great and price so remunerative that the mills were kept working for as long as a day was in the circumstances possible, and the newly introduced electric light made possible a long day.'

The end of the depression was brought *Swadeshi* movement that came into being when Bengal partition was proposed by Lord Curzon. The *Swadeshi* was a movement for the boycott of foreign goods

[20] "Jamsetji Nusserwanji Tata was called by a New York paper 'the Pierpont Morgan of the East.' And rightly he was called so. The J. P. Morgan of United States and the J. P. Morgan of India, both had made their starts more or less in the same way. It was war which enabled both of them to make the primary accumulation of capital. It was the American Civil War of 1861-65 in which the American J. P. Morgan made his start in minting money through the contract of supplying rifles to the Union Government. It was the same American Civil War which had its chain reaction in the cotton boom in Bombay in which the Indian J. P. Morgan J. N. Tata, who was about thirty years old at time, began his career as a speculator and cotton broker and then it was the Abyssinian war of 1868 in which through his contract of supplying provision to the British troops, he got "a substantial though not a large amount of capital." The American J. P. Morgan threw dust in the eyes of the Lincoln Administration by supplying useless rifles and the Indian J. P. Morgan also displayed more or less the same shrewdness." Shivaprasad Jha, *op. cit.*, pp. 174-5.

which endeavoured to increase the internal market for home industries. Many new mills were started and attempts were made to revive handloom industry which could use a portion of machine-made yarn. An official survey reports that 'But quite recently the *Swadeshi* movement which has taken place in all parts of India has given a distant impetus to local manufacturers'.

The war reduced the imports further and the new mills and total production went on increasing. War orders pushed up the industry still further. During the war years large-scale production was increasingly ousting small-scale production. The handloom weavers found themselves in a very serious situation. During the war the consumption of yarn in the mills had increased and their import had declined. The handloom weavers thus suffered from acute shortage of yarn. The output of handloom textiles which in 1914-15 was 1,088 million yards, dropped down to 593 million yards in 1916-17 and to 506 million yards in 1919-20, i.e. by more than 50 per cent.[21]

The first world war also brought an important change in textile sector. During the war the import of textiles gradually declined and by 1921-22 had lost its dominant position on the Indian textile market, although it continued to remain considerable; Indian mill production had won the first place on the market. During 1921-22, the total value of imports of cotton goods fell to Rs. 57 crores from Rs. 102 crores in 1920-21. The decline was due to vigorous revival of the campaign in favour of India-made piece goods. In 1923-4 the capital invested in cotton mill industry rose to Rs. 37 crores. The number of mills increased also from 257 in 1920-21 to 334 in 1925-26.

The shift in the relative position of Indian and British textile interests was reflected after the war. The question of tariff became dominant. Prof. Buchanan observes, 'the ferment caused by the world war stirred Indians to new demands for self-determination including that of tariff-making. The 1921 Fiscal Commission recommended protection to Indian industries and a permanent Tariff Board.

The Board proposed an increase in duty on the import of cotton piece goods by 4 per cent and recommended bounty on spinning of

[21] *The Indian Cotton Textile Industry Annual, 1948-49*, p. 122.

higher counts of yarn. The Government of India turned down the recommendations and decided to levy a duty of $1\frac{1}{2}$ annas per pound on the import of yarn. In 1929 the position of the industry was again investigated by a special officer appointed by the Government of India. The investigation was followed by an increase in the duty on the import of cotton piece goods. While duty on British products was fixed at 15 per cent, products of other countries were charged a higher duty. In 1930 when the Indian National Congress launched the Civil Disobedience Movement, boycott of foreign goods, particularly British was one of the main planks of the agitation.[22] In 1932 a duty of 50 per cent was imposed on non-British cotton manufactures.

Lancashire interests now took a less formal method of resolving the conflicts with indian cotton interests. Towards the end of 1933 a delegation representing the British cotton textile industry visited India and concluded an agreement with Bombay Mill Owner's Association. The agreement accepted the view that the Indian Cotton textile industry was entitled for its progressive development to a reasonable measure of protection against the imports of United Kingdom yarns and piece goods, but owing to lower costs and other factors operating in foreign countries the industry required a higher level of protection against them than against the United Kingdom. It was called the Mody-Lees Pact. While the agreement was accepted by the Government of India, it was rejected by the Indian National Congress as it was based upon the principle of preferential tariff.

The preferential tariff system stayed on and 'imperial preference became the keynote of the tariff system. Ottawa agreement in 1932 led to the imposition of a general system of imperial preference on India. It increased British exports to India from 35·5 per cent to 40·6 per cent in 1934-35. Kate Mitchell points out, "the tariff system

[22] "Equally remarkable were the rapidity with which the agitation spread and the effectiveness of the boycott. Both were due to better communications, to an appeal which aimed far wider than the educated classes, and to the financial backing which made it possible to pay volunteers. The intensity of the boycott, which was extended to British institutions like banking and insurance, owed much to the technical knowledge supplied by Indian businessmen, who actively directed the movement against their trade rivals."

of the early twenties, originally proclaimed as a means for accelerating Indian industrialisation, was transformed into a system which assisted British industry to compete in the Indian market, while giving in return the privilege of favoured rates for the sale of her raw materials and semi-manufactures in the British market—an obvious attempt to rivert to the pre-1914 status."[23]

The expansion of the cotton mill industry continued unabated. In 1936, the total number of mills rose to 379 and the industry employed 418,000 workers. The existing mills expanded their productive capacity at a high rate. Thus while during 1914-36 the number of mills increased by 42, the number of looms increased from 88,100 to 200,000. In 1939, the number of mills rose to 389 without any marked increase in the number of looms. The size of firms was thus reached at optimum. Towards the end of 1943 the number rose to 401, invested capital was Rs. 44 crores 77 lakhs.

The outbreak of the Second World War led to a new period of prosperity for the industry. The war effected the expansion from three angles. In the first place, imports of foreign cloth were reduced, and to that extent, foreign competition became less severe. Second, exports of Indian manufactures to Eastern markets which could not obtain their normal supplies from Lancashire, received a filip. And third, the mills received large orders from the Government for the supply of various kinds of military requirements.

Let us now turn to the wages. No statistics of wages have been maintained in early years of the industry. According to an official calculation in 1877 the monthly wages in Bombay cotton mills averaged from ten to twenty rupees for men and from seven to nine rupees for women. The Indian Factories Committee of 1890 furnished the following table of earnings in Bombay :

Little Girls	...	...	Rs. 5 per month
Boys	...	...	Rs. 6 to 7 per month
Women	...	...	Rs. 6 to 10 per month
Men (not weavers)	...	...	Rs. 10 to 12 per month
Men (weavers)	...	...	Rs. 12 to 15 per month

In 1892 another official investigation put monthly earnings of cotton mill workers in Bombay at 12 for men and at Rs. 9 for

[23] Kate Mitchel, *Industrialisation of the Western Pacific*, p. 285.

women. During 1895-1914 earnings made some advance. During 1926-33 earnings of Bombay cotton mill workers decreased by 16 per cent, while in Sholapure earnings fell by 8 per cent. Earnings continued to fall until 1937. In 1938 there had been an increase in basic wages. It varied between 9 and 14 per cent of basic wages. The structure of basic wages did not change during the years of the war. When the war ended prices rose steeply and in 1946 the number of strikes in India rose to the maximum. The Government decided the revise the wage-structure. The Industrial Court appointed in 1946 fixed minimum wages at 30 for 26 days in the month for cotton mill workers in Bombay. In the Ahmedabad centre the basic wages had been fixed at Rs. 28 by the Industrial Court of 1948. In Madras it was Rs. 26 per month. In Bengal there was no uniformity of wage rates of cotton mill workers. The award of Industrial Tribunal (1948) fixed the basic minimum wages at Rs. 20-2-5 per month. In C.P. and Berar, the minimum wages were fixed at Rs. 26 per month. The rates of Dearness Allowance was linked with cost of living in all textile centres except Bengal where a bewildering variety of rates was in force.

During the war-years the workers were paid an annual bonus in addition to the wages. When the war ended the employers attempted to discontinue bonus. In 1946 the Industrial Court of Bombay sanctioned payment of bonus equal to 20 per cent of basic wages. In 1946, the Employers' Association, Kanpur, paid a bonus at the rate of four annas a rupee of basic wages. The Coimbatore Mills paid a bonus equal to five months' basic wages. The Industrial Tribunals in Madras and West Bengal recommended payment of bonus related to the rate of dividends. The Profit Sharing Committee recommended tentative application of the principles of profit-sharing to cotton textile industry.[24]

[24] The *Report of the Profit Sharing Committee* suggested "We have come to the conclusion that labour's share should be 50 per cent of the surplus profits of the undertakings. The individual worker's share of profit, we consider, should be in the proportion to his total earnings during the preceding twelve months, minus dearness allowance and any other bonus received by him. This should be in substitution of any other form of profit-sharing bonus that is being paid now. If an individual worker's share exceeds 25 per cent of his basic wages, we consider

In course of the growth of the industry, the volume of capital accumulation achieved by it is pretty high. 'The first mill in Bombay paid no dividend during the first two years but then paid back half the capital in one year. In the eighties some mills returned capital in the first four years. The Empress Mills at Nagpur paid an average of 16·4 per cent during its first twentyfive years...... ...For twelve years preceding the world war and including one or two early war years the Bombay mills, *besides paying agents' commission and depreciation*, averaged 11 or 12 per cent on the investment. War and post-war profits were high and for the 21 years ending 1925 the gross profits of the Bombay mills, *before agents' commissions and depreciation* were deducted, averaged 38·8 per cent......During the recent long depression, the best equipped and managed mills have continued to earn fair profits.'[25] The volume of profits can be gauged from the fact that during the Second World War Bombay mills accumulated additional reserves to the extent of Rs. 45 crores.

4. The Coal Mining Industry

Lokanathan describes the chain-reaction process of industrialisation in the following manner: 'Each line of business opened the way for another, and the market for the products of one line of business was found in another. Thus the managing agents of jute mills started colliery concerns, and found that the jute mills were good consumers for their coal. Then again when some of them floated boating and inland steamer companies, these latter were able to get their jute mills and colliery companies and tea estates to send their goods by their line of steamers...Thus one line of activity led to another.'[26]

Coal was discovered in Ranigung area at the end of the eighteenth century by Mr. Heatly, a former collector of Birbhum and Chota Nagpur. He formed a company and tried to raise coal on a commercial basis. 'Unfortunately the coal Mr. Heatly produced was

that cash payment should be limited to 25 per cent of his basic wages and the excess held on his account either in his provident fund or otherwise." (Report, p. 10).

[25] Buchanan, *op. cit.*, pp. 208-9.

[26] Lokanathan, *Industrial Organisation of India*, p. 15.

reported as being inferior to that of England. So the early enterprise in coal mining was abandoned.' (*Bengal District Gazetters, Burdwan, p. 128*). In 1814, a mining engineer named Jones was sent from England to examine the coal-fields of Ranigunj. The main desire to raise coal in Bengal was to save the Indian finances from unusual strain, as large amount of money was being despatched from India for purchase of these essentials. Jones report 'showed that Bengal coal might very well be used for many of the purposes for which English was being imported.' He was granted a subsidy 'to enable him to work the same discovered at Ranigunj, but in 1820 came utterly to grief' (*District Gazetters, Burdwan*). The mine was sold to Prince Dwarkanath Tagore, who took an active interest in the establishment of industries. It was followed by consolidations and in 1843 the Bengal Coal Company was formed, which is uptil now biggest coal company in India.

As Prof. Buchanan states, 'with the exception of the manufacture of cotton, the mode of industrial growth in India is fairly represented by the coal industry. Europeans provided the stimulus and have remained the most active and aggressive leaders. The largest and best mines, producing the bulk of the coal, are owned and operated by European companies.' In 1824 Jessop and Co. opened the Damulia mine, and in 1830 Mr. Homfray opened two other mines. New mines were being worked every year, but the progress was slow. For 'the demand for coal was small. Only a few steam-engines were used in India at the time—steam tugs were used on the Hooghly at Calcutta and as early as 1831 the East India Company had coal sent to Singapore, Madras, Ceylon and Penang for its steamships. The water in the Damuder River which carried coal down to the Hooghly was so shallow that it could be used only in the rainy season and then by small boats.' In 1839 the output of coal was only 36,000 tons. 'Still little progress was made till the construction of the East Indian Railways in 1854 tapped the coal fields. But even then the progress was slow until the jute mills of Calcutta had been started and other directions of manufacturing skill originated...Apparently 1857-8 was the first year of specially recorded production when 293,443 tons were taken from the Indian mines. From that date the prosperity of coal mining was assured. It became the direct expression of a rapidly expanding modern commerce. In 1885 there were 95 mines and the number rose to 307 in 1906. In 1906 the total output of coal rose to 9,783,250 tons. During the period import of coal began to shrink. The Indian coal was cheapest in the world. The average pit month price was Rs. 2—15—0 per ton in 1906'. (Sir. Watt, *Commercial Products of India*, p. 234). The number of workers employed averaged 84,805 for the year 1898 to 1903. In 1904, the number rose to 92,740.

The significant advance between 1895 and 1914 was also due to 'The relaxation of the Stores Rules, as envisaged in the Resolution of 1883'. (S. Sen, *Industrial Policy and Development in India*, p. 28). The impact of direct government purchase from Indian coal mine can be estimated from the decline in the import of coal and coke through the Secretary of State.[27]

'Apart from Government spending, the growth of the coal industry was helped to a large extent by the growing demands of the railways, cotton mills, jute mills, iron and steel industry, Port Trusts and tea gardens... The railways constituted the single biggest purchaser of coal. In 1878 the total consumption of coal was about 858,000 tons, of which foreign coal constituted nearly one-fourth. In 1888, the consumption of the railways rose to 1·64 million tons, and Indian coal represented nearly 95 per cent, thus marking a rapid and vigorous displacement of foreign coal. In 1909, the total consumption was about 3·77 million tons and Indian coal represented nearly 98 per cent'. (S. Sen, *op. cit.*, pp. 39-41)

On the eve of the First World War the annual output of coal rose to 15 million tons. 'In this period of rapid growth, by far the greater

[27] It 'amounted to 32,340 tons in 1890-91, 15,149 tons in 1900-01, 55,769 tons in 1901-02, 1,219 tons in 1907, 6,198 tons in 1908 and 26,567 tons in 1909. Most of the consignments went to Bombay. The Governor-General in Council proposed in 1909 the exclusion of coal from the Annual Return and noted : "The development of the coal industry of India in recent years been so marked that, with the exception of the special requirements of the Royal Indian Marine and the Mint, the bulk of the supplies for the use of our Government Departments can now be, and are as a matter of fact, obtained from Indian Collieries......There can be no suggestion now of our departments importing coal, at least to any appreciable extent.' And coal was omitted from the Returns from 1909-10. —S. Sen, *op. cit.*, pp. 29-30.

portion of the output was used for steam raising by the railways and industry...... The establishment of the Tata Iron and Steel Co. at Jamshedpur in 1911 was a very important step towards a proper utilisation of the coking coal of Jharia. The increased demand for coal during 1914-18 war gave a further impetus to the coal industry. There was a considerable increase in industrial activity throughout the country and the requirements of the railways and, in the early years, coal exports also increased appreciably'. At the end of the war, the output stood at nearly 19 million tons (*Report of the Indian Coal Fields Committee*, 1946, p. 19). In 1914, the invested capital in the coal industry was, Rs. 672 lakhs. There were 554 mines and the total number of workers employed was 128,884.

At the end of the war there was depression, which lasted from 1920 to 1926. Internal demand shrank rapidly and production began to fall. The position was further aggravated by the reduction in India's export trade in coal and by competition from South Africa and other foreign countries. But 'there is one remarkable feature about this period that must be noted. In spite of the serious fall in production in 1920 and two or three years that followed, the prices, particularly of Behar-Bengal coal, continued to rise (*Ibid.*, p. 20). In 1925 the invested capital rose to Rs. 1,261 lakhs while the number of joint stock companies increased to 251 from 153 in 1914. The increase in capital was in part due to resale.

The depression hit the industry hard. There was a sudden fall in production and the amount of invested capital declined to Rs. 210 lakhs. The jute industry or the cotton could shift some of the burden to the cultivators, but in coal that was not possible. In 1937, the depression came to an end. The years 1937 to 1942 form another natural period in the history of coal production in the country. These years saw a steady increasing internal demand ; and a further filip was given to the export trade by the grant in 1936 of a special rebate in rail freight and port terminal charges. From 1938 onwards, special shipments were being made to China, which was facing a critical coal situation with the advance of Japanese west-ward. The increase in demand during this period produced better prices also and, by 1942 the prices had risen nearly 74 per cent over the level of 1936. During the first three years there was a considerable increase in industrial activity, likewise there was some increase in coal production, but there was not enough coal to meet all the needs. The years 1942-45 brought about a coal famine of unparalleled proportions. There was a sudden drop in production, amounting to over 4 million tons in 1943 over the raisings of the previous year. For this many factors were responsible. The depression years of 1931 to 1936 had left behind a legacy of inadequate plant replacement and renewals were well-nigh impossible after the outbreak of the war. The mines, therefore, had to work ill-equipped. Labour found more attractive and more profitable employment elsewhere, especially on military works. When coal was raised there were not enough wagons to carry it to the consumers, and congestion at collieries reacted on output. Prices naturally rocketed sky-high. A strict control over prices, though not ungenerous to the collieries, was imposed. In the field of production, special steps were taken to recruit labour for the coal-fields, to import machinery through the Government channels or on Government account, and collieries were offered substantial financial inducements in the shape of bonuses on production and concessions in regard to Excess Profits Tax. That the action succeeded to a degree is shown by the fact that raisings in 1945 were nearly 3 million tons over those of 1944. Total number of collieries and the volume of investment went up.

The Indian coal strata fall into the Gondwana system and the Tertiary beds. The Gondwana fields supply 90 per cent of Indian coal. The coal mines in Bengal, Bihar and Orissa, the Central Provinces and the Hyderabad belong to the Gondwana system. The mines in Rajputana and Assam belong to the Tertiary beds.

The important coal-fields are concentrated in a small area. The Ranigunj, Jharia and Bokaro fields that produce 90 per cent of the total coal 'lie in a narrow strip running roughly from Ranigunj (about 160 miles north-west of Calcutta), west-ward for about 100 miles. Adjoining them still further to the west is the less but expanding Karanpura field, while about 50 miles to the north of the Jharia field is the Giridih field.' The greater part of the Ranigunj field lies in Bengal; the remainder of it and all the other fields are in Bihar and Orissa. The Pench Valley fields fall in Central Provinces.

In 1946, the Indian Coal Field's Committee estimated the known deposits of coking coal (undivided India) at 750 million tons.

The mineral rights in Bengal, Behar and Orissa were vested in Zemindars. The coal-fields were leased out for periods of 50, 99 or 999 years by these Zemindars. They were paid some initial amounts called *Salami* in addition to the annual royalty. The rate of royalty varied between 2 annas to 8 annas per ton of coal despatched. Buchanan observes: "This system and the dishonesty practiced on ignorant owners or lessees have resulted in certain very wasteful projects. In many cases, the areas let off for working by the landlords have not been so arranged as to conduce to the economical working of the estate as a whole, but rather with the object of receiving as much as possible by way of *salamis*."[28]

In 1937 the minority report of the Burrows Committee advocated nationalisation of mines. In 1938, the Bengal Land Revenue Commission said: 'We should like to recommend that Government should consider the desirability of legislation declaring that all minerals, including oil, not yet worked or discovered, will vest in the State". (*Report of the Land Revenue Commission*, Vol. I, p. 56).

The system of *Salami*, sometimes giving away wide tracts of mineral bearing land on petty rents calculated per bigha or per acre, granting of long leases—all these point out to the semi-feudalistic relations prevailing in coal industry in our country. Only a contract between parties, written in nature and valid in courts, does not change a feudal relation into a capitalistic one. The terms therein must reveal the benefit to both the parties from such a transaction, the benefit understood and calculated by both in terms of profit and capital accumulation. Very few landlords tried to be coal miners themselves. Feudal relations were also revealed in the mode of recruiting the labourers. Sometimes the Zemindars supplied labourers to help the companies. In many cases the Zemindars' *Naibs* turned themselves into company's labourer suppliers and Sardars. From the beginning the industry was controlled by the managing agents.[29]

[28] Buchanan, *op. cit.*, p. 260. Quoted by him from R. I. Treharne Rees, Report on the Methods of Coal Mining in India, made to Secretary of State for India, 1919, p. 2.

[29] On the functions of managing agency in coal industry the Burrows Committee observed: 'Apart from the notorious lack of coordination in the coal trade as a

A detailed analysis of mining rights is important for two reasons: the portion of profit which could have been appropriated by the native land owners, thus directly promoting domestic capital formation; and secondly to some extent, however imperfectly might be, the economic tensions generated through these the mining rights must have worked as solvent of feudal relations. During the years after 1765, before the Bengal Permanent Settlement, the question of proprietorship of land was being debated and the doctrine of State proprietorship dominated the thinking of the East India Company rulers. The Zemindars did not come into the picture. In 1774, a firm under the name of Sumner and Heatly presented a petition to the Revenue Council of Bengal for permission to work the coal mines of Bengal.[30] But since 1793, the foreign managing agents obtained leases not from

whole or even the various groups into which it is divided, the managing agency system, though it may have answered the requirements of the coal trade as distributors and profits producers, has not been an unmixed advantage to the coal industry. In 1935, 74 per cent of the Ranigunj and Jharia production was raised by limited companies formed under the Indian Companies Act......These companies are directed and controlled by business firms described as managing agents. They are usually remunerated either by a fixed percentage on the gross proceeds on all coal sold plus a percentage on other transactions, or by a commission on raisings plus a fixed monthly sum for office expenses. All three methods place a high premium on high outputs, big sales and large profits, and are generally calculated to focus effort on immediate rather than future gain, it being remembered as well that these managing agents also control mills and other industrial concerns which benefit by cheap fuel......So far as we are aware no firm of managing agents has technical expert on its Calcutta staff but it is from Calcutta that the policy of every coal company is directed in detail with primary regard to commercial consideration ......In short, to use a sporting metaphor, the coal trade in India has been rather like a race in which profit has always come in first with safety a poor second, sound methods an 'also ran,' and national welfare a 'dead horse', entered perhaps but never likely to start.' (*Report of the Coal Mining Committee*, 1937, Vol. I, pp. 27-30).

[30] The firm of Sumner and Heatly proposed the following terms to the Government: (1) That an exclusive right be granted to them for 18 years, of working coal mines and selling coal in Bengal and its dependencies.

(2) That in case they discover any copper, lead or any other mineral or metal except iron they agree to pay a fifth of their produce to Hon'ble Company.

(3) That they will furnish the Hon'ble Company with ten thousand maunds of pit coal every year from five years to come, at the price of two Arcot rupees and

Government but from the Zemindars who were declared as owners of land (or from the subinfeudatories like Pattanidars etc. under the Zemindars). The transition of land-rent per bigha to contractual royalty per ton was itself an advanced economic relationship than the feudal one; the large number of court cases between the Zemindars and the Pattanidars (or subinfeudatories) over the right to such royalties (or underground rights) helped to a considerable extent the dissolution of feudal relationships between them.

Thus therefore, the foreign managing agency houses took leases not from the Government but from the Zemindars under permanent settlement who 'owned' the underground rights of Ranigunj and Jharia fields. The State did not attempt to establish its own rights over these minerals, since such a course was thought inexpedient.[31] The foreign entrepreneurs, therefore went to the landlords to acquire mining rights. And the absolute ignorance which these landed gentry showed in the mineral assets of their estates favoured the foreign entrepreneurs. They were duped and cheated, forced and cajoled into giving up valuable mining rights at nominal rates. The

three quarters per maund and after the expiration of five years they will, at the market price of the time, furnish the like quantity.

(4) That if the mines fail or do not turn out of a quality required for the company's work they may be allowed on the above terms to dig any other mine that they may discover in course of their work.

The Revenue Council of Bengal granted a lease to Messrs Sumner and Heatly as asked for, subject to the following conditions: (1) That they shall not compel people to work for them; (2) that do not erect gunges or golahs of any kind; (3) that the Europeans or any other persons employed by Messrs Sumner and Heatly shall be liable to be recalled by the chief and provincial council of Burdwan without a reason assigned; (4) that they shall not receive or grant protection to any raiyots who may desert from the farmers or officers of Government with balances due on account of the rents; (5) that they shall not transfer the grant to any other persons unless by express permission of the Board.

[31] The Secretary of State for India in a despatch of March '25, 1880, wrote to the Government of India: "I agree with you that the indirect advantages resulting from making available the mineral resources of India are likely to be more valuable to the State than any direct returns; and I therefore consider that it would not be desirable to enforce the right of the State, supposing that such a right can be established in the permanently settled estates." Quoted in *Report of the Coalfields Committee*, p. 6.

Zemindars gave leases for periods up to 99 years or up to 999 years, on receipt of a lump sum payment known as *salami*, and at a small rent or royalty.[32] About 60 per cent of the coal areas are covered by leases of this description. The Zemindars "were unable to resist the lure of large sums of ready money. Valuable properties and rights were parted with for comparatively small considerations, and the future was left to look after itself, little or no provision being made for the proper working of the properties or the proper exercise of the leased rights." (*Report*, p. 69). The leases in certain cases stipulated conditions for proper working of these mines. But in practice they were ignored and the landlords acquiesced in such conduct by the entrepreneurs. The coal-fields committee wrote: "In practice, however, we find that these provisions are inoperative. No landlord employs a competent agent to inspect his tenants' mines and to safeguard his interests, any supervision exercised being confined to the prevention of fraudulent evasion of royalty" (*Report*, p. 4). Not only no arrangement for the supervision of working of mines was made, the Zemindars were not alive to the interests of their property even at the very outset when they leased out their estates. Mr. Treharne Rees, who reported to the Government of India on the methods of coal mining in India (to consider which report the coal-fields committee was appointed) observed: "It has further come to my notice that in the case of large tracts of coal property, the areas let off for working by the landlords have not been so arranged as to conduce to the economical working of the estate as a whole, but rather with the object of receiving as much as possible by way of 'salamis'......' (*Report*, Appendix A., p. 38).

As in tea and other industries, labour has been drawn mainly from the lower ranks of agricultural villagers. The mines lie close to the areas inhabited by the aboriginal tribes. In 1921, the *Bauri* and *Santhals*, both very low in the social scale furnished 45·1 and 52 6 per cent respectively, of the workers in coal mines. Many of the settled workers were attracted by the grant of land for cultivation. The miners settled on coal-fields have no tenancy right, they can be

[32] *Report of the Coal Mining Committee*, 1937. Vol. I, Supplementary Note by Dr. M. S. Krishnan and Mr. H. K. Nag, p. 216.

ejected by owners. The Royal Commission on Labour suggested abolition of the system: 'We recommend that, for the future, the law should prohibit the creation of tenancies with collieries as a condition of the holding. For the rendering of service was a legal obligation in return for the holding of land.' (*Report of the Royal Commission on Labour in India*, p. 119). The contract labour system, the Sirdari or Agency system and the direct recruitment, all these were evolved in coal mining industry.[33]

Mining requires so many diverse operations that calculation of wages is a complicated job. Labourers are broadly divided into two classes—underground and surface. The coal is mined according to stall and pillar methods, and coal-cutting is both mechanical and manual. The miner goes down the pit in a cage or walks down on the incline. The depth of mines varies from one hundred feet to one thousand feet. The coal-cutters, loaders, water-boilers and trammers work underground.

Of the total workers in the Ranigunj and Jharia fields 60 per cent work on piece rate. The tub is the unit of payment, and its size is not uniform. It varies from mine to mine. The tub rate does not depend upon its capacity and the rate paid shows wide variations as between mine and mine.[34]

[33] Of the contractors the most important is the raising contractor. The raising contractor is 'usually a person who recruits the labour required for the whole or part of the operations in a mine and supervises their work. His function is to get the coal cut and loaded into wagons at an agreed rate. Many of the raising contractors were formerly landlords who had a certain amount of influence on the villagers whom they brought to the mines for working there. In the early stages of the development of industry a large part of output of coal was obtained by labour employed by raising contractors...The largest employers of raising contractor are railway colleries at Bokaro and Giridih......The railway administrations...appear to be in labour of retention of this system......Most of the raising contractors are merely middlemen interested in making the maximum amount of profit for them-selves and it is in evidence that although the production of workers employed through the raising contractors is slightly higher...this is generally brought about by driving the workers towork overtime often without additional remuneration and in flagrant violation of labour laws in existence.' (Deshpande, *Op. Cit*, pp. 34-35). There are many other classes of contractors who undertake super-vision both underground and on the surface.

[34] The size of the tubs and their average number raised by the miners or loaders

Apart from deductions in calculating 'a full tub', numerous other deductions are made, such as commissions, allowances, conventional gifts. The Payment of Wages Act, 1936, which ensured regular payment of all dues to the workers and regulated deductions and fines by employers was made applicable to coal mines only in 1948.

During 1859-60 miners were paid 4½ annas per cwt. of round coal. It is equal to one tub of today. A good workman could turnout three buckets a day and thus earned 4 annas. Certain hardworking miners could earn 9 annas a day. Boys and girls were paid 3 annas to 1¼ annas per day. Miners worked for 23 days in a month, and the family composed of wife and three children earned Rs. 9 in 1860. The surface workers were paid 2 annas a day. Till 1882, the bucket rate did not change. It was only 6 pice per bucket and earnings fell due to lower output. In 1900, the bucket rate was increased to 2 annas and 3 pies. During 1909-12 the bucket rate ranged about 3 annas in the Ranigunj coal-fields. In the Jharia coal-fields miners were paid 4 to 4½ annas per bucket in 1900. It was increased to 5 annas in 1910, and to 6 annas in 1914. Women earned 3 annas in 1900 and 4 to 5 annas in 1910. During 1920-24 total earnings increased by 55 per cent. In 1921 a miner earned about annas 12 a day and Re 1 in 1922. During 1923-26 earnings of miners fell considerably due to the fall in the prices of coal. When price steadied production was stepped up. There was an increase in the earnings of miners. When the world depression (1929-30) set in, there was a sharp fall in the earnings of miners. The fall was most marked in Ranigunj and Jharia fields which employed 70 per cent of total workers. 'In all the coal fields the earnings of different classes of workers fell by 40 to 80 per cent during 1933-36. During 1933-36 cost of living further rose, though earnings continued to fall.' The main cause of the post-war decline in the earnings of miners was depression. The trade depression reduced total working days. The fall in the prices of agricultural commodities had created an excess of labour in coal-fields and led to the fall in wages. It was accentuated by the contract system. 'As the company reduced the rates of the contractor, the contractor in turn reduced wages of miners. Another factor that had brought about the fall in earnings was the absence of trade union among the miners'. (B. R. Seth, *Labour in Indian Coal Industry*, p. 92-98).

in the week are of greatest significance in the determination of the miners' weekly earnings. In spite of the recommendations of the Royal Commission on Labour about 20 years ago for securing greater uniformity in the size of the tubs and of insuring that wages bear a closer relation to the output, there are still found marked variations in the size of the tubs in the coal fields and in the amount of coal loaded into these......Such variations in the size and load of tubs lead to overloading and underloading which are the fruitful causes of disputes in the coal-fields. Miners' wages are cut for underloading. Deductions in most of the coal-fields owned by Bird and Heilgers and Co. are made for loading below the flush line of the tub. Up to a portion of the depth below the flush line of the tub, one quarter of the rate is deducted; when the deficiency is more than a quarter, half the rate is deducted. In most coal-fields underloading is ascertained by visual observation although a measure stick is used here or there. In some coal-fields, as for example, Serampore Colliery, Giridih, run by the State Railways Coal Department, half tub and in some places one-fourth of a tub is deducted if the tub be underloaded below 6 inches. But penalization seems to be most unjust in the coal-field at Bokaro where the miners are compelled by the raising contractor to fill one extra tub for every ton of coal raised, to allow for underloading. Thousands of miners are daily deprived of their legitimate earnings.' (R. Mukherjee, *Indian Working Class*, pp. 125-26.)

Till 1942, earnings of the miners stood below the 1929 level, though the cost of living had gone up several hundred per cent. Earnings of miners are made up of various elements, wages, dearness allowance, bonus, production bonus, and attendance bonus. In 1943, the dearness allowance was paid at the rate of 22½ per cent of total earnings. Towards the end of the year it was increased to 50 per cent and later to 100 per cent. The Board of conciliation set up in 1947 fixed the dearness allowance at 150 per cent for all classes of workers with monthly earnings limited to Rs 30. The Board also increased the bonus. On the basis of the recommendations of the Board of Conciliation and the Fact Finding Committee scales of wages for different occupations in coal-fields have been revised.

Even after that in 1946 earnings of coal-field workers stood below the 1939 level. An official survey admitted that: 'It may be pointed out that as compared to 1939, prices of essential food stuffs have risen up by about 300 to 400 per cent so that the real earnings had not touched the 1939 level' (*The Indian Labour Year Book*, 1946, p. 167). Early in 1946 an approximate calculation of earnings was presented by Deshpande: 'The cash earning of a miner does not exceed Rs. 5 per week for about 5 days' work or about Re. 1 per day. The position in regard to unskilled workers, particularly those on the surface, is still worse, their daily cash earnings being in the neighbourhood of annas 8.' (Deshpande, *op. cit.*).

No accounts for profits or capital formation has yet been available by coal industry during the second half of the nineteenth century. Taking an overall position Mr. Buchanan points out that, 'Naturally those mining concerns which got control of extensive coal-fields at low rates in the early days have been most successful. Profits have been singularly uneven. While a few companies have made really handsome earnings, others have been unable to pay any dividend, have indeed languished in bankruptcy.'[35]

The coal industry as a whole, entered a new phase of prosperity in 1938. Profits earned by the industry in 1938 were highest or record for more than ten years. In 1938, 55 companies earned profits of Rs. 117 lakhs. The official survey observed : 'The fortunes of the coal industry are considerably influenced by the ebb and flow of general industrial activity in the country. In recent years, 1937-38 stands out as one of the peak periods for the coal industry, both prices and profits being at a higher level.' (*Review of the Trade of India in 1939-40*, p. 35).

In 1939, with the outbreak of the war 'the outlook again brightened and demand for coal became brisk.' In this year 55 companies earned profits of Rs. 119 lakhs. In 1940 the industry was in still more prosperous condition and 55 companies earned Rs. 191 lakhs. In 1941, there was shortage of transport though production was high. Fierce under-bidding led to a fall in profits. In 1942, the transport bottlenecks continued, prices rose by 28 per cent but production fell by 10 per cent. Since then profits rapidly moved upwards and the capital accumulation in this industry progressed.

In spite of profits and accumulation, the industry, at the beginning of India's Five Year Plans, did not experience a technological innovation. 'Like the plantation industries, coal mining is conducted on lines analogous to the earlier stages of the factory system. But though coal mining made greater use of mechanical power and employed

[35] Buchanan, *op. cit.*, p. 266.

more works on a given area, it has been conducted with fewer of the characteristics of "factory" organisation than tea planting.' (Buchanan, *op. cit.*, p. 270).

5. The Iron and Steel Industry

A. *Its importance in Economic Development*

The growth of the Iron and Steel Industry is crucial to the dynamics of industrial growth of a country. How the general rate of industrial growth will be accelerated in the course of economic development depends on the rate of growth of iron and steel production. As Knowles has stated, 'The real change comes in any country when the iron and steel industries begin to be successful......The development of the metallurgical industries means the real industrial revolution. England, Germany and the United States of America all started their iron and steel industries on the modern scale before they started their textile factories'.[36] Modern students of economics with their input-output analysis and inter-industry interdependence tables cannot only fully explain this law, but also correctly estimate the push generated by the production of iron in the different branches of the economic structure.

Why the Iron and Steel Industry play this crucial role of how it accelerates growth can be simply understood. For instance, a certain amount of steel is regularly produced in a country per year. Where will this steel go ? They cannot be consumed, neither eaten up nor worn out. The steel cannot be stored up *ad infinitum*, they must go to produce new machines or buildings or bridges. If they are used up in buildings or bridges, some development takes place no doubt, the path for future development is surely to some extent broadened, but acceleration does not take place. If, on the other hand, the steel goes to produce machines, the progress becomes necessarily steeper. The reason is this, the machines must produce goods, they cannot be kept idle or consumed up. The chain process must continuously work on leading to increased output. If those are 'consumer goods manufacturing machines' then they go on producing consumer goods and the development process comes to a halt. And if on the other hand, steel goes to produce such 'machines which can produce

[36] L. C. A. Knowles, *Economic Development of the Overseas Empire*, p. 443.

machines' then the process of machine production is speeded up and along with it the rate of industrialisation continues to grow at each period of time. This leads to very rapid industrialisation within a short period of time. If again, the produced steel is exported outside the country, the whole process is stifled, the road to industrialisation is surely blocked.

It would have been better if we could know not only the volume of steel produced in the past, but also the sectors which consumed them and in what quantities each year. We could then build up an inter-industry relationship table and could clearly perceive the course of iron from pit-head down to the different sectors of our economy. We could know why iron travelled this way and did not follow that path, and in travelling this way how it helped to improve technology in that sector of the economy raising its productivity and thus generating chain reactions of increasing capacity of production all around the line. Given such data the history of iron and steel industry could have been studied more quantitatively and as a key to the economic history of India's industrial growth.[37]

B. The origin and growth of the Iron and Steel Industry

The manufacture of iron was as old as textiles in India and had a similar glorious past. The competition from Great Britain destroyed it. 'the indigenous article has rapidly been superseded for most common purposes of life by the inferior but cheaper and more convenient production of the West'. (L. F. Begbie, *Iron & Steel Industry*, p. 2). 'The interest of the big business on the one hand and sheer ignorance and carelessness on the other hand combined to suppress it'. (V. Elwin, *The Agaria*, p. 239). India became, during the second half of the nineteenth century, a large market for the products of British Iron and Steel Industry.

Iron and Steel Industry was also, like many others, a product of European enterprise at the beginning. As early as 1824, Josia

[37] Since the materials for writing such a history of the Iron and Steel Industry are not ready at hand, we shall endeavour to describe the events which led to its growth in the conventional manner. But how its growth led to the growth of others and how the growth of others again led to its own expansion—the true economic history of an industry unfortunately will not be attempted at,

Marshall Heath of Madras Civil Service was trying to establish an iron works. It was actually put up in 1830. He was short of working capital and the Madras Government lent him money to tide over the crisis. The firm was not doing well. In 1853 a new company named the East India Company was formed and it took over the old iron works. The storage of fuel, the competition from Britain and low volume of domestic demand and high carrying costs, all these led to the dissolution of this company also. The 1839 attempt of Jessop & Co. to smelt iron ore at Barakar also met with a failure. In 1855, Mackay Co. started the Birbhum Iron Works near Ranigunj. In 1858, the Works produced two tons of pig iron daily and had to be closed down due to shortage of charcoal.

In Bengal, the European enterprise started under Government patronage. In 1874, Messers, Rutterford and Co. formed the Bengal Iron Works Company. The company closed down after 4 years. The Government acquired the plant, worked it for 4 years and sold it to Martin Co. in 1894. The government came to the aid of the company, works were expanded and in 1903 steel producing equipment was installed. Production of steel did not yield profit, and the company lost Rs. 5½ lakhs in six months. So production of steel was temporarily stopped. In 1910 the company began to draw ore from a better field and produced pig iron, iron pipes, railway and other castings. During the first world war the company made huge profits and reorganised itself in 1919. A new company was launched in the name of Indian Iron and Steel Co., and most up-to-date American equipment was installed. The old company secured a majority of shares of the new company.

The history of Iron and Steel industry is associated with the Tatas, particularly with late J. N. Tata who had pioneered cotton textile and other industries. The idea of utilising upon the largest possible scale the iron deposits of India simmered in the mind of Mr. Tata for very many years. While supervising the The Empress Mills he chanced upon a copy of an official report on the financial prospects of iron working in Chanda district. The report was prepared by Schwartz, a German, employed by the Government for investigating iron and coal deposits of India. The report fired the mind of Mr.

Tata. He visited the area surveyed by Mr. Schwartz and carried the ore to England for further study. He employed a few experts to devise some standard method of smelting the ore. The experiment proved fruitless. On his rerurn to India he met the Chief Commissioner of the Central Provinces to secure a concession to work the deposits of iron ore. The Chief Commissioner, though a friend of Mr. Tata could not grant the concession. The exclamation of Lord Lawrence: 'I know what private enterprise means. It means robbing the Government,' defined the spirit in which authorities contemplated schemes for tapping the country's unutilized resources.

The 'obstacle which for a long time cooled the active interest of Mr. Tata in Iron and Steel projects was the absurdity of the Indian regulations for mining and prospecting, which seemed carefully devised to obstruct and prevent development.' In 1899, rules for mining and prospecting were revised and prospectors were permitted to work deposits. In the summer of 1900 Mr. Tata visited England and discussed the scheme with the officials of the India Office. Reception was cordial and the Secretary of State for India promised active support. On his return, Mr. Tata was granted a prospecting license for certain areas in Chanda district. Prospecting progressed slowly. Mr. Tata visited Europe and the U.S. and procured services of certain American metallurgical experts. Mr. Tata had aged and he entrusted the scheme to his son Dorabji Tata. The prospecting continued under the supervision of Mr. Sapurji Saklatwala, a nephew of Mr. J. N. Tata. In 1903 Mr. Dorabji Tata and Mr. Weld, an American expert, joined Mr. Saklatwala. Lord Curzon was impatient at the slow progress of prospecting.

In the meantime there appeared another rival prospector in the Central Provinces. He was Sir Ernest Cassel, a leading British industrialist, who had exploited the resources of Egypt. When he visited India in the winter of 1902 the Viceroy interested him in Indian iron industry. Sir Ernest Cassel deputed two experts to survey certain areas of Central Provinces. When the survey was completed the experts did not advise prospecting. So that was the end of a prospective rival venture.

Due to delay and no results, Mr. Dorabji Tata was forced to surrender all prospecting licenses except one. The deposits of ore were not continuous. There were many pockets. Now Mr. Dorabji Tata turned to Drug district. Fifteen years earlier the area had been surveyed by Mr. P. N. Bose, an officer of Geological Survey of India, and the report was forgotten. They traced the area where ore contained $65\frac{1}{2}$ per cent iron. The late Sir Thomas Holland, Director General of Geological Survey, visited the area where the ore was obtained. The visit satisfied Sir Thomas Holland, and he became a close ally of the Tatas. Here iron was in abundance and of purest quality. But coal was far away. So they decided to erect the plant at Padampur, on the bank of Mahanadi. In 1904 Mr. J. N. Tata passed away. One morning the Tata firm received a letter from Mr. P. N. Bose, who on retirement from Government service, was employed by the Maharaja of Mayurbhanj to report upon the mineral resources of the state. Mr. Bose traced very rich deposits of iron and invited them to inspect the ore fields. Mr. Dorabji Tata, Mr. Perin, Mr. Weld and Mr. Saklatwala visited Mayurbhanj and examined the ore fields. They were 'in the presence of a treasure house far more potentially valuable than most gold mines.' It was far nearer the sea and nearer the coal-fields. The firm concluded an agreement with the Maharaja of Mayurbhanj. The Maharaja allowed them to take ore for the first three years without any royalty, and then to charge a royalty at the rate of half an anna, the maximum being limited to 8 annas per ton. The lease covered an area of 20 square miles. In 1906 Dorabji Tata visited London to raise finance. 'A preliminary prospectus was prepared and submitted to various financial interests in London, but unforeseen difficulties were encountered. There were differences about the degree of control which was to be entrusted to the representatives of English investors. A disposition seemed to be manifested to sweep the Tata firm aside. Far more disconcerting was the lack of interest shown by the London Money market.' (Harris, *J. N. Tata*, p. 201).

Mr. Dorabji Tata returned to India. But 'by the summer of 1907 however, a new situation had been created in India. The Swadeshi movement, which meant the cultivation of the doctrine that resources and industries of India ought to be developed by the Indians themselves, had reached its height. All India was talking Swadeshi and was eager to invest in Swadeshi enterprises. Mr. Dorabji and Mr. Padshah, who had spent weary months in the city of London without avail, after their return, conceived in conjunction with Mr. Bilmoria, the bold idea of appealing to the people of India for the capital needed...They issued a circular, which was practically an appeal to Indians. It was followed by the publication of a prospectus, which bears the date August 27, 1907...From early morning till late at right the Tata offices in Bombay were besieged by an eager crowd of native investors. Old and young, rich and poor, men and women, they came offering their mites ; and at the end of three weeks, the entire capital required for construction requirements, £1,630,000 was secured, every penny contributed by some 8000 native Indians. And when later an issue of debentures was decided upon to provide working capital, the entire issue, £400,000, was subscribed for by one Indian magnate, the Maharaja Scindia of Gwalior. (Harris, *Op. Cit.*, pp. 201-02).

Tata Sons and Co. was appointed agents for the Steel Company. The site for works was selected at Sakchi. An area of 5 square miles was leased out in perpetuity by the Government. The company obtained lease of another area of 18½ square miles from the Dhalbhum Syndicate. The actual construction of the plant began in 1909 and iron was produced in 1911.

And immediately followed the first world war. Had there been no war the course of events would been much different than what followed. 'During the war, the double impetus of increased demand caused by the military requirements of the government and shutting off of the foreign supplies, caused by the lack of transport facilities, the company made great strides.' During 1916-17, the Tata Iron and Steel Co. produced 147,497 tons of finished steel. The daily average employment was 13000. To meet the increasing demand the company decided to undertake expansion of the plant. In 1919, there was an addition to the blast furnaces numbered three, capable of increasing total production of pig iron by 80 per cent. The number of open hearth steel furnaces increased by three. In 1921-22 the company produced 270,270 tons of pig iron ; 182,107 tons of steel ingots and 125,871 tons of finished steel. When the war ended,

normal trade was resumed and the period of boom passed away. The company faced keen competition and prices began to fall. 'Since most of the continental countries had considerable quantities of war scrap available and since standards of living were much lower...... there were drastic cuts in prices, with the result that a great deal of Indian trade went to Germany and to Belgium ! (*India in 1922-23*, p. 122).

In the post war period, the history of the iron and steel industry was closely related to the tariff policy of the Government of India. The Tariff Board accepted the need for protecting the iron and steel industry as its development had been hindered by severe competition from abroad. The government accepted the recommendations of the Tariff Board and duties on certain articles manufactured from iron and steel were increased, bounties were granted on heavy steel rails, fish plates and railway wagons manufactured in India. The duties and bounties were subject to revision after 3 years. In 1924, it was found that owing to fall in the prices of continental steel and the maintenance of the rate of exchange in the neighbourhood of 1s. 6d. the Indian Iron and Steel Industry was in need of further assistance. The Government of India decided to increase the amount of bounties without additional increase in duties. The government proposed to grant a bounty at the rate of Rs. 20 per ton or 70 per cent of the weight of steel ingots, suitable for rolling into articles already protected by duties in the previous May. Funds were available from the surplus customs revenue realised from the increased duty imposed in May on the imports of steel.

In 1925, the Indian Legislative Assembly agreed to the grant of bounties subject to a maximum of Rs. 60 lakhs to the steel industry up to 1927. At the end of the period the Government of India introduced a bill to give effect to the recommendations of the Tariff Board which had published its report on the needs of Indian steel industry. The bill sought to do away with the principle of granting bounties to the industry. Protection was to be by means of increased duties on imports and not by bounties on production. The period of protection was to last 7 years. A statutory enquiry was provided for at the end of the period to ascertain the nature of protection that might be necessary. The bill provided for imposition of differential rates of duties on certain iron and steel articles, with a basic duty on articles of British manufacture, and an additional duty on those of non-British origin. So 'the most cententious part of his bill was the preference given to British steel, and it was around this point that the fight over the bill in the Assembly raged most hotly. The first great clash between the Government forces and the solid Swarajist Party cum Nationalist opposition took place over the Steel Protection Bill.' The bill was passed into law, though the opposition fought hard against the imposition of differential duties. There was another reduction in the duties on import of British steel when India was compelled to implement terms of the Ottawa Agreement (1932). In 1933, the Tariff Board argued against the renewal of the Ottawa Agreement with particular reference to the steel industry.

The Government of India reduced the duty on the import of steel and levied an excise duty of Rs. 4 per ton on steel ingot produced in India and a countervailing duty on imports. While the duty charged on non-British steel varied between Rs. 25 and Rs. 43 per ton, the duty on British steel was fixed at 10 per cent. The protection, though often not guided by the right principle, stood the industry in good stead. It enabled the industry 'to grow from the stage of infancy to the full maturity it attained in 1939.' And 'during the fifteen years of effective protection to the steel industry, from 1924 to 1939, the consumer in India paid as a result of protection Rs. 11 crores more than he would have paid.' In other words Indian steel Industry was subsidised to the extent of Rs. 11 crores in 15 years.

The Industry made steady progress and in 1937 it stood in a healthy condition. That year the Bengal Steel Corporation was formed to acquire from the Indian Iron and Steel Company the lease-hold properties near Hirapur and to erect and operate a modern steel plant. The contract with Indian Iron and Steel Company provided for the supply of the corporation's requirements of hot iron, water, gases, electric energy and other services. The Indian Iron and Steel Company held 39·17 per cent of the ordinary shares of the Corporation, and was paid a fifth of the net profits made by the Corporation. Now both are managed by Martin Burn Ltd.

In fact 'the year 1937 will probably rank as one of the best years for the iron and steel industry. Largely as result of rearmament

demand being superimposed on normal constructional demand, it was the period of hectic activity in all the steel producing countries. The demand for iron and steel was very keen and boom conditions prevailed in most iron and steel markets of the world...During 1937-38 production of iron and steel in India attained a new record. Prices began to rise. Competition was reduced as most of the foreign steel works were busy trying to meet the demands of their home markets and had no surplus to export to other countries. The Tata Iron and Steel Company took advantage of the new situation and extended its works to undertake manufacture of the steel products that were imported from abroad.' (*Review of the Trade of India in 1937-38*, pp. 46-48). During 1938-39 the industry maintained progress, while imports were smaller, export of Indian pig iron was well maintained.

With the outbreak of the Second World War in 1939 the Indian iron and steel industry entered a new phase of prosperity. 'An intense demand for iron and steel is a necessary feature of war economy......The race of rearmament was further speeded up, thereby creating a feverish demand for all kinds of iron and steel products. The volume of Government orders was so heavy that requirements of private consumers had to be stinted or postponed...The Indian iron and steel industry continued to be in a healthy state. Both the Tata Iron and Steel Company and the Indian Iron and Steel Company were fully booked with orders. The industry was placed in a very advantageous position owing to reduction in imports.' (*Review of the Trade in India in 1939-40*, p. 60). During 1941-42 the industry was kept feverishly active. Output of finished steel went up 50 per cent. Civilian consumption was limited by the Iron and Steel control order. During 1943-44 the whole of production was taken away by the Government. In 1944-45 production fell due to shortage of coal.

At the end of the war, the Iron and Steel industry did not ask for protection. It had attained full maturity. Chances of foreign competition were very thin as the European steel producing countries were incapable of developing export trade due to disruption of productive machinery caused by the war. Post war reconstruction and industrial expansion required large volume of steel. The selling price of steel was increased by the Government of India. With that financial assistance from the Government the Steel Corporation of Bengal and Indian Iron and Steel Company modernised their plants. Subsequently they merged into one. The Tata Iron and Steel Company also received assistance from the Government and the World Bank, and expanded the productive capacity.

The capital accumulation could be remarkably high as the total wage-bill was kept rather low. Royal Commission on Labour reported that the average earnings of metallurgical industry were lowest in India.[38] Dr. R. K. Mukherjee gives a table to analyse the movement of earnings at Jamshedpur.[39]

Year	Average earnings (excluding profit-sharing bonus)	Average earnings (including profit-sharing bonus)
1927	Rs. 27 85	Rs. 27·85
1929	,, 35·35	,, 35·55
1932	,, 29·79	,, 29·79
1933	,, 35·58	,, 36·54
1937	,, 38·35	,, 42·17
1938	,, 38·75	,, 42·63

An enquiry into the family budgets of workers by the Bihar Labour Enquiry Committee throws light on the economic conditions of workers employed by the Tata Iron and Steel Company. The enquiry calculated monthly earnings of a worker at Rs. 34. An addition of non-industrial earnings brought the total to Rs. 35-1-6. The Committee fixed the living wages of an adult worker at Jamshedpur at Rs. 20 a month. Food consumption of workers of the income group below Rs. 20 was found deficient. Of 28674 workers employed by the company 7.365 earned less than Rs. 15 a month. The number of workers whose monthly earnings varied between Rs. 20 and Rs. 30 was about 5000. Thus 12,000 workers or 40 per cent could not earn living wages.

We can, with benefit, quote from Prof. R. K. Mukherjee again. 'The years 1917 and 1920, which were years of increased cost of living and were followed by big strikes saw an increase of wages by 10 per cent and 40 per cent respectively. It is evident that these

[38] *Report of the Royal Commission on Labour*, p. 199.

[39] R. K. Mukherjee, *op. cit.*, p. 174.

increases were not at all proportionate to the cost of living. Again, 1926 to 1928 were years of high cost of living. In 1927-28 wages actually fell by 2 per cent ; but the third strike came in 1928 when wages were once more reviewed and the same grade and flat rate prevails up to now. Prior to the world war II there had been a large reduction in the cost of living. But the moment of the cost of living and the fall of price level should not be permitted to obscure the central fact that Jamshedpur is the dearest place in the whole of Bihar, and that in relation to the cost of living the unskilled workers and a considerable portion of semi-skilled labourers (approximately 12,000) earn less than even Rs. 20 which may be considered as the bare subsistence wage in this industrial centre...... Between 1928 and 1939 rationalisation was introduced in many shops. In some the number of workers were reduced, vacancies were not filled up and for the remaining workers' work was partially intensified. On the whole labour slightly diminished since 1928, while production was increased phenomenally. Since 1923......no addition was made to the capital of the company, but its output was extended from 250,000 tons of finished steel to 420,000 tons in 1927 and to 660,000 tons in 1938....... Taking into account three major factors, (a) the high cost of living at Jamshedpur, (b) the present scale of wages of metallurgical workers in India, (c) the disparity of the increase of production and of cost per ton in most mills, the average earnings of the Tata workers must be considered low. The wages of more than half the number of the Tata workers are such that the bare minimum requirements of living cannot be met.'[40]

To what extent did bonus and other concessions supplement earning of workers at Jamshedpur ? Investigator appointed by Bihar Labour Enquiry committee who dealt with 637 families of Tata workers, found that 'supplementary earning such as bonus, overtime and acting allowance and provident fund contributions accrued to 509 amongst them, but such earnings represent an insignificant proportion of the income. ...In the income groups of the employees whose wage proper is below Rs. 20 and who constitute 40 per cent

[40] Dr. R. K. Mukherjee, *op. cit.*, pp. 176-8.

of the total number of the employees, the bonus and provident fund contributions together constitute only 6.8 per cent of the total earnings. As the wages increase, such supplementary earnings are found to increase proportionately, excluding however, the majority of the workers from adequate benefits.

The small volume of wage bill, more technological improvement and raising labour productivity, all helped the company's accumulation at a very rapid rate. During the years of the First world war annual profits averaged Rs. 25 lakhs each year. From 1930 to 1932 profits were low but from 1933 profits began to rise. In 1934 the relative index of profits (1928=100) rose to 169. The upward trend continued and in 1938 the index advanced to 211. 'Profits declared in 1940 were higher than those declared in any recent years other than 1938. The 1941 profits were even higher and were also highest on record.' During 1939-41, the relative index of profits advanced to 387. In 1942, it rose to 403.

The immense increase in steel production should have increased the rate of industrial advance in India further than what had been. The reasons why our steel industry could not play its historical role more fully, are various. The steel which came out of the furnace did go to build up railways, bridges or building constructions. The proportion of steel which was purchased by the nascent engineering industries in India was very low. And not only that. The total steel which moved towards the engineering sector contained a very small proportion which entered in machine-producing engineering factories. The steel industry thus could not lead to accelerated industrial growth. This is also evident from the fact the industry was helped by two world wars. In reality it means that the steel produced during the war went for armament production which obviously could not and did not lead to a rapid industrial growth. The steel industry could have helped industrial growth if it paid a huge wage bill which could expand our internal market for the benefit of consumer goods industries. But the wage bill was low enough and the industry had failed to play this indirect role.

EIGHT

Laissez Faire and Protection

'The loom, the comb and the spinning wheel
Do all support the nation's weal.
If you'll wear own silks and woollens
You'll keep your coin, your men, your bullion'

—England's Almanac (1700)

'But in country or town
Now no lass will go down
But a tawdry callico madam.' —Calico Printer's Clerk (a ballad)

1. British commercial policy vis-`a-vis India, or, India's Tariff History

Since the beginning of English commerce in India, the East India Company was interested in enlarging their mercantile profits. More goods meant more profits, and so the Company was interested in improving those industries from which its export trade was largely drawn. The Company looked with favour upon the manufacture of cotton and silk piece goods. As the manufacturing industries grew up in Britain and the successive stages of Industrial Revolution unfolded themselves, such a policy of encouraging export industries of India by the Company was increasingly opposed by the growing industrialist of England. These interests were 'at one time sufficiently powerful to insist that the Company should concentrate on the export of India of the raw-materials necessary for manufactures in England.'[1] The situation was best described by Romesh Dutt, 'British weavers had begun to the jealous of the Bengal weavers, whose silk fabrics were imported into England, and a deliberate endeavour was now made to use the political power obtained by the Company to discourage the manufactures of Bengal in order to promote the manufactures of England. In their general letter to Bengal, dated 17th march, 1769, the Company desired that the manufacture of raw silk

[1] *Industrial Commission Report*, para 105.

should be encouraged in Bengal, and that of manufactured silkfabrics should be discouraged. *And they also recommended that the silk-winders should be forced to work in the Company's factories, and prohibited from work in their own homes.*'[2]

Before the factory system was developed in Europe, Indian manufactures were excluded from England by means of high tariffs. At the end of the seventeenth century, English woolen and silk weavers found their home market being taken by cotton and silk goods from India. Acts passed, especially in 1700 and 1720, and remaining in force for over a century, until 1825, prohibited the wearing of certain Indian goods and laid heavy taxes on others. Even in 1803, duties on Indian cotton cloths were from 20 per cent to 50 per cent of their value. In 1809, these rates were made to range from 47 per cent, and as late as 1819, when English cotton fabrics, manufactured on power looms from machine-spun yarn, were already in Bombay and Calcutta bazars, the rates were placed at $37\frac{1}{2}$ and $67\frac{1}{2}$ per cent at valorem for most Indian hand-woven goods. 'These restrictions were not peculiar to Indian goods but there was no other country then seriously competing in the British market. In India on the other hand, though under a British government, only nominal duties were collected—roughly such as would meet the charges of foreign-trade administration.'[3]

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[2] 'This regulation seems to have been productive of very good effects, particularly in bringing over the winders, who were formerly so employed, to work in the factories. Should this practice (the winders working in their own homes) through inattention have been suffered to take place again, it will be proper to put a stop to it, which may now be more effectually done, by an absolute prohibition under severe penalties, by the authority of the Government.'

'This letter,' as the Select Committee justly remarked, contained a perfect plan of policy, both of compulsion and encouragement, which must in a very considerable degree operate destructively to the manufactures of Bengal. Its effects must be (so far as it could operate without being eluded) to change the whole face of that industrial country, in order to render it a field of the produce of crude materials subservient to the manufactures of Great Britain." *R. C. Dutt, Economic History of India*, p. 45.

[3] Buchanan, *op. cit.*, p. 464-5. A good summary of the Import Duties, imposed by England upon Indian Textiles is provided in Hamilton's book *Trade Relations Between England and India*, Appendix, Table 1.

From the beginning decades of the nineteenth century the manufacturing industrialists intensified their agitation for free trade. The focal point of their agitation was the repeal of the corn laws. The freedom of trade and industry was necessary for the release of productive forces, i. e., the economic development of British islands. The classical economics also patterned itself to the needs of the time. As J. E. Cairnes wrote in 1885, political economy was then looked upon in England merely as 'a sort of scientific rendering of the maxim of *laissez faire*.' In this situation, 'the tariff policy imposed upon India fitted the prevailing economic dogma and was therefore as satisfying to the majority of the ruling classes in England, and to many Indian intellectuals, as it was to Manchester financially.' After the repeal of the Corn Laws in 1846 in England, this new policy of free trade was foisted on the British Dominion overseas. What was good for bourgeoisie was good for England, and was to be good for her colonies and dominions. The very country which had earlier imposed high import duties on articles like cotton and silk goods from India, now started preaching the gospel of free trade.

But even then, what they preached they never practised. Free trade policy was enforced on colonies but was not practised at home. Self-interest rather than loyalty to any creed has always been the moving consideration. In 1853, when India's first factories were being started, British merchants demanded that 'at the earliest practicable period the trade to India and China be thrown open.' And in the same book, the President of the Manchester Chamber of Commerce insisted that with the Government of India should be identified the cause of civilisation, of justice and of christianity.' In 1859 the general rate of import duties was raised from 5 to 10 per cent in England and the duty on cotton yarn from $3\frac{1}{2}$ to 5 per cent. In order to meet costs of the suppression of Sepoy Mutiny a moderate duty on imports and a low duty on exports were imposed in India. Manchester fought hard for the repeal of the import duty. In 1874, the Manchester Chamber of Commerce in a memorial to the Secretary of State stated that, under $3\frac{1}{2}$ per cent duty on cotton goods, a protected cotton manufacturing industry was springing up in India. Their second memorial examined the effects of the operations of the tariff upon British cotton textile industry. And in order to satisfy them the 'Government of India' imposed a duty of 5 per cent on the import of long staple cotton. This was done to prevent the expansion of Indian cotton industry.

There arose a controversy between the Viceroy and the Home government. A committee appointed in 1874 by the Government of India rejected the demand for repeal of the cotton duties. The Secretary of State asked for explanation why changes were not submitted for his approval first, and observed that 'Parliament will not allow the only remnant within the direct jurisdiction of the English Government to levy protective duty hostile to English manufacturers.' It also stated, 'whether the question be regarded as it affects the consumer, the producer or the revenue, I am of opinion that the interests of India imperatively require the timely removal of a tax which is at once wrong in principle, injurious in its practical effects and self-destructive in its operation.'

The Viceroy of India, Lord Northbrook, a liberal and free trader, was determined to retain a small tariff on cotton goods to strengthen the finances of India Government. The controversy led to the resignation of the Viceroy in 1876. The following year Parliament passed a resolution against the retention of tariff. The resolution was forwarded to the Secretary of State for India with an alarming comment: 'Five more mills were about to begin work; and it was estimated that by the end of March 1877, there would be 1,231,284 spindles employed in India.' In 1878 duty on a number of articles was repealed. In 1894, with the fall in the sterling value of the rupee fresh taxation was necessary and the Government of India proposed a general tariff of 5 per cent on all imports. The Secretary of State removed cotton yarn and cotton piece goods from the list, and subsequently agreed to the inclusion of cotton goods manufactured in India. And to crown all, the 5 per cent import duty on cotton piece goods and cotton yarn was supplemented by a $3\frac{1}{2}$ per cent excise duty in India. The finance minister had to admit that only about 6 per cent of the Indian manufactures entered into competition with Manchester goods and that in spite of his conviction he had to obey orders imposed from above. To appease British manufacturers the Government of India raised the excise duty on cotton goods of Indian manufacture to 5 per cent. The increase did not satisfy

Lanchashire who argued that the Indian consumers could not afford to by cotton goods at higher prices, while Indian manufacturers said that the industry had been penalised. So in 1896 the duty on import of cotton piece goods was reduced to $3\frac{1}{2}$ per cent from 5 per cent. Excise duty on handloom products was removed cotton yarn was admitted free and excise on yarn was removed. The duty on the import of yarn was removed to stimulate the export of British cotton yarn to India. The policy of preferential tariff continued till the outbreak of the First World War. When war started, the tariff rate was raised from 5 to $7\frac{1}{2}$ per cent, the duty on imported cotton goods being included in the list. But the excise duty was left untouched in spite of agitation in India. Thus the fiscal policy of the Government of India remained based on free trade principles down to 1923 when the new policy of discriminating protection with Imperial Preference was adopted.[4]

We can thus conclude with Prof. Buchanan that 'the influence of Manchester capitalists is written large in Indian tariff history. They have been as anxious to preserve the Indian market for the benefit of British manufacturers, merchants, bankers and shippers as American capitalists have been to preserve the American market for themselves. To the demands of this influential group in British politics all governments have listened..... Indians, and many Englishmen, have been incensed at this dictation from Manchester, through London. 'The voice was the voice of Exeter Hall but the hand was hand of Manchester,' remarked an early member of the Indian Legislative council.

2. A Short History of India's Fiscal Policy

(i) *Since the First World War*

The First World War started a new phase in India's tariff history in as much as the policy of Free Trade enforced by Manchester manufactûrers on India needed a shift. The need to raise more money compelled the Government to raise the tariff. There was also a desire to enlist the support of the Indian industrialists in the war effort. In 1916, the Industrial Commission also recommended that the Government should play an active part in the development of Indian indus-

[4] R. Reynolds, *White Sahibs in India*, p. 110.

tries so as to make the country self-sufficient 'in respect of men and material.' But since Parliament was not willing to concede full fiscal autonomy to India, a compromise was suggested in these words: "Whatever be the right fiscal policy for India, it is quite clear that she should have the same liberty to consider her interests as other members of the Empire. The Secretary of State should, therefore, as far as possible avoid interference on this subject when the Government of India and its legislature are in agreement and his intervention, when it does take place, should be limited to safeguarding the international obligations to the Empire or any fiscal arrangement within the Empire to which His Majesty's Government is a party." The statement led to a Fiscal Autonomy Convention.

In 1921 the Indian Fiscal Commission was appointed (with Sir Ibrahim Rahimtoola as President) to examine, with reference to all the interests concerned, the tariff policy of the Government of India, including the question of the desirability of adopting the pinciple of Imperial Preference. The Commission was moved mainly by the infact industry argument. It quoted the following words of Professor A. C. Pigou: 'The case for protection with a view to building up productive power is strong in any agricultural country which seems to possess natural advantages for manufacturing. In such a country the immediate loss arising from the check to the exchange of native produce for foreign manufactures may well be outweighed by the gain from the greater rapidity with which the home manufacturing power is developed.' The Majority Report recommended a policy of discriminating protection. It desired that 'in the interests of consumers generally and particularly of the masses of the people, in the interests of agriculture, in the interests of steady industrial progress and for the maintenance of a favourable balance of trade, the policy of protection should be applied with discrimination so as to make the inevitable burden on the community as light as is consistent with the due development of industries and to avoid abrupt disturbances of industrial and commercial conditions.' In pursuance of this policy the Commission laid down the following three conditions for the selection of industries for protection:

(1) 'The industry must be one possessing natural advantages such as an abundant supply of raw material, cheap power, a sufficient supply of labour and a large home market. Such advantages will be of different relative importance in different industries, but they should all be weighed and their relative importance assessed.......The natural advantages possessed by an Indian industry should be analysed carefully in order to ensure as far as possible that no industry is protected which will become a permanent burden on the community.'

(2) 'The industry must be one which without the help of protection either is not likely to develop as rapidly as desirable in the interests of the country.'

(3) 'The industry must be one which will eventually be able to face world competition without protection.'

In addition to the above, the Commission laid down a few more conditions of lesser importance: (a) An industry which could produce on a large scale with increasing returns was to be considered more suitable for protection. (b) An industry which was expected to meet the entire needs of the country in course of time, was recommended a preferential consideration. (c) An industry essential for natural defence and for key industries was recommended protection even if it did not fulfil the above conditions. (d) Special measures of protection were recommended against dumped goods or if the goods came from countries with a devalued or depreciated currency and thus gained an unfair advantage over Indian manufacturers. (e) Similar steps were recommended against bounty-fed imports.

The Majority Report was clear enough in pointing out that the industrial development of India should not take place at the expense of British interests. They plainly stated: 'We do not forget that the U. K. is the heart of the Empire, that on its strength depends the strength and cohesion of the Empire......Unless the U. K. maintains its export trade, the heart of the Empire will weaken and this is a contingency to which no part of the Empire can be indifferent.'[5]

[5] Majority Report further observed: "India for many years to come is likely to concentrate on the simpler forms of manufactured goods and these are precisely those in which the U.K. has the smallest interest, growing prosperity will bring a wider range of needs and these will be translated into a more extensive demand for British goods." The Minority however were more frank. They stated, "we

The Minority Report signed by the President and four others stated that their reasons for writing a dissenting minute were: (a) 'The recommendation has been hedged in by conditions and provisos which are calculated to impair its utility. (b) In places the language is half-hearted and apologetic. (c) We are unable to agree with the views of our colleagues on Excise, Foreign Capital, Imperial Preference and the constitution of the Tariff Board.'

The Commission recommended the formation of a permanent Tariff Board whose duties would be to investigate the claims of particular industries to protection ; to watch the operation of the tariff and generaly to advise the Government in carrying out the above policy.

(ii) *Working of the Discriminating Protection*

The critics have pointed out that such a policy of discriminating protection has led to an indiscriminate refusal to protect the young industries. The Government did not protect and help the growth of heavy, basic and key industries. And among the consumer goods industries only those were helped which did not compete much with the powerful British monopolists in the Indian market. Prof. B. P. Adarkar pointed out : 'Apart from protection, Western countries have through their governments taken active measures such as bounties, state aid, experimental and demonstrational undertakings, foreign commissions, industrial research, and active control and guidance of industrial concerns. The *discriminating protection*, on the other hand, has vouchsafed nothing better than a perfunctory assistance, indifferently and grudgingly rendered to industries whose subsequent development has been left to take its own course. Very often, the dilatory procedure adopted by the tariff machinery and by the Government has made the subsequent protection a veritable dead-sea fruit.'[6]

believe that the industrial backwardness of India is in no way due to inherent defects among the people of India, but that it was artificially created by a continuous process of stifling, by means of a forced tariff policy, the inborn genius of the people." *Fiscal Commission Report*, pp. 148, 180.

[6] B. P. Adarkar's article on 'Fiscal and commercial Policy' in *Industrial Problems of India*, ed. by P. C. Jain, pp. 93-4.

Secondly, though the Government adopted the policy of Discriminating Protection, it did not accept the Fiscal Commission's recommendation regarding a permanent Tariff Board. *Ad hoc* Boards were set up with frequent changes in personnel. This prevented the taking of long views, the accumulation of experience and the building up of a body of technique and procedure.

Thirdly, in the working of the policy some of the noticeable defects were (a) the delay that took place in referring cases to the Board, (b) the time taken by the Board to conduct enquiries and (c) the time taken by the Government to arrive at a decision on the Board's recommendations. In the case of match industry, for instance, the Tariff Board took 18 months to submit its report, while in the case of cotton textiles Government took 24 months to arrive at a decision on the Board's recommendations. In some cases, e.g., glass, the Government did not accept the recommendations of the Tariff Board for protection. In several other cases, the Government accepted the Board's recommendations with modification.

Altogether 13 industries received protection during the period 1923-1939 ; Iron and Steel including subsidiary steel industries ; cotton textiles ; sugar ; paper and paper pulp ; matches ; salt ; heavy chemicals ; sericulture ; magnesium chloride ; plywood and tea chests ; gold thread ; wheat and rice.

The agricultural commodities like wheat and rice were protected on the Government's initiative without any reference to the Tariff Board. Protection to the heavy chemical industry was of little use to it, as the period of protection allowed to it was only one year and a half. The recommendation of the Board as regards the method of protection to ply-wood industry was so altered that the assistance actually received by the industy was negligible. The policy of discriminating protection has, however, enabled a few big industries like steel, sugar, paper, cotton textiles and matches to establish themselves firmly. It has also indirectly helped to develop some new industries which are auxiliary or dependent on iron and streel, sugar, paper, cotton textiles and matches. That the policy of protection has been amply successful within its limited range is also borne out by the fact that some of the major protected industries, e.g., steel, cotton textiles and magnesium chloride had practically become independent of protection by 1939, though protection was formally withdrawn in the cases of steel and cotton textiles in March 1947, and magnesium chloride in December, 1948. Further, during the best part of the post-war years, Indian steel and cotton manufactures have been sold at appreciably lower rates than the imported articles ; and the progress of the magnesium chloride industry has been so remarkable that it has been able to develop a considerable export trade.

The limited degree of industrial development which took place under the aegis of the policy of protection has also benefitted other sectors of our economy. For example, the growth of the Indian cotton textiles and sugar industries has created a huge home market for the growers of raw cotton and of sugarcane. The production of medium staple cotton and of sugarcane has been stimulated. Again, there has been a 74 per cent increase in the number of factory employees during 1931 and 1947 as against a 20 per cent increase in population during the same period. Though factory employees are only a small fraction of our total industrial population, it is likely that the pattern of occupational distribution of Indian population has slightly altered in favour of secondary and tertiary employment during this period.

A full assessment of the benefits of protection should also take into account the social cost of protection. Unfortunately, no precise measurement of the net burden of protection is possible for the lack of data. The burden on the consumer obviously depends on the rate of tariff and the duration of the period of protection. Moreover, the protected industries like cotton and sugar have failed to do their duty towards the masses during the crisis of the second world war and the postwar years. They have been callous and indifferent to the interests of the consumers ; they have been equally apathetic towards labour ; they have subordinated all other considerations to profit-making. In the light of this experience, it was essential that the grant of protection to any industry should have been conditional on safeguarding the interests of labour and consumers. If any industry refused to accept these conditions, and yet needed protection in national interests, the only remedy would appear to be nationalisation of the industry. The grant of unqualified protection to industries in private hands was thus absolutely

undesirable. Our industrialists have been weighed in the balance and found wanting.

During the second world war the Government continued protection to those industries who were enjoying it. The Government also assured help to new industries who were thriving under war conditions. In 1945, an interim Tariff Board was appointed with a life for two years. This Board could 'recommend' protection for a period of not more than 3 years to any industry. There were again a few conditions.[7] In all, cases of 49 industries were referred to this Board which recommended 42 of them for protection. Out of these, 38 were war-time industries and 4 were old ones, i.e, steel, paper, sugar and cotton textiles. The rest of the cases were left to be decided by the Tariff Board to be reconstituted in 1947. In 1947 the Tariff Board was entrusted with additional functions. For all industrial and fiscal purposes this Board was to advise the Government. In accordance with the Industrial policy statement of 1948 a Fiscal Commission was appointed in 1949. The Commission laid down new conditions of protection and viewed it as an important instrument of rapid economic development.

3. An Outline History of India's Foreign Trade

India had an extensive foreign trade in ancient period, long before the christian era has begun. As early as 3000 B. C. she had trade relations with Babylon. She also had a flourishing trade with ancient Greece, ancient Rome, Arabia, Persia and China. Both the sea routes and land routes were used in foreign trade. The Indian ports were mostly situated in Sind, Malabar, the Coromandel coast, Orissa and Bengal. In particular, Tamralipti in Bengal was an important port. Indian exports consisted of fine cotton cloth, metalware and perfumes etc. and her imports were minerals,

[7] The Board was to be ensured (1) that it is established and conducted on sound economic lines ; and (2) that, having regard to the natural or economic advantages enjoyed by the industry, it is likely within a reasonable time to develop sufficiently to be able to carry on successfully without protection or state assistance, or (3) that it is an industry to which it is desirable in the national interests to grant protection or assistance and that the probable cost of such protection or assistance to the community is not excessive.

Damascus blades, Arabian horses, Persian wines and gold. She also traded in Ceylon pearls and China silks.

With the beginning of the Pathan and Mughal periods of Indian history, certain new factors came into play. Inevitably, the land routes across the north-west frontier increased in importance as the Muslims entered India through that route. There were two such routes, one connecting Lahore with Kabul, and another connecting Multan with Kandahar. During these times the character of Indian trade remained mostly the same as before and the imports chiefly consisted of articles of luxury, 'the masses being too poor to buy them.'[8] Dutch and Portugese records reveal that Indian trade had still the same characteristics when she exported fine muslins from Dacca, known in Europe as Gangetika. India was a creditor country; her balance of trade and payments both were consistently favourable. Exports were greater than imports and gold silver made up the difference.

There was also regular oceanic trade largely controlled by the muslims. The Malabar and the Coromandel coasts came into prominence, and to a lesser extent the Gulf or Cambay and Calicut were great centres of entrepot trade.

The discovery of the cape route was historic in the sense that it brought the Europeans in direct touch with the Indian commerce. Formerly, Indian products were carried by Arab merchants to Aden and thence carried by land and water to the Mediterranean coast. There they passed into the hands of Italian traders of Venice and Genoa who circulated the goods in different centres of Europe. The discovery of the cape route, however, offered a unique opportunity to Portugese merchants who naturally wanted to monopolise the whole of India's trade with Europe at the expense of the Arabs and the Italians. The success of the Portugese invited the English, the French and the Dutch merchants. The victory of the English East India Company over the rival European powers naturally gave it a virtual monopoly of India's trade with Europe.

In its early days, the East India Company encouraged Indian industries and exported Indian calicoes. But as the eighteenth century advanced, the monopsonistic control of the East India Company

[8] Moreland, *From Akbar to Aurangzeb.*

gradually put the terms of trade against the Indians. From the beginning of the era of Industrial Revolution in England, i.e., from 1750 onwards, the entry of Indian manufactures into England was either restricted by heavy duties or prohibited altogether. As the Industrial Revolution got in its stride, India began to serve as a source of raw materials and a market for manufactures. Thus the character of Indian trade gradually changed and she began to import goods she used to export previously, and to export the raw materials for the manufactories of England.

Thus, even before 1857, both the value and the volume of India's foreign trade were on the increase, the imports increased from £6 million in 1835 to £29 million in 1857, and exports from £8 million to £27 million. This rate of increase was accelerated with the beginning of the sixties. The opening of the Suez Canal in 1864-65 brought England nearer to India by 3000 miles. It facilitated the flow of trade between the two continents. From now on, there was a steady and growing influx of British capital and enterprise into India. The abundant natural resources of India, hitherto untapped, now began to be recklessly exploited primarily for the benefit of the British commercial community. The volume of India's foreign trade grew apace. An additional fillip was given to foreign trade by the laying down of railways in India and the linking up of major sea-ports with the hinterland. By this time India has become one unified country, there was peace and order. Mutiny accelerated the roads, the roads expanded the trade. The doctrine of laissez faire removed all customs barriers. From eighteen seventies foreign capital started pouring in. There was a fall in the gold value of the rupee 2s. in 1871 to about 1s. 2d. in 1892, resulting in a development of our exports, specially to gold standard countries.[9] The eighties saw the growth of plantations, coal and other minerals, mostly based on export prospects. The average annual value of imports and exports were Rs. 41 crores and Rs. 58 crores respectively, during 1869 to

[9] That such a fall in the external value of the rupee helped the exports is not accepted by Dr. Parimal Roy (*India's Foreign Trade Since 1870*, pp. 144-76). Also Herschell Committee: 'We cannot see any evidence that the effect of a falling exchange on the country at large in influencing either exports and imports, has over a series of years been considerable.'

1874. During 1889 to 1894, their average annual value were raised to Rs. 98 crores and Rs. 109 crores.

In the later half of the nineties there were many factors reducing the volume and value of our foreign trade ; reimposition of import duties (in 1894), economic depression in England and abroad, war between China and Japan, famine, plague and earthquake (in 1876-97), and the fluctuating exchange movements. The turn of the century again revitalised our external trade. Rise in agricultural and industrial production due to continuously favourable monsoons, and the stabilisation of the rupee at 1s. 4d., led to an expanding foreign trade. There was a slight setback in 1909 due to failure of monsoons and a severe world economic depression reducing the demand for our products.

In spite of the abolition of Company's trade monopoly in 1813, Great Britain continued to be in monopolistic position in India's trade throughout the nineteenth century. 'The investment of British capital in Indian railways and other undertakings and the management of the railways by British companies, British control of shipping and banking, the establishment of trade organisations in the country, such as the British export houses and the European (British) Chambers of Commerce, and the power of directing the fiscal policy of the country, were the principal factors which gave Britain the upperhand.'

The closing years before first world war revealed a tendency towards diversion of Indian trade, on both the import and the export side from Great Britain. The struggle for the Indian market began and what Great Britain lost, continental Europe gained. Before the war, Germany was India's greatest customer after Great Britain, Japan occupying the third position.

During the first world war India's exports and imports both were naturally reduced very much in volume and value. Imports fell more than exports, while the total fall was almost by 50 per cent. The ratio of manufactured goods to total exports increased. If India could manufacture or import machines, she could have developed industrially as fully as Japan had. There were many reasons: (a) trade with enemy countries stopped and with neutral countries

restricted, (b) destruction of belligerent countries reduced their purchasing power, (c) inflation in some countries reduced their trade, and (d) lack of shipping accomodation, rise in freights and insurance charges handicapped trade.

During the war, the position of the United Kingdom in Indian market suffered further deterioration. The result was a decline of the British share of our total imports, from 64·1 per cent in 1913-14 to 45·5 per cent in 1918-19. The war also witnessed the virtual exit of Germany from the Indian market. Japan pushed through and the U. S. A. stepped in and began to supply commodities like iron and steel, hardware, cotton piece goods, glassware, papers, dye-stuffs etc. which had been formerly imported from the U. K. As regards Indian exports, the war, of course, increased the importance of Great Britain in particular and of British Empire in general as a market for Indian goods, thanks to excessive war-time requirements.

The interwar period (1919-1939) can be divided into short stages. The early years were characterised by a trade boom. Indian goods were in great demand and but for the high exchange value of the rupee, exports would have been even greater. As usual, this boom was followed by a depression when our balance of trade became adverse in 1920-22. After 1921-22, Indian trade steadily recovered. The table below shows the trend :

In crores of Rupees (Including re-exports, but excluding Government Stores)

Year	Imports	Exports	Total	Balance
1919—20	222	336	558	+114
1920—21	347	267	614	— 80
1921—22	282	248	530	— 34
1929—30	249	318	567	+ 69

The importance of manufactured goods in the import sheet was less than before, mainly due to the Swadeshi movement and progressive industrialisation resulting from protection, though halting in nature. The Government purchase of stores from India also helped the pace of industrialisation.

British exports to India began to decline more and more till 1931, after which Ottawa agreement and Imperial Preference pushed up her exports to India. Our exports to Britain was more or less stationary but from 1929-30 there was a steady improvement of our position in the British market. Japan went on increasing her volume of imports and exports vis-a-vis India. The share of U. S. A. increased while that of Germany decreased.

The Great Depression of the thirties brought about a 'gradual disintegration of world trade through the formation of economic groups.' The crash in Wall Street in New York, the greatest in history, started a fall in world prices. Behind this immediate cause were other very much deep-rooted ones. One of the most important of these was the maldistribution of gold in the world. More than 60% of it was with U.S.A. and France. The reserves of other countries were depleted, they had to deflate their currencies which brought down prices still further. Competitive devaluation and beggar-my-neighbour policy deepened the crisis. Tariff barriers and bilateral treaties further reduced the volume of trade. The high price of Indian Rupee at 1s. 6d. at a time when other countries were depreciating their currencies discouraged Indian exports. Japan devalued yen and started dumping. This led to the termination of Indo-Japanese trade convention and a boycott of Indian cotton by Japan. It further aggravated the trouble. The adverse terms of trade affected the agriculturists most. The prices of raw-materials fell more than those of manufactured goods, hence there was a greater shrinkage in the value of India's exports than imports. To fill up the gap between exports and imports India had to export a huge amount of gold amounting to over Rs. 350 crores between 1930 and 1938.

In spite of aggressive economic nationalism, high tariff barriers and bilateral treaties, there was a gradual recovery in trade after 1934. This was in the main due to (1) the adoption of recovery plans in U. S. A. and elsewhere; (2) restriction and regulation of the production of raw materials like rubber; and (3) expenditure on armaments due to the fear of an impending war. The Ottawa Pact signed by British Empire countries in Canada in 1932 helped India's trade. It is affirmed that 'in the event of the absence of this agreement with the U. K., not only would this net addition of trade have been lost to India, but over and above this, a further loss would have been inflicted on Indian exports to the U. K. as a result of unequal and

privileged competition from other Empire countries.'[10] In 1934, the Indo-Japanese trade agreement was signed and trade relations with Japan improved. The prices of raw materials gradually improved resulting in an increase in the value of India's exports. Business went on improving till 1936-37 but in 1937-38, there was a setback known as recession lasting till 1938-39 when the armaments race started all over the world. This led to a rise in prices and improvement in trade. Before the start of the second world war and in its early years the clouds of war threatened business. Japan was fighting with China and her demand for Indian cotton fell off. The fall in the purchasing power of the agriculturists which started from depression reduced their demand for imported goods.

As the Second world war proceeded, the picture of Indian trade changed, its volume increased, its composition changed, its direction shifted. Prices of Indian goods rose. Exports went up in 1939-40; and though many markets were lost to India total exports still increased in 1941-42. The table below speaks for itself:[11]

Foreign Trade of India, including re-exports (in crores of Rupees)

Year	Imports	Exports	Total
1940—41	157	187	344
1941—42	173	237	410
1942—43	110	187	297
1943—44	118	199	317
1944—45	204	210	414
1948—49	499	427	926
1949—50	535	546	1081

The above statistics show that India's balance of payments became increasingly favourable. The entire external debt has been paid and sterling balances to the tune of over Rs. 1700 crores were built up. Due to war and partition our foreign trade has attained higher levels both in term of value and volume. Trade has been influenced by the imposition or relaxation of controls by the Government of India.

[10] B. K. Madan, *India and Imperial Preference*, p. 190

[11] It may be pointed out that trade figures of these years do not include purchases made by the British Government nor do they take into account the Lend-lease goods supplied by the U.S.A. or the Reciprocal Aid given by India. The figures are further vitiated by the non-inclusion of the purchases of Railways and of some Princely States.

There was growing deficit in the country's balance of trade particularly with hard currency countries like the U.S.A. This was caused by imports of food, consumer goods, raw materials like cotton and jute and capital goods to establish hydro-electric and multi-purpose projects. Indian currency was devalued in September, 1949, by 30·5% in line with other sterling countries in order to encourage exports to hard currency countries and discourage imports from them. The over-all objective was to reduce trade deficits. This device, along with strict controls on imports, succeeded for some time. Effects of partition on our foreign trade were : (i) increased volume, (ii) trade in land routes increased, (iii) balance of trade and payments became unfavourable, (iv) raw materials and food imports increased. The Government of India therefore took special measures to push up exports. Thus nineteenfifties was preceded with (a) Gorwala Export Promotion Committee, (b) Import Advisory Council, and (c) Devaluation of Indian Rupee in September, 1949.

4. India's Terms of Trade

It is quite wellknown that there is a two-way relationship between the terms of trade and economic development of a country. The terms of trade affect the nature and speed of a country's economic development, and the course of development, in its turn, affects the terms of trade.

By terms of trade is (generally) meant the ratio of export-prices to import prices. If a country's export prices rise and/or import prices fall (or do not rise so much), its terms of trade improve, or become favourable. This means that more of foreign goods can be bought by same or less amount of exports. This also means that more of domestic factors of production or resources are now set free to produce goods either for larger exports or for import-replacement. On the other hand, if export prices fall and/or import prices rise, the terms of trade deteriorate or become unfavourable. This means that less of foreign goods can be bought by same or more amount of exports. This means that more of the domestic factors of production or resources are to be used up to maintain the same volume of imports. Thus, an improvement in the terms of trade leads to added capital formation and a higher rate of

economic development. And the deterioration in the terms of trade reduces the wealth and capital of a nation and lowers the rate of its of economic growth.

On the other hand, the nature, extent and course of development affects the terms of trade. Economic development leads to changes in consumption patterns, technology, factor supply, factor prices, and the competitive or monopolistic elements in market structures. All these would affect commodity prices and thus the terms of trade.

Since no statistics on changes in the average prices of Indian exports and imports can be analysed with accuracy for the period of the East India Company rule, no shift in the terms of trade can be accurately estimated or scientifically established. Yet if we sort out the historical evidences of the trade by the Company in its early days, we can establish, for purposes of the study of history, the process by which the most unfavourable terms of trade was forced on India. During the days when other European merchant companies were trading in India and the East India Company had to compete with them for the goods of the Indian artisans, terms of trade could not (normally) move against India. The question of terms of trade was also not so important as these merchant companies had not much goods to offer. There used to be Indian exports mostly against the imports of gold and silver. The changes in the terms of trade could only be measured under these circumstances, by changes in gold prices or silver prices of Indian exportables, i.e. by changes in the price which these companies offered to the Indian merchants or producers in India.

That was precisely the reason why these merchant bodies were vying with one onother to secure the favour of the Royal Court for sanctions of monopsony or monopoly over regions or commodities or over both. Such a sanction could help them in buying cheap and selling dear and in tilting the terms of trade in their favour.

The situation underwent a qualitative change after the Company captured Bengal and ultimately the whole of India. Henceforth 'methods of power could be increasingly used to weight the balance of exchange and secure the maximum goods for minimum payments.' Thus being 'favourably placed in relation to the individual producer, whether weaver or peasant to dictate terms favourably to himself,' the Company was now 'able to throw the sword into the scales to secure a bargain which abandoned all pretence of equality of exchange.'

Export of cotton and silk goods from India which 'no western looms could rival' was then the main item of the Company's trade. Orders were sent out from London to force the Indian artisans to work in Company's factories. On frequent occasions the artisans were not allowed to leave the factories till the production is finished. Commercial residents were given unlimited power to make the weavers work. For all practical purposes the artisans were turned bond slaves of the Company. And what remains of the classical 'terms of trade' under this situation of vandalism can easily be guessed. No ratio can be established when one-way econonomic drain takes place.

And in the next period when 'investment' was going on in India, i.e. the artisans were being forced to produce goods at wages below the subsistence level and such wages were being paid from the surplus extracted from the cultivators who were also producing at below the subsistence level, the only ratio that could explain the rate of capital accumulation was between changes in these two below-the-subsistence levels. This 'trade' continued till Lanchashire built up textile factories and the manufactured goods started coming into India from England.

For the next period (i.e. since 1850), attempts have been made in recent times to estimate changes in Britain's terms of trade. No attempt was made to calculate the changes in the ratio of export prices to improt prices from India's side. The available statistics analysed Britain's trade with 'outside world', i.e. with all countries including India. Since India was a primary goods producing country, while some of the countries with whom Britain traded were industrialised, these average figures, in actuality, concealed the rate of deterioration in India's terms of trade. These calculations of Britain's terms of trade were made by Imlah up to 1913, from which point Kindleberger continued the calculations uptil 1938. These statistics show an improvement in Britain's terms of trade till the turn of this century, then a slight deterioration in the decade before the world war I, followed by an improvement after 1918. The

reverse trend must have operated in India throughout the period, even before the first world war. The rise of prices of British imports from Germany and U. S. A. averaged out the fall in the prices of her imports from India.

'One way of viewing the gain from improved terms of trade is to consider the difference between what the balance of payments is after prices vary and what it would have been without the price changes, assuming the quantities traded are the same in both situations. Or one might determine the value of the quantity of goods that would have been just enough to offset the effect of price changes so that the balance of payments remained unchanged. For example, on the basis of Taussig's computations of the quantity of imports from 1880-1884 to 1895-1899, it can be said that, if the terms of trade had not improved, Britain would had to export 14 per cent more goods than she actually did to pay for imports : that is, additional exports to the value of £35—40 millions. In currency units this was the British gain from improved terms of trade during this period.' (Bertil Ohlin, *Inter-regional and International trade*).

Economic historians generally agree that substantial part of the increase in Britain's real income can be attributed to a secular improvement in its terms of trade. During the later part of the nineteenth century, Britain was literally reaping the harvests of earlier foreign investment. This increased supply of primary product imports is reflected in the fall in Britain's import prices. The index of import prices for "food, drink and tobacco" from the United States fell from 100 in 1872 to 77 in 1900. and from "areas of recent settlement" it fell from 100 in 1872 to 69 in 1900. The index of import prices for "raw materials" from the U. S. declined from 100 in 1872 to 55 in 1900, and from "areas of recent settlement" it fell from 100 in 1872 to 71 in 1900.

A large part of this fall in the price of imported food stuffs and raw materials between 1880 and 1900 resulted from railway building facilitated by British capital in the U.S., Argentina, India, Canada and Australia. In 1870, there were less than 62000 miles of track in these countries ; by 1900, there were 262,000 miles of track.

This phenomena has led to new researches on the subject of underdevelopment of a country. Some writers and several United

Nations reports have shown that there has been a longrun deterioration in the terms of trade of primary producing nations like India and this has been an important factor inhibiting their development.[12] For example, Prebisch argues that the evidence on prices of exports and imports in the period between the 1870's and 1930's indicates that industrial centres kept the whole benefit of their technical progress, whereas the primary producing countries on the periphery of the world economy transferred to industrial nations a share of the fruits from their own technical progress. Prebisch contends that money incomes and hence prices have risen more rapidly than productivity in industrial countries, whereas in primary producing countries the gains in productivity, although smaller, have been distributed in the form of price reduction or in proportional increases in money income. Prebisch attributes the contrasting behaviour of prices in industrial and primary producing countries to the different movements of primary product prices and industrial prices over successive business cycles and to the greater number of monopoly elements in industrial markets. He asserts that in prosperous periods primary products have risen sharply, but have subsequently lost this gain in the downswing of the business cycle. In contrast although manufacturing prices have risen less in the upswing of the cycle, these prices have not fallen so far in depression as they have risen in prosperity, because of the rigidity of industrial wages and price inflexibility in the more monopolistic industrial markets. It is therefore asserted that over successive cycles the gap between the prices of the two groups of commodities widened, and the primary producing areas have suffered an unfavourable movement in their terms of trade.

In India, the relative shift in the terms of trade between the urban sector and the rural sector internally was equally important as that of imports and exports between two economies. The manufacturing sector in India was controlled by the British capital and a shift in the

[12] U. N. Department of Econ. Affairs (Raul Prebisch). *The Econ. Dev. of Latin Am. and its Principal Problems*, 1950 ; H. W. Singer, "The Distribution of Gains between Investing and Borrowing countries". *American Econ. Review, Papers and Proceedings*, 1950 ; U.N. Dept of Econ. Affairs, *Relative Prices of Exports and Imports of Underdeveloped Countries*, 1949.

terms of trade in its favour can be said to increase Britain's rate of capital accumulation, not India's. Imagine, for example, India exporting jute products and tea, importing fine textiles, medicines and chemicals ; producing rice, fish and handicrafts in the rural sector, and trading in these. Favourable developments in the industrialised sector (improved techniques, higher world market prices) will not much increase the demand for the output of the rural sector. Indeed, in so far as the rise in income of the industrialised sector is shared by domestic workers, the demand for output of the rural sector may even fail, as these workers substitute 'superior' imported consumer goods for home-produced ones. On the other hand, any favourable development in the rural sector will increase the demand for industrial products imported into that sector (either from outside the country or from the industrial sector of the same country) and reduce the demand for output of the rural sector. We can, therefore, conclude with Hla Myint,[13] 'The backward peoples have to contend with three types of monopolistic forces, in their role as unskilled labour they have to face the big foreign mining and plantation concerns who are monopolistic buyers of their labour ; in their role as present producers they have to face a small group of exporting and processing firms who are monopolistic buyers of their crop ; and in their role as consumers of imported commodities they have to face the same group of firms who are the monopolistic sellers or distributors of these commodities.'

5. The Drain Theory Controversy

(An analysis of drainage of wealth from India under the British rule still remains one of the main problems in the study of our economic history.) In the twenties of the present century there developed a sharp controversy between Keynes and Ohlin on the nature of primary and secondary burden borne by the debtor and creditor countries in case of an unilateral transfer of a slice of national income from the former to the latter. Many years before that, at the turn of the nineteenth century, such unilateral transfer from India to England was the main focus of nationalist analysis. The

[13] Hla Myint, '*An Interpretation of Economic Backwardness*, Oxford Economic Papers, June, 1954.

severe famines of 1897 and 1899 put weight to nationalist opinion about the 'drain' of wealth to England and the over-assessment of the land. The 'drain' discussion gained special momentum during eighteen nineties because of the increasing amount of Indian revenue required to pay the Home Charges.[14]

The main exponent of the famous 'drain theory' was Dadabhai Naoroji. According to him, the sad result of the British rule in India was the continuous transfer of wealth from India the colony, to England the Imperial country. Apart from transfer of wealth, the extravagance of Indian administrators and the widespread utilisation of costly British service to the exclusion of the Indians intensified the drain. A very large portion of her national income was taken away annually to England depleting the national capital. This drain had triple evil effects on India : it deprived the people of wealth, work and wisdom ; made the country increasingly capitalless ; and therefore gradually more and more incapacitated for future growth.[15]

No British administrator worth standing was impressed by this drain argument. Lord Curzon described as 'nonsense' the idea that India is bleeding under British rule. Sir John Stratchey thought that the payments made by India are the result and the evidence of the

[14] "Government of India had to pay not only for administration in India but also for several expenses in London, the latter being known as "Home Charge." These payments include the interest for loans (of all types) incurred and annuities on account of railway and irrigation works ; payments due in connection with civil departments in India ; India Office expenses (including pensions) ; Army and Marine charges, effective and non-effective (i.e. pensions and gratuities) ; payments for stores purchased in India ; and furlough allowances. Just before the war the total annual sum involved amounted to about £ 20 millions, and they now amount to some £ 30 or £ 35 millions."

[15] "Whatever revenue is raised by other countries, for instance, the £ 70,000,000 by England, the whole of it returns back to the people and remains in the country ; and therefore the national capital, upon which the production of the country depends, does not suffer diminution. While, on account of India being subject to a foreign rule, out of £ 50,000,000 of revenue raised every year, some £ 20,000,000 or more are carried away to England and the national capital—or in other words its capability of production—is continually diminished year after year." D. Naoroji, *Speeches and Writings*, p. 12-9. For an elaborate and detailed analysis, see Prof. B. N. Ganguli, *Dadabhai Naoroji and the Drain Theory*.

benefits which she derives from her connection with England. In place of constant anarchy, bloodshed and rapine, we have given her peace, order and justice ; and if our Government were to cease, all the miseries from which she has been saved would inevitably and instantly return. Her payments in England are nothing more than the return for the foreign capital in its broadest sense which is invested in India, including as capital not only money, but all advantages which have to be paid for, such as the intelligence, strength and energy on which good administration and commercial prosperity depend.

This Stratchey thesis could not convince the nationalists. In numerous speeches and several books published at the turn of the century the drain and its consequences were fervently discussed.[16]

The most common meaning attached to the word 'drain' was that against the wealth which left India there was no equivalent return in merchandise or treasure. Thus defined, the volume of drain equalled the surplus of exports over imports or the visible balance of trade.[17]

During the ten years (1899-1900 to 1908-09), the value of Indian's exports annually exceeded its imports by an average of £15,051,000. Export surplus by itself may not impoverish a country. In fact, an export surplus is frequently a feature of the trade of a country in the early stages of industrial development. In the years 1903 to 1908 Brazil, Australia Commonwealth, Russian Empire and the U. S. A. all had export surpluses. The real point involved was the utilisation of this surplus. While other countries could use

[16] The principal books were R. C. Dutt's *England and India : A Record of Progress during a Hundred years* (1897), *The Economic History of British India* (1902), and *The Economic History of Victorian Age* (1904) ; William Digby's *'Prosperous' British India* (1901) ; Dadabhai Naoroji's *Poverty and un-British Rule in India* (1901) ; Prithwis Chandra Ray's *The Poverty Problem in India* (1895) ; M. G. Ranade's *Essays on Indian Economics* (1899), and G. Subramania Iyer's *Some Economic Aspects of British Rule in India* (1903).

[17] Economic Drain was defined as 'the surplus of exports over imports' by R. C. Dutt, *India in the Victorian Age*, p. 528, Naoroji, *Poverty and un-British Rule in India*, p. 34 and Digby, *Prosperous British India*, p. 216, G. J. Hamilton, *The Trade Relations between England and India (1600-1896)*, *1919*, p. 136, and Holden Furber, *John Company at Work* (1951), p. 304.

this surplus for capital accumulation, India had to transfer this earned capital to the foreigners in the name of purchasing "immaterial services."

In the calculation of drain sometimes, besides the visible balance of trade, estimates of the interest paid to England on private capital investment and the remittances of European non-officials were being included. Naoroji was doing this in 1901, when he estimated the annual drain to be £30,000,000, although the average export surplus in the preceding four years had been only about £13,000,000 per year.

It has been pointed out by some (e.g. John Mclane[18]) that 'Naoroji, and the other persons who followed him in estimating the drain at £30,000,000, seem not to have understood the mechanics of private remittances.[19]

Dr. Vera Anstey considered Mr. Theodore Morison's discussion on drain as one of the most intelligent analysis on it.[20] Neither of them regarded the drain as impoverishing. On the contrary both of them believed that the money spent of European agencies, railway and defence is on the whole well-spent. Mr. Morison made a distinction between the 'actual' and the 'potential' drain. The actual drain was the export surplus or £15,051,000 per annum from 1899-1900 to 1908-09. The potential drain consisted of, besides export surplus, the increase of the Government of India's capital liabilities in England (£ 4,1930,000 per annum) the 'interest on private capital, earnings of English merchants and professional men, and freights

[18] His Article reprinted in *Contributions to Indian Economic History*, Vol. II, p. 24.

[19] According to him, 'In the first place, private remittances to Europe were not much in excess of fresh European investment in India so that, in balance, the amount of private money leaving India was not large. Secondly, most of the private remittances were made through Exchange banks. The European in India wishing to make a remittance would pay Rupees into the Indian branch of an Exchange bank and receive a bill payable in Sterling in London. The London branch would honour the bill from money received from the sale of Indian goods in the United Kingdom or from bullion imported from India. In either case, the actual transfer of capital would be shown in the trade figures. Thus to count the money remitted privately in this manner as part of the drain would be to count it twice, *op. cit*, p. 25.

[20] Theodore Morison, *The Economic Transition in India* (1911).

earned by English ships in Indian waters.' The potential drain represented the amount by which India's exports would have had to exceed her imports in order to avoid borrowing capital abroad to meet her foreign obligations. Morison estimated the potential drain to be £21,000,000 per annum for the years 1899-1900 to 1908-9. In this estimate he guessed that the amount of foreign capital invested privately in India was at most £2,000,000 or one-half as large as the amount borrowed by the Indian Government in England.[21]

The nationalists noted that the foreign exchange and currency difficulties between 1873 and 1898 added a considerable burden to the amount paid from Indian revenues for the Home charges. Till 1893 India was on a silver standard and England was on a gold standard; India had to meet her obligations in gold. As long as the gold value of silver remained constant this arrangement was more or less satisfactory to India. But after 1883, the value of silver began to depreciate. The result was that India was forced to remit more silver, i.e. more rupees, in order to meet the same obligations in England. In 1873-74, the exchange value of the rupee had been 2s; by 1892-93 the exchange value had fallen to 1s. 2d. This meant that in 1892-93 the Government of India had to raise Rs. 264,780,000 to meet the Home Charges of £16,532,000. Had the old exchange rate of 1873-74 still prevailed, the Government would have had to spend Rs. 177, 529,000 or Rs. 87,260,000 less for the 1892-93 Home Charges. In 1893 a Committee was appointed under the presidency of Lord Herschell to delve into the problem, and in accordance with the Committee's recommendations the Government of India closed the mints to the free coining of silver in 1893. This meant that the Government ceased to add to the quantity of rupees in circulation. The demand for rupees began to grow, the price of rupees rose, and

[21] The surplus of exports was transformed into credit for India through the sale of what were known as Council Bills. When an importer in Europe wanted rupees to pay for his imports from India, he paid sterling to the Secretary of State in London in return for Council Bills. These Bills were then presented at the Government treasury in India where the holder received rupees out of the Indian revenue in exchange for the Bill. In this way the Secretary of State obtained most of the money required to pay the Home Charges.

by 1898 the exchange value of the rupee slightly rose to 1s. 4d.[22] This depreciation of the Rupee from 2s. to 1s. 4d. meant more rupee payments or exports of a larger slice of national income to meet "Home Charges" and thus considerably increased its real burden to our countrymen.

No serious economist would suggest that the "Home Charges" exactly or approximately represented the amount of drain. An analysis of the components of 'Home Charges' would show that some of them were payments which even an independent India would have made. In 1901-02 the 'Home Charges' consisted of the following items.[23]

1.	Railways, interest and annuities	£6,416,373
2.	Interest on debt (excluding that on the railway debt)	£3,003,782
3.	Management of Debt	£48,628
4.	Stores	£1,918,206
5.	Army Stores	£4,383,059
6.	Civil charges, Furloughs, Pensions Allowances, and Miscellaneous	£1,370,903
7.	Charges on account of departments in India	£227,704
	Total	£17,368,635

Theodore Morison has suggested[24] a division of the "Home Charges" between 'economic payments' and 'political payments'. The 'economic payments' consisted of the interest on the railway and the permanent debt, the debt management payments and the stores (items 1 to 4 in the table above), i.e. foreign expenditure of a type which an independent country would have made in the early stages of industrial development. The 'political payments' consisted of military, administrative and civil charges, pensions and allowances (items 5 to 7 in the table above) which an independent India might

[22] After 1898 the exchange rate was maintained for fifteen years at 1s. 4d. with only minor fluctuations.

[23] These figures are compiled by Prof. John Mclane in his article in *Contributions to Indian Economic History (II)* from the Statistical Abstract...1899, 1900 to 1908-9, pp. 70-71, and the Moral and Material Progress Report for 1901-02, pp.134-35.

[24] Theodore Morison, *The Economic Transition in India,* pp. 236-37.

not have spent. On the basis of such a hypothetical division for the year 1901-02 the 'economic payments' was £10,386,989 and 'political payments' was £6,981,666.

If we examine the individual items of the "Home charges" we can properly analyse the drain involved in such payments. Railway charges consistently went on rising, in 1899-1900 it was £5,913,780 ; by 1908-09 it was £8,249,846. But the nature of payments was changing. It consisted of two parts, interest paid on guaranteed lines and interest on loans raised in London for State Railways. While the former was gradually coming down, the latter was moving up. By 1907, the last of the guaranteed lines had been bought up.

And a comparison shows that India borrowed from England at a lower rate of interest that other foreign countries for railway development. Morison has shown that, in the early year of this century, Japan, for instance, paid $4\frac{1}{2}$ to 5 per cent on its foreign loans while India paid about $3\frac{1}{2}$ per cent. Imlah has shown that the yield to British investors on Indian Railways in 1907 was 3·87 per cent ; on Colonial Railways 4.0 per cent ; on American Railways 4·5 per cent, and on other foreign railways 4·7 per cent.[25] Considering all these Ranade also felt that 'far from complaining, we have reason to be thankful that we have a creditor who supplies our needs at such a low rate of interest.' Ranade also said that although there was good cause for complaint about the Home Charges for pensions, administration and defence, 'we should not forget the fact that we are enabled by reason of this British connection to levy an equivalent tribute from China by an opium monopoly.'

What the nationalists complained about was the priority given to railway construction, extravagant expenditure, neglect of irrigation, railways built for military purposes and at the request of British industrialists to open the Indian villages to cheap English manufactured goods, thereby perpetuating a colonial raw material exporting economy.

The nationalists did not consider 'ordinary debt' as economically justifiable, they considered it unproductive and politically-motivated.

[25] Morison, *op. cit.*, p. 239. Albert H. Imlah, British Balance of Payments and Export of Capital, 1816-1913. *Economic History Review,* 2nd Series, Vol. no. 2 (1952).

It had included the £12,000,000 owed to the stockholders of the old East India Company, the cost of suppressing the mutiny, and expenses arising out of other wars. This item was naturally considered totally unproductive to the Indians including the third one, i.e. the debt management. The fourth item was not only a drain, but also a hindrance to the establishment of new industries. Indian manufacturers complained that a change in the stores purchase policy could immensely help them at that time. The remaining three items were of course considered to be drainage by Indian nationalists at the turn of the century. Morison's classification, therefore, cannot stand the nationalists' scrutiny.

Apart from Karl Marx, who in his third volume of 'Capital' referred to this economic drain from India,[26] there were four important western writers in support of the nationalist view point. Mr. H. H. Wilson in his continuation of Mill's History of British India tried to prove that Indian textiles were kept out of British markets by prohibitive duties while India was prevented from protecting her own industry; "The foreign manufacturer employed the arm of political injustice to keep down and ultimately strangle a competitor with whom he could not have competed on equal terms." Had Indian goods not been kept out of England, "the mills of Paisley and Manchester would have been stopped in our outset, and could scarcely have been again set in motion, even by the power of steam."[27]

Robert Montgomery Martin, and Sir George Wingate were quoted

[26] In a letter dated February 19, 1881, to Mr. N. F. Danielson, Marx wrote: 'What the English take from them (Indians) annually in the form of rent, dividends for railways useless to the Hindoos, pensions for military and civil-service man, for Afghan and other wars, etc., etc. —What they take from them *without and equivalent* and *quite apart* from what they appropriate to themselves annually within India—speaking only of the value of the commodities the Indians have gratuitously and annually to send over to England—it amounts to more than the total sum of income of the 60 millions of agricultural and industrial labourers of India." Also, "India alone has to pay £ 5 million in tribute for 'good government', interest and dividends on British capital, etc., not counting the sums sent home annually by officials as savings from their salaries, or by English merchants as part of their profit to be invested in England."

[27] Quoted by R. C. Dutt, *Economic History of British India*, pp. 362-63.

about the exaction of 'tribute' from India.[28] Finally, Brooks Adams' view that plunder from India was instrumental in financing Europe's industrial revolution was accepted.

That portion of the "Home Charges" expended on pensions, furlough allowances, exchange compensation allowances, and on the employment of foreign agency in general, was objected to because it represented to nationalists both a denial of the promises of equality contained in the Queen's Proclamation of 1858 and an extravagant means of running the Government. Dadabhai Naoroji called the exclusion of Indians from positions of responsibility as India's "moral drain." By employing Europeans where Indians could perform the job, he said, the British Government was shunting the capabilities and intelligence of the Indians. In 1900, Naoroji wrote to Lord Hamilton the Secretary of State, hinting that if the pledges of equality were not honoured, India might 'under the persistence of the present evil bleeding fall from the British frying pan into the Russian fire or free itself from a destructive rule.'

[28] R. M. Martin, *The Political, Commercial and Financial condition of the Anglo-Eastern Empire* (1832), Quoted by Dadabhai, *Speeches and writings*, p. 238. "It is impossible to avoid remarking two facts as peculiarly striking, first, the richness of the country surveyed and second, the poverty of its inhabitants. The annual drain of three millions on British India has amounted in 30 years 12 per cent (the usual Indian rate) compound interest to the enormous sum of 723 millions. So constant and accumulating a drain even in England would soon impoverish her. How severe then must be its effect on India where the wages of a labourer are from two pence to three pence a day." Digby's *Prosperous British India*, pp. 81 and R. C. Dutt, The *Economic History of British India*, pp. 289-90, 409-10.

APPENDIX A

Classical Economics and British Tariff Policy towards India

(From Friedrich List, *The National System of Political Economy*)

"Had they sanctioned the free importation into England of Indian cotton and silk goods, the English cotton and silk manufactories must, of necessity, soon come to a stand. India had not only the advantage of cheaper labour and raw-material, but also the experience the skill, and the practice of centuries. The effect of these advantages could not fail to tell under a system of free competition.

"But England was unwilling to found settlements in Asia in order to become subservient to India in manufacturing industry. She strove for commercial supremacy, and felt that of two countries maintaining free trade between one another, one would be supreme which sold manufactured goods, while that one would be subservient which could only sell agricultural produce. In the North American colonies, England had already acted on those principles in disallowing the manufacture in those colonies of even a single horse-shoe nail, and still more, that no horse-shoe nails made there should be imported into England. How could it be expected of her that she would give up her own market for manufactures, the basis of her future greatness, to a people so numerous, thrifty, so experienced and perfect in the old systems of manufacture as the Hindus ?

"Accordingly, England prohibited the import of the goods dealt in by her own factories, the Indian cotton and silk fabrics. The prohibition was complete and peremptory. Not so much as a thread of them would England permit to be used. She would have none of these beautiful and cheap fabrics, but preferred to consume her inferior and more costly stuffs. She was, however, quite willing to supply the continental nations with the far finer fabrics of India at lower prices, and willingly yielded to them all the benefit of that cheapness ; she herself would have none of it.

"Was England a fool in so acting ? Most assuredly, according to the theories of Adam Smith and J. B. Say, the Theory of Values. For according to them, England should have bought what she required where she could buy them cheapest and best ; it was an act of folly to manufacture for herself goods at a greater cost than she could buy them at elsewhere, and at the same time give away that advantage to the continent.

"The case is quite the contrary, according to our theory, which we term the Theory of the Powers of Production, and which the English Ministry, without having examined the foundation on which it rests, yet practically adapted when enforcing their maxim of importing produce and exporting fabrics.

"The English Ministers cared not for the acquisition of low-priced and perishable articles of manufacture, but for that of a more costly and enduring Manufacturing Power."

NINE

Money and Finance

"As a matter of history, capital, as opposed to landed property, invariably takes the form at first of money; it appears as the capital of the merchant and the usurer.' Marx.

1. The History of Indian Currency

A. Attempt at unification (*1750-1835*)

The mercantile policies practiced by the Company on the Indian economy needed the reorganisation of the currency system according to their own convenience. Since Akbar's time, India had bimetallism with gold mohur and silver rupees. In Southern Indian Hindu States, preference was given to gold coins. After the death of Aurangzeb, when India was thrown into a whirlpool of political chaos, an extraordinarily large number of small states sprang up everywhere, each claiming a coin of its own. The result was that, about the middle of the eighteenth century there were in India some 994 types of coins, both of gold and silver, varying in different degrees of weight and fineness. This bewildering multiplicity of coins presented serious difficulties for the flow of trade, internal and external, which these unsettled times further accentuated. Wilson describes the situation as follow: 'According to the trade usage of each different market they (coins) were of different rates of discount, and in order to make exchanges possible the values of actual rupees of every kind were expressible in terms of an ideal rupee known as the current or normal rupee' (*Early annals of the English in Bengal*). In Bengal there were no less than 27 varieties, though *sicca* was the standard legal tender.[29]

[29] In Bengal at the beginning of the eighteenth century, 100 sicca rupees were equivalent to 112½ current rupees. Subsequently, 100 Murshidabad sicca coins, just after they were struck, were equal to 116 current rupees in value. But after 3 years of circulation their value came down to 111 current rupees and these were then called *Sonaut* Rupees. Verelst writes: "At the expiration of 3 years, when these *sicca* rupees, then called *sunats*, pass at $\frac{111}{116}$ parts of the original denomina-

At Madras the English company had a mint of their own, so the variation in the value of the rupee in the early years of the century did not cause them so much inconvenience as in Bengal. At Madras, 89 half ounces of dollar silver could be converted into a little 'more than 218 rupees, allowing 2% for the cost of coining,' and so long as the Mughal court was in the South these passed without any difficulty in Southern India and also in Bengal. On the transfer of the Mughal court to the North after the death of Aurangzeb (1707), the Bengal government no longer required Madras rupees for the remittance of Imperial revenue and their value in Bengal consequently went down, i.e. high rate of *batta* being charged on them for their currency. The Company could not then get the same number of Bengal coins for its bullion as before. In June 1752, they sold bullion to Jagat Seth, at 201 *sicca* rupees for 240 sicca weight and had to give to their merchants 106 Madras rupees for 100 siccas 'which was the lowest batta they could take them at.' 'Early in 1753 siccas were not available at less that 111½ Arcot rupees and 109½ Madras rupees for a hundred. Next year the Cassim-bazar factory complained of 'scarcity of *siccas*'." 'To avoid the difficulty in exchanging bullions the English company tried to obtain permission of the Mughal Emperors, Aurangzeb and Shah Alam I, to have a mint near their settlement at Fort William, pleading that the mints at Raj Mahal, Dacca and Sat-gaon were far from it. The Mughal Government then did not acceed

tion they are carried to the mint chiefly by the shroffs, who received them back recoined, and consequently raised in value to 116, the first and highest denomination deducting the expense and duties of coinage, amounting to something more than 2%. By this operation, the shroffs gained nearly 3/110 parts upon the value of the coin every 3rd year; and advantage confined wholly to sicca rupee. A biennial recoinage is the consequence of this regulation and such has been its effect, that while other coins are defased, the sicca rupee seldom loses anything of its original purity, for the shroffs, who assay metals by the touch, gain the 3/116 parts upon the pure silver." This prevented defasement of the sicca coins, but the other varities of coins which poured into Bengal when it had a favourable balance of trade were very often defased either by some means or by some interested persons. The shroffs or money changers availed themselves of the opportunity caused by this defasement, to charge *batta* at arbitrary rates for the exchange of such coins, and the rate of *batta* varied according to the period of circulation of coins. "The profit thus made, being repeated at every payment," was "a heavy charge on the circulating silver."

tothis request.' The Company ultimately got this permission from Siraj-ud-daulah after their recovery of Calcutta in 1757. The treaty concluded between the Company and Mirzafar also included promises by the Nawab to accept the rupees coined in Calcutta as rent.

The circulation of varieties of coins and exaction of batta by the shroffs were great obstacles no doubt. But the whole currency problem was aggravated by the shortage of silver. Silver was being drained out of the country from 1757 to meet the cost of Company's China investment and their war in other parts of India. Not only the goods were being exported out of Bengal, but the usual annual import of bullion of about 7,80000 was lost to Bengal. Since then, the goods were collected by spending land revenue. 'Between 1708 to 1756 the English Company had sent to Bengal bullion worth £22,83843; but between 1757 and 1797 there was hardly any import of gold and silver to Bengal from England.' The bullion was not being imported for four reasons: (a) The large sums of money received by the Englishmen from the feudal lords and traders of Bengal between 1757 and 1764; (b) The surplus of territorial revenues after the grant of the *Diwani* put them in a position of advantage and bullions from home for their purchases in India were no longer necessary; (c) The other European Companies also stopped importing bullion for their purchases here, because they got sufficient wealth for this purpose by selling Bills of Exchange to the servants of the East India Company who are anxious to remit their private fortunes to England; (d) Bengal bullion was used in Northern India for the purchase of diamond to be remitted to London. The Council in Calcutta repeatedly drew the attention of the Court of Directors in London to the harmful effects of export of bullion (silver) out of Bengal and consequent scarcity of money. The Court of Directors in London did not agree to listen. The Council pointed out to the Court of Directors in a letter dated 25th September, 1769, "from experience it is incontestably evident, that whatever may be the disbursement of the Company, the foreign nations or the private traders, yet so long as silver is exported from Bengal and we receive no adequate supplies by importation, we must expect that the want of currency will become still more and more universal."

The Company in Calcutta made a few abortive attempts to remove the currency abuses. Bimetallism was the fashionable monetary standard in Europe and Lord Clive tried to introduce a bimetallic standard in 1765. He expected that hidden hoards of gold could come into circulation in order to add to the current specie. To induce the people to bring out gold for coinage the legal rate of the gold *Mohurs* was fixed at more than 17% of their market value in silver. The remedy was worse than the disease. The circulation of silver almost disappeared. The Court of Directors strongly condemned this experiment.

Verelst, who succeeded Clive (1767-1769), had to face a serious problem due to currency abuses. He received an application by the principal European merchants of Calcutta to remove the scarcity of specie which was very acute. To remedy this evil, they suggested coining Mohurs, half-mohurs and quarter-mohurs. The Armenian merchants also sent a petition for an immediate coinage of mohurs. Pressed by them, another experiment with bimetallism was successfully conducted in 1769.

Next important step was taken by Hastings in 1777. He prepared regulations to the effect that, 'only one mint shall be allowed for the coinage of money for the use of the three provinces which shall be that of Calcutta, and only Sicca rupees of the present standard be struck in to the mint,' and that, 'all Sicca rupees of the future coinage shall pass for ever without any deduction of *batta* in all receipts of revenue and in all receipts on issue of the Company's treasury. Further, recoinage of gold (after 31st May, 1777) was stopped. But the gold *Mohurs* already coined were to remain in circulation at the usual value of 16 *Sicca* rupees each.'

When Cornwallis became the Governor-General he appointed a Committee in 1777 to enquire into the causes of silver scarcity. In spite of punishment orders against the shroffs, the *batta* system could not be removed. In 1792, Cornwallis appointed a mint committee to enquire into the conditions of coinage in Bengal, Bihar and Orissa. In 1792, Bimetallism was again reimposed in Bengal.

Cornwallis' successor Sir John Shore had also to face the problem of periodic rise in *Batta* which could not be removed at all. Copper coins were introduced gradually in Bengal between 1781 and 1809 by 'regulation 10' of 1809. The Calcutta Mint was asked to coin *pice* for the province in Benaras, valued at 64 per rupee. *Cowries* formed the lowest medium of exchange in Bengal, Orissa and Bihar from ancient days till the early years of the nineteenth century. They were gradually replaced by *Paisa* after that period. The picture of Bengal, Bihar and Orissa typically represented the situation which prevailed in other parts of India.

B. The Period of Experiments (1835-1874)

The Currency Act of 1835 was the culmination point in the desire for a uniform currency system. This Act tried to establish a silver monometallism in India. In 1805, Lord Liverpool published in England his famous book *Treatise on the Coins of the Realm*, which enunciated the principle that only one metal should be the standard and unlimited legal tender, though other metals might also be coined and allowed to circulate at their market value. This led to the coinage reform in England in 1817 and helped in the decision of the East India Company to favour monometallism instead of the prevailing bimetallism in India. The drainage of gold after Plassey also made gold scarce at the turn of the century. By the Act any one was permitted to take silver to the mint and get it coined into rupees weighing 180 ($\frac{11}{12}$th fine) free of charge.

Gold, however, did not entirely disapper from the field. The Act of 1835 authorised the coinage of gold if required by the public ; and a notification of 1841 authorised public treasuries to freely receive gold coins (Mohurs) at their face value, i.e. at a rate of 1 : 15 in payment of public dues. The Australian and Californian gold discoveries of 1848 and 1849, however, led to a huge increase in its supply. Gold became overvalued in the mint as its price fell in the market, and in keeping with Gresham's Law it drove away silver out of circulation. In 1852 the previous notification of 1841 (acceptance of gold for the payment of public dues) was withdrawn. And thus gold was demonetised. Though it saved the Government from one crisis, yet by no means it was an unmixed blessing. There was a great stringency of money in the market, as the supply of silver was falling, while the public demand for money was increasing. The supply of money was further reduced by the diversion of silver to

non-monetary uses and the absence of a credit system which could create money as in modern times. The demand for money, on the other hand, was very high due to rapid monetisation of the economy on account of the gradual extension of transport to interior villages, enhanced revenue demands on the cultivators, the introduction of money rents, commercialisation of agriculture and the growth of towns. The money scarcity was accentuated as India's export trade was expanding because of (a) reformed tariff of 1842, (b) repeal of navigation laws in England, (c) the Crimean War of 1854 which cut off Russian supplies, and (d) the failure of silk crop in 1853 throughout Europe. Accordingly, some of the mercantile people resorted to gold ingots, of a particular weight and shape, which they used as media of exchange. A huge clamour was raised by various Chambers of Commerce in demanding an immediate introduction of the Gold Standard. The demand was all the more strengthened by large imports of gold into India by way of payment for our huge cotton exports to U.S.A. necessitated by the American cotton famine of the sixties. The Bombay Chamber of Commerce, in their report of 1863-64 observed : "There is an increasing tendency to the creation of gold ingot currency, by the natives of this country as a remedy for the defects of the existing silver one" and "that gold bars, stamped with the mark of Bombay banks are for this purpose circulated in several parts of the country.[30]" In 1864, in response to insistent public demand, the Government agreed to receive in payment of public dues the sovereigns and half-sovereigns and to offer the same to its creditors.

The increased demand for money by the public and its diminished supply brought various important effects on the nature of our economic development during this period. Capital of the merchant or of the manufacturer cannot but take the shape of money, unlike the feudal capital, i.e. the landed property. Shortage of money hinders the capital-formation process, its accumulation and liquid movement, thus discouraging both trade and industry.

Theoretically speaking, increased demand for money revealed itself in the commodity market as increased tendency for the supply of

[30] Quoted in B. R. Ambedkar, *The Problem of the Rupee*, p. 42.

goods. The agriculturists, the already pauperised cottage artisans, the impoverished labourers all were in a hurry to sell, eagerly expecting to get hold of coins which were kept scarce. There was a pressure for commercialisation of agriculture. The sales of commodities (especially of the raw-materials) were forced and their prices were thus depressed artificially. The increased need to sell helped the hoarders, traders and money-lenders and expanded the volume of export at unremunerative prices for the producers.

Meanwhile, in 1866 the Government appointed Mansfield Commission to enquire into the 'operation of the currency arrangements which were established under the Act XIX of 1861,' and to report as to 'what may be the advantage as based on expediency, of the introduction of the legal tender of gold in India, in addition to that of silver.' The Commission favoured the establishment of a currency standard based on gold and silver. It also recommended that gold coins valued at 15,10 and 5 rupees should be introduced and popularised in the country. But no action was taken by the Government on the report of the Mansfield Commission. In 1872, Sir Richard Temple submitted a note to the Government demanding the establishment of Gold Standard in India, but again to no effect.

C. *Abandonment of Silver Monometallism* (*1874-1893*)

From 1873 onwards the international status of silver became seriously affected which did not fail to have undesirable repercussion upon Indian currency and exchange. There was simultaneously an increase in the output of silver and its demonetisation by several countries (Germany, Scandinavian countries like Sweden, Denmark and Latin Union countries like France, Switzerland, Belgium, Italy and Greece). Thus a large quantity of silver was thrown out in the bullion market and its value sharply declined. The depreciating exchange naturally affected both the European traders and the Government budget. The continuous strain on the exchanges proved too much for the Government of India. The Home Charges continued to increase but exchange rates continued to depreciate. The price of silver fell from 53d. per oz, (average of 5 years ending 1880), to 39d. per oz in 1893, and correspondingly the rate of exchange fell during the same period from 20·5d to a rupees to 14·9d. A fall in the

rupee-sterling ratio meant that more rupees was to be paid for the same amount of sterling. The Indian budget became a gamble in exchange rate. The Finance Member pointed out that a fall of 1d. in exchange would have meant a deficit of 3 crores of rupees in the budget, while a rise of 1d. would have led to a surplus.[31]

Internally, the large inflow of foreign silver when minted in India increased the supply of money and there was a tendency towards a rise of prices in India. There was therefore a period of rising prices and expanding trade and commerce. But due to exchange fluctuations, this trade and commerce, which was, in the main, connected with exports and imports became speculative in character. The rate of inflow of foreign capital slackened down for 'London is the lending market, and London thinks in gold.' Falling exchange rates reduced the foreign investors's return on interests and profits in terms of sterling. Rising prices also led to diminishing real wages of the wage-earners. Falling value of silver rupees meant more expenses for the Government and consequent heavier taxation of the people, mainly of the ryot than before.

The Herschell Committee was appointed in 1892 to consider the currency and exchange situations of the country and to recommend proper remedial measures. On the recommendations of the Committee, the Government of India in the Currency Act of 1893 closed the Indian mint to the free coinage of silver, while the Indian rupee was retained as an unlimited legal tender. At the same time administrative notifications were issued whereby the Government agreed to accept in payment of public dues sovereigns and half-sovereigns at the rate of 1s. 4d to the rupee, and to issue rupees and notes against sovereigns and half-sovereigns at the same rate.[32]

[31] Herschell Committee Report, para 5.

[32] According to Prof. H. L. Dey, "the object of the currency reforms of 1893 to 1898 was (1) to prevent a further fall in the gold value of the rupee, (2) to familiarise the people of India with the use of gold without forcing it upon them, and (3) to stabilise the Rupee-Sterling ratio at 1s. 4d. per rupee. Obviously these measures were both experimental and transitional. The ultimate aim was the introduction of a gold standard with gold coins and rupees in concurrent circulation at a fixed ratio, the rupee being reduced to the status of full legal tender token money." *Economic Problems of Modern India*, Vol. II. p. 209.

The action served its purpose. Exchange began to rise gradually until the actual rate of exchange reached the point fixed by law (Re. 1=1s. 4d.) in January, 1898. India now ceased to be on a full fledged silver standard. The rupee ceased to be a standard coin although it continued to be unlimited legal tender. There was a gradual divergence between the exchange value of the rupee and the gold value of its silver content. The immediate problem being successfully solved the Government appointed a committee to submit a scheme for the introduction of Gold Standard under Sir Henry Fowler in April, 1898.

The Fowler Committee

Besides the question of introduction of the gold standard, Fowler Committee considered some other proposals. One of these was the suggestion to re-open mints to the free coinage of silver. It was rejected on the ground by the Committee that it would expose the Indian currency system to the same risks and uncertainties as were experienced during 1878-1893. There was one scheme by Lesley Profyn and another by Lindsay—both these schemes aimed at economising gold. Profyn suggested a form of gold bullion standard and Lindsay, what was later known as the gold exchange standard. The Committee rejected both the schemes because there was no precedent in their favour and that the orthodox opinion was against them.

The Fowler Committee favoured the ultimate establishment in India of a Gold Standard with Gold Currency. They proposed (1) that the British sovereigns and half-sovereigns should be made legal tender and current coins in India ; (2) that the Indian mint should be thrown open to the unrestricted coinage of gold into sovereigns ; (3) that the rate of exchange should be permanently fixed at 1s. 4d. ; (4) that rupees should be of restricted coinage and unlimited legal tender and should not be legally convertible into gold ; (5) that gold from the reserves should be freely available in exchange of the rupees whenever the rate of exchange tended to fall below the gold export point ; (6) that coining of fresh rupees should not be undertaken till such time as gold in actual circulation tended to rise above reasonable proportions ; finally, (7) that the profits of rupee coinage should be kept aside as a special reserve, called the Gold Standard Reserve.

The Government of India accepted all the proposals of the Fowler Committee and started taking measures to implement them. And the circumstances gradually led the Government to a system known as the Gold Exchange Standard and not to the system originally aimed at and recommended by the Fowler Committee (i.e. Gold Standard with currency). Let us review the stages of evolution of the Gold Exchange Standard in India.

D. The Evolution of the Gold Exchange Standard (1900-1917)

In pursuance of the Fowler Committee proposals the sovereigns and half-sovereigns were made legal tender throughout India at £1=Rs. 15. Steps were taken to open a mint for gold coinage in India, but the scheme had to be dropped in 1902 mainly because the British Treasury had raised technical difficulty. The Gold Standard Reserve came into existence in 1900 out of the profits of rupee coinage which was resumed that year for the first time since 1893.

In order to implement the recommendations of the Fowler Committee, the currency offices were instructed to circulate sovereigns to the public as far as possible. The results were, however, unsatisfactory. The sovereigns and currency notes circulated at a discount as against the rupees.[33]

Thus the Government of India had to resume coinage of rupees in 1900 on a considerable scale. This necessity led to operations in the London Silver Market. The Act of 1898 was extended for a period of two years 'with the addition of a provision authorising the use of the gold in the paper currency chest in London for the purchase of silver for coinage of rupees.' Thus arose the London branch of the paper currency reserve.

As regards the gold reserve created out of the profits of rupee coinage the idea of the Government of India seem to have been to keep the gold locked up in a special chest in India. But the Secretary of State decided that the gold should be remitted to London and

[33] Special demands for rupees owing to famine conditions and the inadequacy of the supplies of the favourite circulating medium, combined to aggravate the general monetary stringency. *Chamberlain Commission Report*, para 25.

invested in sterling securities. It was held that it would be more useful in London where it would have to be used if an emergency arose. The profits of coinage was thus remitted to London, and put in a reserve called Gold Standard Reserve. In 1906 an Indian branch of the Gold Standard Reserve was created which was to be kept in the form of rupee coins. This was necessitated for meeting the demand for rupees at a short notice and was to be used to prevent the rate of exchange going to premium over 1s. 4d. This was created by holding the profits of the coinage of rupees in the reserve in the form of rupees in India instead of converting them into sterling held in London. It was then that the name Gold Standard Reserve was applied to the two branches of the reserve for the first time, one in India in the form of silver rupees and the other in London in the form of sterling rupees.

Another development had taken place during this period, i.e. the upper specie points were fixed. The practice of shipping gold from India to London (from the paper currency reserve in India to the reserves in London) was found to be needlessly expensive. The expense could be saved by the extension of the practice of receiving gold in London in exchange for rupees in India. In 1904, the Secretary of State, therefore, announced his willingness to sell Council Drafts (called Council Bills) without limit at 1s. $4\frac{1}{8}$ d.—the gold export point from London. Meanwhile, silver was purchased in London out of these proceeds and sent to India to be coined into rupees. Some gold, however, still continued to come to India from Egypt and Australia, and had to be shipped to London. To avoid this expense also, it was decided to offer telegraphic transfers against sovereigns in transit from Egypt or Australia to India.

Thus it was that the upper limit of the fluctuations of rupee sterling exchange got fixed at 1s. $4\frac{1}{8}$d. The exchange could not rise above this point as long as the Secretary of State was willing to sell Council Bills at that price. The exchange rate, however, could fall below the gold export point from India. But normally India had favourable balance of payments and such a contingency was regarded as extremely remote.

Such an occasion arose in 1907. The partial failure of the summer monsoon in 1907 and the general monetary stringency all over the

world which accompanied the American financial crisis in the autumn of 1907 caused the Indian exchange to become very weak. It fell to as low as 1 s. $3\frac{29}{32}$d. on 23rd. November. At first the Government did not seem to know how to deal with such an unexpected situation. But later on, a solution was found in the sale of Reverse Councils in India whereby sterling was made available in India at a rate not below 1s. $3\frac{29}{32}$d. against the payment of rupee in India—the gold export point from India, or the lower specie point. Thus the full apparatus of the Gold Exchange Standard was evolved under this stress of unforeseen emergency. The net result was, the emergence of a system unusually described as the Gold Exchange Standard and not the system originally aimed at and recommended by the Fowler Commission, i.e. Gold Standard with currency.

We can thus conclude and summarise the main features of the new system :—(1) The internal currency consisted of notes, and the rupee, though a token coin, was also the standard of value. There were also small subsidiary coins which were limited legal tender. (2) Sovereigns were also in circulation in a limited quantity. The rupee was convertible into gold only for external purposes at the rate of 1s. 4d. to a rupee. (3) The sterling (gold) value of the rupee was regulated between 1 s. $4\frac{1}{8}$d. (the upper specie point) and 1 s. $3\frac{29}{32}$d. (the lower specie point) through sale of council bills and reverse council bills, respectively. (4) To work this system two reserves were maintained, one in India mainly in rupees and the other in London in sterling. The Indian reserve was constituted by (a) The Indian portion of the paper currency reserve, (b) the silver branch of the gold standard reserve, and (c) the treasury balances of the Government. The London reserve consisted of, (a) the London branch of the paper currency reserve, (b) the gold standard reserve, and (c) the balances of the Secretary of State. This system worked quite smoothly until it broke down during the Great War in 1914-18.

The Gold Exchange Standard system was supported by the British economist Lord J. M. Keynes in his book 'Indian Currency and Finance'. In 1913 a Royal Commission of Indian Finance and Currency was established under the chairmanship of Chamberlain. The Commission submitted its report in February 1914 and approved of the various measures taken by the Government to stabilise exchange. The Commission was of definite opinion that the Gold Exchange Standard was not only workable but also eminently suited for India, because of the absence in this country of a well developed banking system, and on account of its cheapness. Due to the hoarding habit of the people, they considered the gold standard with gold currency proposed by the Fowler Committee as absolutely undesirable. The Commission had no objection in principle to maintaining in India of sovereigns and half-sovereigns, if Indian people genuinely demanded them and the Government were ready to incur the necessary expenses. Among the minor alternations proposed by the Commission were the prompt selling of reverse council bills and the abolition of the silver branch of Gold Standard Reserve. It also emphasized the need for maintaining adequate reserves of gold and sterling securities in London for the purpose of converting internal currency into external or international currency. Before the recommendations of the Commission could be properly considered, the war broke out and the currency system was out of gear.

E. The Defects of the Gold Exchange Standard

The principal defect of the Gold Exchange Standard was that it could not inspire public confidence.[34] Public opinion in India in

[34] Keynes suggested that the Gold Exchange Standard was unpopular because the Indian people failed to distinguish between Exchange Standard and Exchange Management. An exchange standard has been defined by Keynes as a Managed Representative money, the objective standard of which is the legal tender money of some other country, e.g. Sterling Exchange Standard. On the other hand, where the objective standard is not a foreign money but gold but were nevertheless the method of managing the money in question so as to conform to this standard consists in maintaining reserves at foreign centres and in buying or selling foreign exchange at stated rates rather than in buying or selling gold on the spot at stated prices, we have an instance of what Keynes calls Exchange Management. An exchange standard which implies dependence on foreign money is hurtful to national pride, but not exchange management which possesses great technical advantages arising from economy in the transport of bullion and from the avoidance of the loss of interest. Keynes thought that the prejudice shown against the gold exchange standard in India was partly due to a confusion between an exchange standard and exchange management. The fundamental character of the gold exchange standard as a form of exchange management was not clearly understood, and the limitations of an exchange standard were wrongly attributed to the gold exchange standard.

those days demanded the actual circulation of gold coins as a concrete and visible proof of a genuine Gold Standard. What was actually operated in India in the name of the Gold Exchange Standard was a currency system consisting of two kinds of tokens, namely, rupees and notes. The Gold sovereign did not circulate at all. Rupee note were convertible into Silver rupees, but these silver rupees were, since 1893, little better than notes printed on silver. Thus one form of token was convertible into another form of token.

Prof. Buchanan pointed out that the objection had mainly come from Indian manufacturers, especially the cotton manufacturers of Bombay, whose principal market was in China. The Bombay mill-owners association claimed that the change to gold caused, 'an immediate rise of nearly 15% in the rupee exchange rate with China,' and 'drove the first nail into the coffin of the China yarn-trade.' Buchanan also pointed out that, 'the legislation brought definite advantage to trade with Europe, especially with England (the trade dominated by the Europeans)—and an interruption to trade with China (the trade dominated by the Indians). The trade with Europe tended to encourage Indians to produce raw materials and import manufactures, while the trade to China tended to make India the manufacturer.'

Many other defects of the Gold Exchange Standard was pointed out by the Hilton Young Commission. (a) The Gold Exchange Standard was a fair-weather standard. It could last only so long as the price of silver remained at such a low level that the face value of the rupee was greater than its metallic value. If the price of silver soared up, as it did in 1917, the system could not be maintained without entailing very heavy losses to the Government.

(b) The system involved a duplication of reserves, namely, the Indian Paper Currency Reserve and the Gold Standard Reserve, whose normal functions were suspended for the sake of maintaining the stability of the exchanges. The proper function of the Paper Currency Reserve was to ensure the convertibility of the rupee-notes.

In practice, however, both kinds of reserves as well as treasury balances were freely utilised for maintaining the exchange, thereby creating confusion in the Indian currency and exchange system.

(c) The Gold Exchange Standard was not an automatic standard. The expansion and contraction of the currency depended more on the whims of the Government than on the purchase and sale of sterling. The sale of council bills in London was sometimes met by the Government of India with the help of the Government's treasury balances rather than with fresh coinage. Thus, there was no net increase of the volume of currency in circulation. Again, the currency withdrawn by the sale of reverse councils was sometimes partly released by the Government for circulation, even though sterling was not purchased.

(d) The system was inelastic. The expansion of the currency could take place only when council bills were sold in London. But the demand for additional currency generally increased when internal crop-movement took place. Thus, there was a serious time-lag between the actual demand for additional currency and its actual supply. Further, the amount of additional currency that could be made available depended upon the volume of our net excess of exports, and as such it was determined not by the needs of internal trade. Again, the Smith Committee's recommendation, providing for some currency expansion against genuine inland trade bills, could not be given effect to as there was a genuine lack of such trade bills. Similarly, the contraction of the currency depended upon the sale of reverse councils, which could by no means be counted upon whenever the country might have a surplus of monetary circulation. Moreover, actual currency contraction did not invariably follow the sale of reverses.[35]

F. The War Period: The Breakdown of the Gold Exchange Standard

On the outbreak of the first world war, there was a general loss of confidence on the part of the people and a consequent rush for encashment of notes and withdrawls of deposits from the banks. But soon the Government was able to restore confidence by providing

[35] *The Report of the Hilton Young Commission*, para 21.

adequate facilities for encashment of notes and for the withdrawl of deposits from the savings banks. To support exchange, reverse councils to the value of about £9,000,000 were sold.

The trouble began in 1916 which ultimately led to the breakdown of the Gold Exchange Standard. For the success of the system, it was necessary that the Government should be able to maintain the stability of exchange. The Government failed to do so, because an excessive demand for rupees arose at a time when the price of silver was rising very rapidly. The excessive demand for rupees was due to: (i) excess of imports over exports; (ii) the need for making payments on account of troops engaged and for supplies in the eastern theatres of war; (iii) the need for financing purchases in India on behalf of dominions, colonies and America; and (iv) as silver could not be imported to liquidate the favourable balance of trade the demand for rupees was further aggravated.

To meet this growing demand for rupees, the Government had to purchase silver at rising prices. The price of silver rose in 1916 from 27d. per oz. to 43d. This price is significant because at this price the rupee ceased to be a token coin, i.e. the exchange value becomes equal to its bullion value. In 1920, it rose to 89d. per oz.

So high rise in the price of silver was caused by (i) the shortage of supply, (ii) high demand for silver for coinage purposes, and (iii) depreciation of the sterling in terms of dollar due to the unpegging of sterling-dollar exchange in March, 1919.

The results of such rise in the price of silver were serious. From August, 1917, the rupee ceased to be a token coin. The people melted it and sold it as silver. The Government could therefore purchase silver at the new rising price and supply rupees at 1s. 4d. without incurring heavy losses. Moreover, the newly issued rupee coins were fast disappearing from circulation due to melting.

On the 28th August, 1917, the Secretary of State raised the rate of telegraphic transfers from 1s. 4½d. to 1s. 5d. and soon it was announced that the price of the rupee could be changed according to the change in the price of silver. This was virtually the reintroduction of the silver standard. The rate of telegraphic transfers was thus raised from time to time until it stood at 2s. 4d. in December, 1919.

The Government took several other measures such as (i) control of exchange, (ii) purchase of silver, (iii) measures to economise silver, (iv) the purchase of all the gold that was imported from abroad, (v) financial measures like additional taxation, curtailment of capital expenditure and extensive borrowing in India. In spite of all these measures, the Government was unable to maintain the exchange at an artificial level and thus the Gold Exchange Standard broke down.

G. The Babington-Smith Committee : the Post-war Muddle

At the end of the war, in May 1919, a Currency Committee was appointed under the chairmanship of Babington-Smith. Taking into account recent variations in the price of silver and its future possible changes, the Committee recommended 2s. (gold) as a safe ratio which would keep the rupee a token coin. Other advantages claimed for the high ratio were : (i) that it would cheapen imported materials and machinery. Exports, however, would not be discouraged because of the great demand for Indian goods in the world market owing to general shortage of materials and food stuffs. (ii) The Government finances would gain because it would mean a saving of about Rs. 12 crores in the Home Charges.

Apart from these the Committee recommended opening of a mint in Bombay for the coinage of sovereigns and half-sovereigns for the public, removal of restrictions on the import and export of gold and import of silver on private account. They further recommended that the Gold Standard Reserve should contain a considerable portion of gold and that 50 per cent of the gold reserve should be kept in India. Mr. D. M. Dalal, the only Indian member of the Committee, in his minute of dissent recommended 1s. 4d. as the ratio and favoured the issue of two-rupee coins of smaller silver content during the period of high price of silver. The Government accepted the main recommendations of the majority.

The new ratio was adopted from 2nd February, 1920, when the Secretary of State fixed the price of one rupee at 11·30016 grains of fine gold. The 2s. (gold) ratio did not work long. It fixed the price of gold at Rs. 15-14-0 per tola when actually the market price of

gold at the time was Rs. 22-8-0. Hence it was impossible for the Government to supply sterling for long at a rate corresponding to 2s. (gold) per rupee. A great demand for sterling had arisen because of the balance of trade turning against India after 1919. Moreover, there was speculation in foreign exchange. Speculators began to convert rupees into sterling with the hope of making profits by reconversion of sterling into rupees when the exchange fell later. The European community also took advantage by sending their remittances at the new favourable rate and so did the importers of goods by making payments without delay for their imports. All these factors increased the demand for sterling. The result was a continuous fall in the rate of exchange which sank to 1s. 3-13/32d. sterling by July 1921. There were serious consequences on Indian foreign trade.[36] The Government now allowed the exchange rate to adjust to world conditions in order that the Indian prices may not be unduly disturbed. By January 1923, the exchange began to rise again, due to the revival of favourable balance of trade, till it reached the level of 1s. 4d. (gold) in October, 1924. The Government was pressed to stabilise it at that rate. But without doing that, it limited the supply of currency in order to raise the ratio at 1s. 6d. by April 1925. A few months after this, a Royal Commission was appointed under the chairmanship of Lieutenant Commander Hilton-Young "to examine and report on the Indian currency system and practice, to consider whether any modifications are desirable in the interests of India and to make recommendations."

Now, the question may surely arise, why was the Government so attached to the high exchange rate ? 'What they (the India office) wanted was to push up exchange by deflationary measures so that it would be helpful to imports.'[37] And 'helpful to Indian imports' meant 'helpful to British exports'. It were thus the British interests again that were guiding the policy of the Government.

[36] G. D. Birla, *Indian Currency in Retrospect*, p. 13.

[37] Report of the Controller of Currency for 1920-21 points out : "The collapse of exchange within twelve months from the level of 2s. 4d. prevailing in April 1920 to below 1s 3d. was critical for importers, many of whom had ordered goods when exchange was high without fixing their exchange and who were unable or unwilling to settle at the low rate prevailing when the goods arrived."

The idea was to encourage British exports into India by raising the value of the rupee in terms of the English money. "High exchange," said Mr. Ainscough, "places the British manufacturer in a more favourable condition vis-a-vis his competitor in India. On the whole, therefore, his material interest would appear to be best served by the fixation of exchange at as high a rate as may be possible under the circumstances." No wonder that the Smith Committee's report was so favourably received by the British press.

H. The Hilton Young Commission Report : The Gold Bullion Standard (1927—31)

In view of many requests from various quarters a Royal Commission on Indian currency and exchange was appointed in April, 1925, to examine whether any modifications were desirable in the conditions and practice which had come into being and to make suitable recommendations. The Commission was under the chairmanship of Hilton Young and it submitted its report in 1926. The Commission described the existing currency system as follows : "At the present time Indian currency consists of two kinds of token, paper notes and silver rupees, which are mutually convertible. The value of both forms of token currency in relation to sterling is at present being maintained between the gold points corresponding to a gold parity of 1sh. 6d. No obligation has been assumed, but the Government as currency authority have freely purchased sterling when the rate has stood at 1sh. 6$\frac{3}{16}$d., and recently in April, 1926, authorized the Imperial Bank to make an offer on their behalf to sell sterling at 1sh. 5$\frac{3}{4}$d. The stability of the gold value of the rupee is thus based upon nothing more substantial than a policy of Government, and at present that policy can be found defined in no notification or undertaking by the Government."[38]

The tasks set before the Hilton Young Commission were threefold : (i) to propose a currency system best fitted for India ; (ii) to suggest the ratio at which the rupee should be stabilised with the sterling : and (iii) to recommend measures for the establishment of a Central Bank. In fulfillment of the tasks mentioned above, the Commission (i) proposed the Gold Bullion Standard ; (ii) suggested

[38] *Reports of the Indian Currency Committees*, p. 329.

1s. 6d. as the exchange ratio : and (iii) recommended the establishment of the Reserve Bank of India to take charge of the central banking functions.

Before finally proposing the Gold Bullion Standard, the Commission examined the pros and cons of other possible alternatives : (a) the adoption of a gold exchange standard, and (b) the adoption of a gold standard proper with gold currency. All these alternatives were rejected[38] and the Commission proposed a 'gold standard without gold currency' or the Gold Bullion Standard. The Commission wrote :

"It is possible to have a true Gold Standard under which the currency is based on gold both in reality and in a manner that is conspicuously visible, without putting Gold into circulation. The essence of the proposal......is that the ordinary medium of circulation in India should remain as at present the currency note and the silver rupee, and that the stability of the currency in terms of gold should be secured by making the currency directly convertible into gold for all purposes, but that gold should not circulate as money. It *must* not circulate at first and it *need* not circulate ever." (Para 54)

The main features of the Gold Bullion Standard were : (1) The currency authority (the proposed Reserve Bank when established, in the meantime the Government) was to buy and sell gold (under statutory obligation) at certain fixed rates in quantities not less than 400 fine ounces (=1,065 tolas). The conditions of the sale of gold were to be so fixed that normally the currency authority would not be called upon to supply gold for non-monetary purposes. (2) Sovereigns and half-sovereigns were to cease to be legal tender ; rupees to continue full legal tender. (3) Government savings certificates to be issued to people for three or five years, to be paid in rupees or gold at their option. This was to inspire confidence in the minds of the people for the new system, and to bring out the hoarded wealth. (4) The existing currency notes were to continue to be convertible into rupees, the new notes though not to be legally convertible, the facilities for conversion were to continue. (5) One-rupee notes to be issued which were to be full legal tender but not convertible into rupee coins. (6) The Gold standard reserve and Paper currency reserve were to be amalgamated.

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The Commission claimed several advantages for this system of Gold Bullion Standard. (a) It would secure stability of exchange by making the currency convertible into gold at a fixed rate. (b) It was simple and certain ; thus it could inspire confidence. (c) Currency would expand automatically when gold was given in exchange for the rupee coins and notes, and would contract when rupees and notes were given in exchange for gold. (d) Cheap gold would remain in reserve and not circulate. (e) It would pave the way for the introduction of gold currency at some future date when enough gold had accumulated.

The nationalist Indian opinion did not accept these proposals with enthusiasm and various criticisms were made. (a) For the ordinary person, the gold backing was neither visible nor tangible. Only big bankers and bullion brokers could purchase gold in quantities of 400 oz. (b) The purchase of gold from the currency authority was to be worth-while only when it was required for making payments abroad. (c) The provision that the selling price of gold would be higher than its buying price, cheaper in London than in India, clearly meant that the old game of utilising India's gold and gold dues for the benefit of the London Money Market would be continued. (d) The savings certificate system was a poor response to the popular demand for gold coins. The Indian opinion, as before, continued to favour a fullfledged gold standard with gold currency.[39]

Thus the system introduced as Gold Bullion Standard was not really so. There was no compulsory obligation on the Government to sell gold in unlimited quantities. Again, the fixation of a much higher premium for selling gold than for buying gold shows that the Government was more anxious to withdraw gold from the public than to satisfy the public demand for gold. On the other hand, for

[39] Why the Indian opinion always stressed a Gold currency ? According to them the main points in favour of the fullfledged gold standard system were the following : (a) It will be automatic, prices and exchange will be kept in equilibrium with the world by export and import of gold freely as the situation may require. (b) It will discourage the habit of hoarding. (c) It will inspire confidence (d) People want gold circulation as shown by the absorption of imported sovereigns between 1900 and 1914. (e) Gold currency is a necessary stage in passing to Gold standard without gold currency. (See also *Reports, Chamberlain Commission*, Para 56, and *Hilton Young Commission*, paras 34, 56-57).

the first time, the Government undertook a statutory obligation with regard to the sale of sterling. It was thus a gold bullion-cum-sterling exchange standard.

This system continued till 20th September 1931, when Britain was forced off gold standard. On 21st September, the Governor-General issued an *ordinance* suspending the operation of the obligation to sell gold or sterling. On the very same day, the Secretary of State announced the retention of the 1s. 6d. sterling ratio. On the 24th September, another ordinance was promulgated whereby a controlled sterling exchange standard was established, and it was declared that henceforward sterling would be sold not to all and sundry but to some recognised banks and to specified purposes. Thus the Gold Bullion Standard ended its career and the rupee was once again directly linked with sterling.

The new system was called he sterling exchange standard. This meant that so long as sterling itself was on gold, the Indian Currency was on the gold exchange standard, and when sterling was off gold it degenerated into a pure sterling standard. Thus the rupee remained subservient to sterling—appreciating or depreciating with it. In fact, the system might be called controlled sterling exchange standard as sterling was sold only through recognised banks and for particular purposes only.

I. The Sterling Exchange Standard (1931-1946)

Indian Rupee was delinked from gold and linked to sterling in September, 1931. Indian opinion was generally in favour of delinking the rupee from sterling. This might make the value of the rupee unstable, but such instability was better than that associated with an unstable sterling, because this would reveal real situation of the rupee. If, however, the rupee-sterling linking was inevitable, the link was to be established at a much lower rate than 1 sh. 6d. to correct the over-valuation of the rupee. The Government of India claimed that (a) as India had to make large annual payments to England in the discharge of her sterling obligations (i.e. the Home Charges), stability of the rupee-sterling exchange was desirable from the point of view of Indian budgetary equilibrium. This argument was incorrect. Since sterling was bound to depreciate once it lost its moorings on gold, the exchange value of the rupee in terms of sterling was bound to appreciate, if India continued to remain on the Gold Bullion Standard. Thus a smaller amount of rupees would have sufficed to discharge out obligations regarding Home Charges. (b) As India's trade with Great Britain and other parts of the sterling area represented an appreciable part of her total foreign trade, the rupee-sterling link would safeguard at least this part of Indians foreign trade. This argument is valid as far as it goes. But the same advantage could perhaps be secured by a policy of devaluation. What was necessary was to prevent the over-valuation of the rupee in terms of sterling, when the latter depreciated. Devaluation rather than abandonment of the gold standard was the appropriate policy for India. (c) As sterling depreciated in terms of gold, the rupee-sterling link automatically brought about a depreciation of the rupee in relation to gold currencies. It was thus calculated to give considerable stimulus to India's export trade with *gold bloc* countries.

The major defect of the new policy was that by linking the rupee to sterling, the Government of India surrendered the right to determine autonomously the international value of the rupee. The international value of the rupee was just made to depend upon, and to vary with, the international value of sterling. If sterling was allowed to depreciate in accordance with Britain's internal requirements, the rupee would be automatically depreciated to the same extent, irrespective of the requirement of the Indian domestic situation. As the actual turn of events proved, Britain in her anxiety to retain the status of London as an international monetary centre and for other domestic reasons was reluctant to permit more than a very limited dose of depreciation of sterling. The rupee, being kept linked to sterling at the old rate, was thus prevented from undergoing the necessary degree of depreciation warranted by the sharp fall of agricultural prices and India's mounting deficit in the international balance of payments. If the sterling link was at all desirable, some degree of devaluation was clearly necessary for correcting the growing disequilibrium in our balance of payments. Opponents of devaluation discounted the possible anti-deflationary effect of exchange depreciation on the ground that foreign trade formed a very small part of

our total trade and as such it was unlikely that Indian prices would have risen *pari passu* with exchange depreciation. But this argument does not touch the root of the matter. Even if the analytical effect of exchange depreciation might be negligible, there can be no doubt that the widening gap in our balance of payments would have been narrowed by a policy of exchange depreciation. The decision to link the rupee to sterling at the old rate ruled out this possibility.

What were the major consequences of this new standard ?

(1) The linking of the rupee to sterling had the positive effect of diverting India's foreign trade from its natural channels into the sterling area. The Great Depression brought about a disintegration of the multi-lateral trading system based on gold and divided the world into three distinct trading blocs : the dollar bloc, the sterling bloc, and the exchange control blocs of Central Europe. The linking of the rupee to sterling involved the linking of India's fortunes with those of the sterling area.

(2) The most serious consequence was the huge gold exports from India. The linking of the rupee to sterling since 1931 was followed by huge exports of gold. Whereas in 31 years from 1900-01 to 1930-31 India imported (net) gold coin and bullion worth over Rs. 547 crores, in only nine years between 1931-32 and 1939-40, gold bullion of a total value of over Rs. 382 crores was drained away from the country. These gold exports played an essential role in maintaining the rupee-sterling rate of exchange at a time, when due to the great economic depression, India's usual export surplus vanished away. The spokesmen of the Government of India explained this phenomena with two arguments. According to them this was partly due to high prices of gold abroad, and partly also for sales of gold by the Indian people to tide over economic depression. The Government followed a non-interventionist policy in the matter. They put no embargo on the export of gold, nor did they purchase it themselves to build up a reserve for strengthening the monetary standard.

Indian opinion naturally stood aghast in this spectacle of unrestricted gold out-flow at a time when all other countries of the world were trying their utmost to conserve and, if possible, to increase

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their gold reserve. As a large part of this gold represented distressed sales, i.e. gold dishoarding by private persons who wanted to replenish their private exchequer exhausted by prolonged trade depression, public opinion in India took an even more gloomy view of the new development. As London was the usual destination of our exported gold many Indians thought that the rupee was linked to sterling with the deliberate object of draining away India's private gold reserve for the benefit of London money market. Accordingly, demand was raised both by public men and commercial bodies in India urging the prohibition of gold export and the State purchase of private gold offered for sale.

Dr. H. L. Dey explained the export of gold as follows : "There was acute economic distress among the peasants and the zeminders due to disastrous fall of agricultural prices, which led to their savings in the form of gold hoards being drawn upon on a large scale. But (a) due to the ignorance of the villagers about the world prices of gold, (b) pressure of intensive propaganda on the part of bullion dealers in the upcountry centres causing quick dishoarding, and (c) distress sales, the internal price of gold at which it was bought by the bullion dealers was low as compared to the world price. Consequently, the export of gold became highly profitable for the bullion dealers. On the other hand, as economic conditions gradually improved due to the rise in prices and increase in exports, the distress was mitigated, dishoarding of gold declined, disparity between internal and external prices of gold became less and less, and gold exports began to diminish, even though the depreciation of rupee in terms of sterling and gold remained great or kept on increasing......Had a rise in Indian prices of gold and commodities been brought about by a proper degree of inflation, the rupee's internal over-valuation would have been checked and its external under-valuation, in terms of gold and the pound sterling largely eliminated, and gold export would have minimised."

Now the question is, *was the link between rupee and sterling deliberately established for facilitating the export of gold ?* The British opinion argued in the negative, as (they said) the authorities could not be sure before-hand whether the price of gold in terms of sterling would be higher than its price in terms of rupee. Indian

opinion, however, argued in the affirmative. They showed that the authorities took sufficient precautionary measures against a possible higher value of gold in term of the rupee—a situation in which gold would have been exported from U. K. to India. Ordinance VII (1931) restricted the sale of sterling by the Government. Sterling would not be available for the imports of gold or silver. Thus the possibility of gold export from Great Britain was ruled out from the very beginning. The queer provision not only led to huge expenses of gold out of India but manoeuvered India into a position in which she supported the British currency while depreciating her own.

J. Ratio Controversy : 18d. vs 16d.

The greatest controversy was the ratio question which has been called 'the battle of ratios' in the history of Indian currency. The Hilton Young Commission suggested the adoption of 1s. 6d. ratio as they believed that at that rate the rupee prices had already been adjusted to world prices. Their conclusion was drawn from the following facts : (i) From December, 1922 to June, 1924, the rupee price level ranged round a mean of about 176, and the exchange stood at about 1s. 3d. gold ; (ii) From July, 1924 to June, 1925, the rupee price level declined to 157, while the exchange rose to 1s. 6d. gold ; (iii) Since July 1925, while the exchange remained roughly at 1s. 6d. gold, the rupee price-level also remained stationary at 158 and showed some tendency to decline with declining world-prices. As the world price-level had been practically stationary since December 1922, while Indian prices had been continually declining accompanied by rising exchange until the level of 158 was reached, after which both the price level and the exchange rate continued to be stable, the only legitimate conclusion was that an adjustment was reached at the 1s.6d. ratio. The Commission also sought to justify the 1s. 6d. ratio by the following subsidiary arguments : (a) As exchange and prices had been steady for a considerable period, there is a prima facie justification for the assumption that wages had already been adjusted to the price level. The Commission cited the case of Indian jute industry as a proof. (b) The Commission also examined the effect of this new exchange rate on various types of debtors and creditors, and reached at the conclusion that no new burden would be imposed on them.

The Indian public and academic opinion on the other hand, solidly stood against 1s. 6d. and was in favour of 1s. 4d. Sir Purushottamdas Thakurdas in a vigorous minute of dissent severely criticized the Majority's recommendation of the 1s.6d. ratio. He denied that Indian prices had been adjusted to world prices at 1s. 6d., and even then this ratio gave the foreign manufacturers an indirect bounty of 12½%, placing a heavy strain on Indian industry. He argued that 1s. 4d was in force for about 20 years and it should not be changed. There had been no adjustment of wages to 1s 6d ratio and such adjustment, if it has to be enforced by lowering wages, will entail a long and bitter struggle between labour and capital, with consequent disorganisation in Indian economic organisation. It meant an additional burden of 12½% on the large debtor class, who were mainly agriculturists; while the prices of their products would decline, their burden in respect of land revenue would increase enormously. He pointed out that the loss in the payment of Home Charges at 1s. 4d. would be more than made up by increased revenue from taxes on account of industrial and agricultural prosperity. The workers would not doubt lose a bit from the rise in prices but they would gain from continuity of employment made possible by industrial prosperity. He was able to show conclusively that the reversion to 1s. 4d. would be beneficial to Indian agriculture and industry, and hence to the people at large. Other countries were reverting to the pre-war ratios, why not India? There was no doubt that the nationalists were correct. The economic conditions in subsequent years furnished no evidence that 18d rate was in any way conducive to economic progress or stability. In fact, during the Great Depression, it accentuated the fall in prices in India, retarded the recovery and prolonged the depression.

The Government accepted the majority recommendations which were embodied in the Currency Act of 1927. By that Act the ratio of 1s. 6d. was established. On September 20, 1931, Great Britain went off gold. On September 21, the Secretary of State announced the Re. 1=1s. 6d. as the rupee sterling ratio, although rupee was delinked from gold.

The adoption of the Sterling exchange standard and the rupee-sterling ratio at 1. s. 6d.=Re 1 was followed by (i) huge gold exports; and (ii) disappearance of India's usual export surplus. These twin consequences gave rise to a *renewed ratio controversy*. Critics pointed out that the international background in the 1930's was that of a "demoralising scramble in depreciated exchanges." Both the dollar and the franc had undergone drastic depreciation. In such an atmosphere, one should not be surprised that depreciation was regarded as the only and perfectly legitimate means for the recovery of India's export trade.[40]

When the Reserve Bank of India Bill was placed for discussion in Assembly in 1933, several amendments to the ratio clause were tabled by Indian members and a countrywide agitation against the 1sh. 6d.

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[40] The case against depreciation was stated by Dr. J. C. Sinha in his Delhi lectures as follows. (1) It would not remove the disparity between agricultural and manufacturing prices which was a main cause of maladjustments during the depression; (2) the mere raising of rupee prices would not stimulate the demand for our products in foreign markets. The effect of depreciation on export and import prices depends on some important factors: (a) elasticities of demand for exports and imports of the country which has devalued its currency; (b) the percentage which the country's foreign trade bears to world trade; and (c) the degree of deflation in gold countries and the imposition of special measures against exchange dumping. Unlike sterling, the rupee was not important enough to dominate the course of world prices. For all these reasons, Dr. Sinha argued that the stimulation of India's export by exchange depreciation was not likely to the successful.

Prof. B. N. Ganguli has argued, on the other hand, that depreciation was the only appropriate course for India under the circumstances. His arguments may be briefly summarised: (1) The rupee was over-valued in relation to foreign currencies; (2) There is a permanent advantage in exchange depreciation in a period of general deflation in so far as certain long-term cost items fail to rise to the full extent of the depreciation; (3) There is a permanent expansionist effect on exported articles; (4) In a period of general depression, nearly all of the phenomena at issue must be measured in terms of a shrinking base. From a comparative study of the behaviour of prices and of foreign trade in different countries during the great depression, it is found that internal prices had risen higher in the exchange depreciating countries than in stable currency countries. Again, decline in the total volume of foreign trade and in the volume of export trade was much less in 'unstable' currency countries. Thus, although there was no positive economic recovery, exchange depreciation operated as a definite anti-cyclical force.

ratio was carried on by the Indian Currency League. Again in 1935, after the devaluation of the frac and other gold bloc currencies, advocates of devaluation raised the issue in the Legislative Assembly. The Government did not move an inch. Its viewpoint was voiced by Sir James Grigg, the then Finance Member, who said that he would be no party to any 'monkeying' with the present ratio. In 1937-38, the Working Committee of the Indian National Congress also took up the question of the revision of the rupee ratio.

K. *The Reserve Bank as the Currency Authority*

In the meantime, from April 1, 1935, the control of currency had passed from the hands of the Government to the new central bank—the Reserve Bank of India—to whom were transferred the Paper currency and the Gold Standard Reserve. This removed two defects of the Indian currency system pointed out by the Hilton Young Commission, viz., duplication of reserves and division of responsibility for the control of currency and credit. This Bank was required to maintain the 1s. 6d. sterling ratio by buying and selling sterling at specified rates. Clause 40 of the Reserve Bank Act required the Bank of sell sterling to any person who made a demand in that behalf at its office in Bombay, Calcutta, Delhi, Madras or Rangoon and paid the purchase price in legal tender currency for immediate delivery in London at a rate not below 1s. 5-49/64d. for a rupee. This provision was intended to prevent the rupee from falling below 1s. 5-49/64d. (this was obtained by deducting from 1s. 6d. the cost of buying this amount in London), Clause 41 made it necessary for the Bank to buy sterling from any person who made an offer in that behalf at its office in Bombay, Calcutta, Delhi, Madras or Rangoon, for immediate delivery in London at a rate not higher than 1s. 6-3/16d for a rupee (this was found by adding to 1s.6d the cost of transporting this amount from London to Bombay). These two points corresponded to the lower and upper specie points under the Gold Standard. Thus the Reserve Bank Act legalized the existing ratio.

L. *Indian Currency during the World War II*

The outbreak of the World War II in September, 1939, threw the old currency problems into the background and created new ones.

There were exchange control, enormous increase in the volume of currency, and consequent rise in prices, war finance and accumulation of sterling.

What are the major effects of war on currency? These were (i) rush for the conversion of notes, and consequent (ii) rationing of rupees, (iii) issue of one-rupee and two-rupee notes, (iv) issue of new eight anna pieces, (v) issue of new rupee coins with reduced silver content, (vi) withdrawl of old standard rupees, and (vii) the large increase in the circulating media.

We have seen that during the decade before the outbreak of the Second World War, the Government found it difficult to maintain the rupee-sterling rate at 1s. 6d. It was accomplished partly by contraction of currency and partly on account of the export of gold after 1931. The main cause of the difficulty was the serious reduction in export surplus during the period of acute agricultural depression. With the outbreak of the war export surplus reappeared on account of considerable purchase of Indian goods by His Majesty's Government. The Reserve Bank was consequently able to buy sterling in large amounts and there was no difficulty in maintaining the rate at the statutory level of 1s. 6d.

Exchange Control

As in Great Britain, the Government of India also undertook various measures to control exchange. Under the Defence of India Ordinance of 1939 (Part XIV), the Government was authorized (i) to impose restrictions on purchase of foreign exchange; (ii) to acquire foreign exchange, (iii) to impose restrictions on purchases and export of securities; and (iv) to acquire foreign securities. Accordingly the Government required that all foreign exchange transactions should be put through authorized dealers controlled by the Reserve Bank through its newly created Exchange Control Department.

For exchange control purposes, the Commonwealth was regarded as a single currency unit and was called the sterling area. No restrictions were put on the free transfer of funds within this area. The purchase and or sale of currencies outside the sterling area were subject to rigid control.

As the war advanced the privileges of the banks in dealing with foreign exchanges were gradually curtailed. Subsequently, they could only sell exchange, without prior reference to the Reserve Bank for making payments for licensed imports and a few private remittances. A rigid control on imports was instituted. No import was allowed from outside the sterling area without license.

Control on the proceeds of exports from India to countries outside the sterling area was also instituted. The Reserve Bank operated an Export Control Scheme. The objects of the exchange control scheme are to ensure, firstly, that the foreign exchange proceeds of exports are returned to India and not retained abroad, and secondly, that exports are financed in certain specified ways so that the maximum exchange value is obtained.

The balances accruing to Indians (and also to the other citizens of the commonwealth countries) in the U. S. A. had to be handed over to the British Government and constituted the "Empire Dollar Pool" to be utilized for purposes of war. Within 1939-46, India's net contribution to Empire Dollar Pool was Rs. 114 crores worth of dollar. There was control on bullion, securities and foreign currencies.

Expansion of Currency

'Among the various war-time developments in the sphere of Indian currency, the enormous expansion of currency over-shadowed all others by its spectacular character, its wide sweep and its direct impact on the daily life of the common man.' On the 1st September, 1939, there were Rs. 182·13 crores worth of currency notes (issued by the Reserve Bank) in active circulation in India.[41] On the 19th October 1945, this figure stood at Rs. 1159·85 crores. This means an increase of Rs. 977·72 crores or over 53·6 per cent. From September, 1939 to August, 1945, the total absorbtion of rupee coins amounted to Rs. 142·16 crores and of small coins Rs. 67·59 crores. There was also an increase in Bank deposits, which in the case of scheduled banks (only their figures are available) amounted to Rs. 460 crores from the beginning of the war upto 31st March, 1945. Thus during the whole period of the war the total increase in

[41] Active circulation = Total notes issued *minus* notes held in the Banking Department.

circulation was Rs. 1198·64 crores. There was, however, a decline in the velocity of currency circulation due to increased propensity of hoarding engendered by the danger of war. The public, the banks and the business concerns were all anxious to maintain a highly liquid position. But this decline in the rapidity of currency circulation was too feeble to blunt the edge of currency inflation.

M. The Sterling Balance

On December 13,1946, the total volume of sterling securities held in the Issue Department of the Reserve Bank of India stood at Rs. 1135·32 crores, while sterling securities held in its Banking Department stood at Rs. 484·99 crores. Roughly, the Reserve Bank of India held Rs. 1600 crores of sterling securities at the end of the war. This figure is to be compared with the total volume of sterling securities, held by the Reserve Bank in August 1939 which amounted to Rs. 63·94 crores only.

The first question naturally arises *how did the Reserve Bank accumulate such vast quantities of sterling assets within so short a time?* The answer to this question is quite simple. There were two main sources of supply of sterling to India : (1) India's export surplus, and (2) British war expenditure in India. During the war India's imports dwindled while her exports increased steadily. Between 1939-40 and 1944-45, India's balance of trade in merchandise on private account reached the aggregate figure of Rs. 365·03 crores. During the same period the British government made sterling payments to India on account of recoverable war expenditure to the tune of Rs. 1292 crores. Since the rupee-sterling link has been maintained since September 1931, Indian exporters both to sterling areas and non-sterling areas have necessarily been paid in rupees while the foreign currencies purchased by our exporters appropriated by the Reserve Bank. If the foreign currency was sterling, the Reserve Bank's sterling assets automatically increased. If, on the other hand, the foreign currency happens to be dollar or any other currency, the same went to swell the Empire Dollar Pool, while the Reserve Bank was paid in sterling. In this way, on account of India's export surplus, there was accumulation of sterling assets in London.

The second, and more important source of supply was British war expenditure in India. Under the Reserve Bank Act of 1934, the Reserve Bank is under a statutory obligation of converting sterling into rupees and *vice-versa*. This provision while more or less innocuous in normal peace time, proved to be extremely handy for British Government and spelt India's ruin in the abnormal war situation. In the absence of this provision the British and other allied governments would have been forced to raise the necessary rupee finance by other methods. *e.g.*, (a) by exporting gold or capital goods to India, or (b) by selling British commercial investments in India, or (c) by raising rupee loans in India. And, none of the three alternative methods would have been inflationary in their effects. As a matter of fact, however, these non-inflationary methods were not either resorted to at all, or were adopted only to a very slight extent. Capital goods were practically kept non-available for India's imports throughout the war-period. The idea of selling British commercial investments in India was not thought of for a single moment. There was a very limited amount of gold sales in India.

The next question is: *What had been the effects of these huge sterling accumulation on India's economy?* The proximate effect of the accumulation of sterling assets was to expand the volume of note circulation in India to a more or less corresponding extent. This will be clear from the following figures: the total note issue in India which stood at Rs. 109 crores in August 39, rose up to Rs. 1258·26 crores by December, 1946. Sterling assets were responsible for 98·28% of the entire monetary expansion which took place in India between 1939-40 and 1944-45. The disastrous effects of this inflation upon India's economy were then to be attributed to the vast wartime accumulation of sterling assets to the credit of Reserve Bank of India. As Shenoy has put it, "It has been a case of entrepreneurs living upon wage-earners, industry living upon agriculture and other primary producing trades, middlemen living upon cultivators, rationed areas living upon non-rationed areas, and the United Kingdom for whose benefit inflation has been indulged in, living on top of them all."

Secondly, it has been officially claimed that these sterling accumulation has transformed the status of our country from that of a debtor to a creditor. It is difficult to subscribe to this view. The value of foreign capital in India approximately stood at £11,000 to

12,000 million on September 1939. Making allowance for the rise in the value of such investments, by using the security index number which in March 1945 stood at 202·9 (August 1939=100), Shenoy has calculated that the value of our external debt stood at £2274·78 million in March 1945. As against this external indebtedness, the total value of our sterling assets stood at £1,000 million in December 1944.

Thus even at the end of the war India did not become a net creditor nation. There could be no comparison between two investments, i.e., British investment in India and India's investment in Britain. While the former were industrial investments earning annual profits at a high rate and with a power of control over the Indian economy, the latter was in the form of paper deposit in the book-accounts of the Bank of England in the name of the Reserve Bank of India.

Since 1947 the question of repatriation of sterling balances were being discussed by the representetives of two governments and several agreements were signed for the release of sterling for the use by India in making purchases in the foreign country.

N. India and the International Monetary Fund

The International Monetary Fund formally came into existence on December 27, 1945, though it commenced business on March 1, 1947. India was was a founder-member of this Fund. Her quota was put at 400 million dollars. She was given a permanent seat in the Board of Directors of the IMF in the vacancy caused by the refusal of the U.S.S.R to join the scheme. Membership of the IMF involved certain obligations. Firstly, she had to pay to the Fund her subscription of $400 milliion, 10 p.c. in gold and the remainder in rupees and "in the form of non-negotiable and non-interest bearing promissory notes convertible into rupees on demand." Secondly, India was called upon to declare the par value of her currency in terms of gold. That involved, theoretically speaking, a formal severance of the rupee-sterling link. The Government of India decided that the par value of rupee should remain fixed at 1s. 6d. a rupee, and since sterling was also given a fixed gold value, the theoretical gold content of the rupee was defined as 4·14515287 grains of fine gold. In other words, since the dollar-sterling par rate of of exchange was £1=$4·03, the rupee-sterling exchange rate was 1s. 6d., the rupee-dollar rate became Rs. 3·3085194 per U.S. dollar.

India's membership of the IMF necessitated certain changes in the Reserve Bank Act, 1934. Under this Act, the Reserve Bank of India was authorised to buy and sell at a fixed rate only one type of foreign currency, namely sterling. The Reserve Bank of India Act was amended in 1949 which permitted it to hold other foreign securities in addition to sterling.

O. *Devaluation*

On September 18, 1949, Britain devalued the pound sterling from the rate of $4·03 to the pound to $2·80. Simultaneously, the Government of India devalued the rupee to the same extent in terms of U.S. dollar. In terms of U.S. dollar, the exchange value of Indian rupee was reduced from 30 cents to 21 cents. The devaluation of the rupee was officially described as a defensive measure. As nearly 75 per cent of India's export trade is with countries included in soft currency areas ; the refusal to devalue the rupee, while the currencies of most other countries of the sterling block were devalued following the lead of U.K., would have, it was argued, seriously affected India's export trade.

P. *History of India's Paper Currency and the Legal Reserves*

Before the passing of the Paper Currency Act of 1861, note issue in India was comparatively unimportant being the privilege of the three Presidency Banks of Bengal, Bombay and Madras, with a circulation practically confined to these three Presidency towns. These notes were encashable on demand and subject to restrictions both as rsgards their maximum issue and reserves.

The first Paper Currency Act was passed in 1861. The fixed fiduciary system was adopted, the fiduciary limit being Rs. 4 crores, backed by the Government of India Rupee securities. All notes in excess of this fixed limit were backed by equivalent reserves either in coin or in bullion. India was divided into three *circles of issue* with their headquarters in three Presidency towns. Notes were issued in various denominations varying from Rs. 10 to Rs. 10000 and they

were declared to be unlimited legal tender, but only within their respective circles of issue. Notes could be issued to an unlimited extent to the public in exchange for rupees or British gold coins, and to the controller of currency in exchange for gold bullion.

The Paper Currency Act of 1861 was defective in various ways. In the first place, the adoption of the fixed fiduciary reserve system after the British model caused a great stringency in the Indian money market. The Government of India in its zeal for the British system failed to notice the fundamental fact that Britain possessed an elaborate and highly developed banking system which could easily counteract the evil effects of an inelastic currency note-issue system, while India enjoyed very little banking facilities. Secondly, the circle system of note-issue also impaired the popularity of notes. Great inconvenience was experienced in encashing notes when people move from one centre to another, although Government Treasures undertook to cash notes of other circles for *bonafide* travellers and Railway Companies.

In any case, the need for modification of the Paper Currency Act of 1861 came to be felt with the passage of years. The commercialisation of agriculture and needs of trade increasingly expanded the monetisation of the economy. The fiduciary issue limit was raised from Rs. 4 crores to Rs. 6 crores in 1871, to Rs. 8 crores in 1890, to Rs. 12 crores in 1905 and to Rs. 14 crores in 1911. Similarly, steps were taken for the gradual universalisation of Indian notes which naturally increased their popularity which was further enhanced by the provsion of extra-legal facilities for encashment in the different Government treasuries and in the different Presidency Banks with their branches.

The virtual adoption of the Gold Exchange Standard in 1898 introduced a significant change in the composition of the Indian paper currency reserve. Up to 1898, the whole of the paper currency reserve, except of course, the reserve against the fiduciary issue, was held in rupee coins in India. The Gold Note Act of 1898, however, authorised the holding of any portion of the metallic reserve in gold coin. The Currency Act of 1900 authorised the holding of a part of the gold reserve in London. The Currency Act of 1905 authorised the Government to hold the metallic reserves either in gold or in silver, or partly in gold and partly in silver, in London or in India at the discretion of the Government. All rupee coins are to be held in India only.

The Chamberlain Commission of 1914 advocated a radical departure from the fiduciary system of note-issue. But because of war, its recommendations could not be given effect to. Radical modifications were made however on the recommendations of the Smith Committee in the Paper Currency Act of 1920. The fiduciary system was given up and in its place was introduced the principle of proportional reserve. Under the new arrangement metallic reserves were to be at least 54 per cent of the total reserve with the exception of Rs. 20 crores worth of securities held in India. Provision was also made for the issue of emergency paper currency during the busy season. The controller of currency was empowered to issue paper currency notes upto an amount of Rs. 5 crores (latter raised to Rs. 12 crores in 1925) for a maximum period of 3 months, which he was to hand over to the Imperial Bank as a loan at 8 per cent rate of interest.

In 1926, the Hilton Young Commission recommended the adoption of a full-fledged proportional reserve system; the suggestion was incorporated into the Reserve Bank Act of 1934. Under this Act, the Reserve Bank had to maintain not less then two-fifths of the assets of the Issue Department of the Bank to be held in gold coin, gold bullion, or foreign securities, the value of gold coin and gold bullion not being below Rs. 40 crores in value. For this purpose gold was valued at 8·47512 grains of pure gold per rupee or Rs. 21-3-10 per *tola*. In addition to gold and foreign securities, other reserve must be kept in form of rupee coins, Government of India secuiities, 3 month commercial bills exchange, and 15 month agricultural bills. If at any time, the amount of gold and foreign securities fell below 40 per cent, the Bank would have to obtain the previous sanction of the Government, and pay a tax on the amount by which such reserves fell below 40 per cent. The change was only formal and was intended to reflect more accurately the value of our reserves in terms of the official parity of the Indian rupee. That was why simultaneously with the revalution of the gold the minimum reserve of gold had been raised from Rs. 40 crores to Rs. 115 crores.

2. Banking in India : a short history

Money-lending business in India is almost as old as the Rig Vedic civilisation, though we know very little about its methods and importance in those days. It is only from 500 B.C. onwards that we learn more and more of the bankers or *Sresthins* who were found in all important trade centres. The Buddhist literature is full of references to such *Sresthins*. They were organised into powerful guilds which played a very important part in the communal life of those days. These bankers used to lend money to traders, merchants and even to kings, whenever the latter were in financial difficulties, against the pledge of movable or immovable property or personal security.

In Kautilya's *Arthasastra* we get detailed regulations as regards the rate of interest that might be legally charged from different types of borrowers. For loans given against some form of security, the maximum rate was 50 per cent, while the maximum for unsecured loans was 60 per cent. *Dharma Shastras* also laid down that the rates of interest should vary according to the borrower and that only *vaishyas* could take up banking as their profession.

From the twelfth century onwards *hundis* or inland bills of exchange became widely used in India. Indigenous bankers not only helped to finance India's internal trade; they also financed India's foreign trade. The relations between the rulers and the bankers were very close, though in the days of the decline of the Mughal rule in India, the rapacious rulers did not always keep faith with the bankers. Besides the usual functions of moneylending proper, the bankers of the Mughal period had also to do the profitable business of money changing, thanks to the large number of coins, both gold and silver, which circulated in the different parts of India.

It is interesting to note the the parallelism between Indian and European banking in medieval days. In both cases, we find the concentration of wealth in the hands of a few bankers upon whom depended the traders, merchant-adventurers and the princes. The position of the Jagat Seths in India bore a close resemblance to that of the Rothchilds in England.[42]

[42] The contemporary historical work, *Siyar-ul-Mutakherin* refers to their opulence and ifluence: "Their riches were so great that no such bankers were

The European companies and individual merchants frequently borrowed money from the Jagat Seths and exchanged the imported bullion in their banks. In September, 1749, the Dacca factory alone was indebted to the Seths for Rs. 584,000. In March, 1757, before the French lost Chandernagore they had a debt of Rs. 150,0000 with them and in that very year the Dutch borrowed from them Rs. 400,000 at 9 per cent a year. They possessed the monopoly of the purchase of silver or of taking any Arcot rupees in Bengal. William Watts wrote to Roger Drake in February 1753 that the Jagat Seth of Murshidabad was 'the sole purchaser of all the bullion that is imported in this province by which he is annually a very considerable gainer.' Their important source of wealth was the realisation of the *batta*, for exchange of coins, both indigenous and foreign. The English attempts of coining their own money at Murshidabad were a failure. Even after the English had obtained the right of coining money in Calcutta from Sirajuddaulah it was not successful.

The banking house of Jagat Seths used to pay large sums to the Nawabs. And wherefrom they earned this money? The Nawab used to receive rents in Sicca rupees which were coined in current year only. The old Siccas, the coins with dates of earlier years were not accepted by the Nawab. The old coins were to be changed into new coins and stamped anew. Older the coin, the greater was the *batta*. Apart from usury, this was the main source of profit for the bankers from which the could pay large amounts to the Nawab.

The banking house of the Jagat Seths and its branch offices in the main cities of northern and eastern India. Their *hundis* were in

ever seen in Hindostan or Deccan; nor was there any banker or merchant that could stand a comparison with them all over India. It is even certain, that all the bankers of their time in Bengal, were either their factors, or some of their family. Their wealth may be guessed by this only fact. In the first invasion of Marhattas, and when Mir Habib, with a party of their best horse having found means to fall upon that city before Alivardi could come up, carried from Jagat Seth's house two crores of rupees in Arcot coin only; and this prodigious sum did not affect the two brothers more than if it had been two trusses of straw. They continued to give afterwards to Government, as they had done before, bills of exchange, called dursunies of one crore at a time, by which words is meat, a draft, which the acceptor is to pay at sight, without any sort of excuse."

great demand. Bengal tribute of one crore was sent to the Delhi Emperor by Fateh Chand through one single *hundi*. In Bengal, Government received revenue from the Zemindars and Ijaradars through them.[43] Due to political anarchy and the Diwani grant to Company, this banker family had lost all business of revenue transaction and their banking business gradually disappeared.

There were other banking houses too in Bengal and in other parts of India. The Company favoured Bulaqui Das. There were Kashmirilal and Bajnath, Benah Ram, Ghulam Mustafa Munshi, Monohar Das, Dwarka Das and Gopal Das. In the city of Benares there were Raja Bachraj, Baijnath Dikshit Oak, Bhawani Das Sahu, Ramanji Kale, Sheolal Dube and Lala Kashmiri Mal. One Shyam Lal was a banker at Patna.

There were minor bankers too, as *Kothiwalas*, and *Aratiyas* of Gaya and Daudnagar. Lower in status than the minor bankers were common money-changers and money-lenders. They were variously called as Shroffs, Poddars etc.

With the decline of the Jagat Seths and increase in the volume of exports of England, new institutions became necessary. The minor bankers could not afford larger funds, asked for high interest rates, had no branches in London or connections with the London money market. All these factors combined together to establish Agency Houses and European Banks. The Agency Houses were started by the employees of the East India Company, who after accumulating large funds and finding 'their habits better adopted for commercial pursuits, obtained permission to resign their situations and engage in agency and mercantile business.' These agency houses worked as banks of deposit for the Company's servants and also served the

[43] Bolts writes, "when the Zamindars were distressed for a sum of ready money, or a bondsman, in order, upon an emergency, to secure their farms, Juggut Seat was always ready. He likewise obtained the shroffing of all the revenues (that is, 'the examining, sorting and weighing the various kinds of rupees, to fix each to its *distinct species*, discard the refuse, and settle the *batta* upon all, according to the price of the day, in order to establish the value in standard, or *Sicca* rupees'); and upon occasion became answerable to the *Subahdar* or Nabob, at the instance of the Zamindars, for such particular payments on account of their rents as they fell short in; for which he was well paid by a high interest on the sums the advanced."

European entrepreneurs in plantations and trade. These houses invested money in various enterprises then started in India and served as suppliers of capital.

The transition from the European agency houses to European Banks were due to three factors: (a) the need for greater credit facilities among the European merchants in India due to the growing commercial importance of Calcutta, Madras, and Bombay, (b) growth of indigo plantation in Bengal creating a new necessity for loanable capital, and (c) increase in the number of European population with their need for deposit and investment. The first European bank in India was the Bank of Hindustan, started in 1770 by one of the Agency houses of Calcutta, Messars Alexander and Co.

In April 1773, a *General Bank* was established for Bengal under Government patronage, whose main aim was to act as an institution 'through which all the remittances of the revenues shall be made from the districts of the Province'. This Bank did not serve any useful purpose and was abolished in February, 1775. Shortly, another bank, named the *Bengal Bank* was established in Calcutta, quite unconnected with any Agency House. The main function of these banks was the issue of notes, but they also 'tried to introduce cheques'. The first joint stock bank in India with limited liability was started in June, 1786, it was called the *General Bank of India.* One of its articles of constitution provided that it might issue its own notes, but at least one-third of its capital should always remain in specie in the Bank. It had some success at the start but was dissolved in 1792-93 due to withdrawl of Government help and monetary crisis in Bengal as a result of the strain of the third Anglo-Mysore war.

The financial panic of 1791 also adversely affected the other two banks, the *Bengal Bank* and the *Bank of Hindustan.* Government helped them with loans. The Bengal Bank could not properly utilise it, while the Bank of Hindustan prospered for a few years. In 1906 came the *Bank of Calcutta,* ultimately known as *Bank of Bengal* from January, 1809. It had more prestige, it was entrusted with Government Funds, its 'notes alone were recognised by Goverment and it was easily the premier bank in India at the time.' One-fifth of its capital was subscribed by the East India Company which

thereby obtained the right to appoint three of its directors. In 1823, it obtained the right of note-issue. In 1839, it was allowed to open branches and to deal inland bills of exchange but not in foreign exchange.

The Bank of Bombay and the Bank of Madras were established in 1840 and 1843 respectively. A portion of their shares was purchased by the East India Company which thus earned the right to appoint some of their directors as well as the secretary and the treasurer. They were also granted the right of note issue though within some limits. All of them had the monopoly banking. In 1862, however, the right of note-issue was taken away from all the Presidency Banks, though as compensation they were given the use of Government balances in the Presidency towns, free of any charge.

The Bank of Bombay, however, entered into difficulties following its participation in the wild cotton speculation of 1862-65. It collapsed in 1868. The failure of the Bank of Bombay led the Government to impose some further restrictions on the activities of all these Presidency Banks. Accordingly, the Presidency Banks Act was passed. The Presidency Banks were prohibited from dealing in foreign exchange and from foreign borrowing. They could not grant loans for more than 6 months, or on the security of immovable property. They, however, retained their monopoly of government banking.

The Presidency Banks, though they fulfilled their purpose to some extent could not satisfy the need for a true Central Bank. Such a need was being increasingly felt. Keynes argued in 1913 that such a Bank has become an immediate necessity.[44] For a long time there were much talks on the subject of the amalgamation of all the Presidency Banks for the purpose of creating a Central Bank for India but it was only in 1920 that the policy of amalgamation achieved success and three Presidency Banks of India were amalgamated into the Imperial Bank of India.

The Imperial Bank at the time of its inception was not a fullfledged Central Bank, but it was intended to develop into one such. In 1926, however, the Hilton Young Commission recommended the establish-

[44] For his arguments for a Central Bank and other discussions on banking, see J. M. Keynes, *Indian Currency and Finance,* Chapter VII, especially pp. 285-288.

ment of a separate Central Bank to be known as the Reserve Bank of India, while the Imperial Bank was to remain as a big commercial bank divested of all its central banking activities. That recommendation was accepted and since 1935 the Reserve Bank of India has been functioning.

In 1948, the Reserve Bank of India was nationalised in order to implement the Government policy that the Bank should function as a State-owned institution and to meet the general desire that the control of Government over the Bank's activities should be extended to ensure a greater coordination of the monetary, economic and financial policies.'[45]

3. Other Constituents of Indian Money Market

The Money Market and Banking System of India comprised of the following as its four main constituent : (i) The Presidency Banks ; (ii) the European Exchange Banks ; (iii) The Indian Joint Stock Banks ; and (iv) the Indigenous Bankers and money-lenders. The first two of these constituted the European Money-market and the rest under the leadership of Marwaris and Parsees, the Indian or the Native money market. The local moneymarkets, outside the main towns in which European businessmen had offices and where the bulk of the foreign trade was handled were entirely in the hands of Indians.

A. *Exchange Banks*

The importance of exchange Banks in the history of the Indian economy in the nineteenth century lies in the fact that they were constituted as the major instruments by which the Indian money was transferred to London. Prof. Keynes has put it, the Exchange Banks are important[46], 'from the point of view of its effect on the remittance of funds to and from India.'

Exchange Banks were especially established to deal in foreign exchange. Officially, a bank was an exchange Bank if its head office was located elsewhere than in India ; but the distinctive mark of an Exchange Bank was its service in the exchange of one currency into

[45] The Imperial Bank of India was nationalized in May, 1955, in pursuance of the recommendations of the All India Rural Credit Survey (1954).

[46] J. M Keynes, *op. cit.*, p. 198.

another. Keynes divided these exchange banks into two groups, those doing a considerable portion of their total business in India and those which were no more than agencies of large banking corporations doing business all over Asia. 'This second group includes the Compton National d' EScompte de Paris, the Yokohama special Bank, the Deutsch Asiatische Bank, the International Banking Corporation, and the Russo Asiatic Bank. These Banks represent in India , French, Japanese, German, American and Russian interests respectively.' (Keynes, *op. cit.*, p. 206). In the first group there were six banks, the Delhi and London Bank (1844), the Chartered Bank of India, Australia and China (1853), The National Bank of India (1863), The Hongkong and Shanghai Banking Corporation (1864), The Mercantile Bank of India (1893), and the Eastern Bank (1910). Of these two, the Chartered and the Hongkong Bank did a very large business in other parts of the East, especially China ; but that did not prevent their Indian connection from being important. The other four were primarily interested in Indian foreign exchange. No entirely new exchange bank was founded after 1854,[47] in spite of the fact that they made enormous profits. The opposition of these monopolistic banks was the main reason so that no new entry was possible (Keynes, *op. cit.*, p. 208). Keynes in 1913, after a review of the past activities of these Exchange Banks reached 'to the important conclusion that the business of financing Indian trade, so far as it is carried out by Banks with their seat in London, is in the hands of a very small number of Banks. They stand broadly speaking, in an exceedingly strong financial position supported by large reserve funds. In this matter India is now enjoying the fruit of past disasters and of conditions in which the struggle for existence was too keen to allow any but the fittest to survive.'

In addition to its capital and the reserves accumulated from profits, an exchange bank obtained its funds by receiving deposits, both in India and London. But it was a principal object of the exchange banks to obtain as much as they can in London, and they seeked to attract such deposits by offering better terms than an English Bank would allow. The money thus procured were used

[47] The New Oriental Bank was established in 1885 but went into liquidation in 1893.

mostly in the purchase (or discount) of the bills of exchange. Some of these bills were negotiated in London and drawn on India, but bulk of them were negotiated in India and drawn on London.[48]

B. *Indian Joint Stock Banks*

The Indian Joint Stock Banks were defined by Keynes as, "those banks other than the three Presidency Banks registered in India and having their head offices there. This is a confusing group, because a great number of small money lending establishments are registered as Banks under the Indian Company's Act. In 1910-11, 492 businesses were classified as Banks." (Keynes, *op. cit.*, p. 221). The great majority 363 of these small moneylending establishments were mutual societies.

The earlier joint stock banks were usually under European management. All these banks were, on a very small scale, compared with the Presidency and Exchange Banks. The number of joint stock banks increased very slowly during the last century but with the impact of *swadeshi* a large number of banks grew up during the first decade of the twentieth century. The deposits collected from the Indian people increased in amounts and the Government thought it necessary to regulate the activities of these institutions which stood rival to the European Bankers. Keynes pointed out at this time that "The question of Indian deposits is now *important*. They stand for the first time at a figure which is large in relation to the total trade of the country and to the resources of the Government." He also pointed out that "If the banks get into trouble, there will be much more far-reaching effects than could have been the case formerly."

Under the Indian Companies Act, 1913 these banks were required to publish their balance sheets, to audit their accounts and to submit to Government inspection under certain conditions. The Indian Companies (Amendment) Act 1936 made important provisions for regulating the working of banks, such as (i) a bank cannot be

[48] The method of the operation of these banks were discussed in detail by Keynes, *op. cit.*, p. 210. Even Keynes admitted that "there is, *prima facie*, some danger to the stability of Indian financial system in the fact that, its money market is largely-financed by funds raised, not permanently but for short periods in a 'far distant' foreign centre." Keynes *op. cit.*, p. 242.

managed by a managing agent other than that of a banking company; (2) no bank can commence business unless its paid-up capital amounts to at least Rs. 50,000; (3) 20% of a bank's declared profit must be set apart every year for appropriation to a Reserve fund, until it becomes equal to its paid up capital; (4) the cash reserve of every banking company must be at least $1\frac{1}{2}$% of its time liabilities and 5% of its demand liability; (5) Every banking company, other than a scheduled bank, must file a monthly statement to the registrar of joint stock companies, indicating its assets and liabilities.

The Reserve Bank of India in 1934 classified all joint stock Company's banks under either of two categories, scheduled and non-scheduled.

The overwhelming odds againts which the Indian joint stock banks had to fight are far too many to enumerate. The fight represents the struggles of the native capital to free itself from the European dominance. The Central Banking Enquiry Committee summed up the position of our joint-stock banks: "On the one hand, they are looked upon as dangerous rivals by the indigenous bankers, and on the other, they frequently find themselves in opposition to the old established Exchange Banks and the powerful Imperial Bank of India. Placed in this position they have been called the '*Cinderalla*' of the Indian Banking system. These banks were handicapped both in the enjoyment of deposits and in the matter of securing proper business for themselves. They were not entrusted with any part of the Government's balances or with the funds of Courts of Wards, Universities, Colleges, Port Trusts, Municipalities etc. The commercial life was controlled by the foreigners or by the Indian traders, all of whom preferred the Imperial Bank or the foreign exchange banks in matters of deposits and advances."

There were several other handicaps as follows: (a) the lack of genuine trade bills and the absence of bank acceptances. The latter is due to the absence of warehouse receipts and of proper railway receipts; (b) Statutory restriction on clean advances against the personal credit of the borrowers only; (c) the restriction of the right of entry into clearing houses; (d) the fact that banking business is conducted in English which is unknown to the great bulk of the Indian people; (e) the difficulty of lending on mortage because of the complicated system of ownership of immovable property under Hindu and Muhammedan Laws, and also because of the limited scope of equitable mortgages which are valid only in the Presidency towns.

The development of joint stock banking in India has been characterised by a crop of bank failures. The sudden spurt in bank business after the *Swadeshi* movement, but no simultaneous growth of savings and investment led to insufficient deposits and advances. Keynes, writing in 1911-12, forecasted the impending bank failures.[49]

The first epidemic of bank failures took place during 1913-14 when the Punjab People's Bank, with nearly 100 branches went into liquidation. By 1924, altogether 161 Banks had failed since 1913, including the Allaince Bank of Simla. Another sensational bank failure was that of the Travancare National Quilon Bank Limited, during the thirties. There have been many bank failures since 1946. The acute slump in stock markets, following the great Calcutta massacre of August '46, was the immediate cause of these bank failures, which were mostly confined to north-eastern India. In the early stages, failures were mainly confined to non-scheduled banks, but later on even middle-sized scheduled banks were involved. Between Rs. 30 to 40 crores of public deposits were affected by these bank failures.

[49] "These figures reveal, in my opinion, an exceedingly serious state of affairs, if they could be brought up-to-date, they would probably appear even worse. As late as 1900 these banks were comparatively insignificant. Since that time, they have succeeded in attracting so large a volume of deposits as to make them an important part of the banking system of the country. Only six of them date back long enough to remember any real financial crisis in India, (for the depression of 1907-8 was not accompanied by the symptoms of financial crisis). Growing up in smooth times, they have thought more of attracting deposits than of retaining cash reserves, and in 1910 we find sixteen Banks with deposits of £17,00,000 and cash reserves of not quite 11 per cent. Even of these reserves the greater part is probably held by the older and more established of the Banks belonging to this class. In the case of the smaller Banks, dealing, as they are, with clients to whom banking is a new thing and in a country where hoarding is still dominant, the cash balances seem, from the available indication, to be hopelessly inadequate, and it is hard to doubt that in the next bad times they will go down like nine pins. If such a catastrophe occurs, the damage inflicted on India will be far greater than the direct loss falling on the depositors. The growth of Banking habits in India, is, of course, of the utmost importance to the country's economic development. A startling series of failures, will do much to retard it."

C. Commercial Banking : Second World War and after

As in other spheres of our economic life, the impact of the World War II on the Indian Banking system was all-pervading. The war-time trends in our commercial banking followed, in many respects, the pattern of developments witnessed elsewhere, though in some respects the Indian scene presented a sharply contrasting picture.

The foremost among them was an abnormal swelling of commercial bank deposits, which was more or less a reflex action of huge wartime expenditure in India. The total demand and time-liabilities of scheduled banks in India rose from Rs. 245·68 crores in 1939-40 to Rs. 1024·34 crores on 28th June 1946. Thus, there was a more than four-fold increase in the volume of commercial bank deposits during the war.

Secondly, within this increased total deposit there was the preponderence of demand liabilities, which rose from 100 in 1938-39 to 449·9 in 1944-45, while the volume of time liabilities rose from 100 to 180 during the same period. This increased preference for demand deposits was chiefly due to two factors : (a) an over-all preference for liquidity due to a general sense of uncertainty generated by war, (b) low rates of interest on time deposits on account of the cheap money policy of the Government.

Thirdly, there was an enormous increase in the number of branches of various banks in India. In 1938, there were only 1471 banking offices which increased to 5266 at the end of 1945. These branches were concentrated in a few bigger towns and did not go to the villages to help the rural capital formation by mobilisation of savings and their channelisation into investments.

Fourthly, the war also witnessed thorough changes in the distribution of banking assets. 'Advances' and 'discounts' by commercial banks declined in importance, though not as severely as in England. This was due to (a) the dwindling volume of foreign trade, (b) the growth of liquid assets in the hands of individuals and business firms, and (c) financial assistance by the State to the entrepreneurs in war-time industries. The loss of revenue on this account, however, was more than made good by increased holdings of government securities. As Dr. S. K. Basu has observed, this replacement of advances by securities reflected a fundamental change in the traditional function of commercial banks. Their business appeared to be no longer the financing of trade and industry, but the running of specialized investment trust in all manner of government securites. They have been transformed from providers of short-term capital to industry to providers of long term funds for Government.

And lastly, the ratio of cash reserves to total deposits also steadily increased. The liquidity ratio of Indian scheduled banks (i.e. ratio of cash+investments to deposits) which was as high as 56% in 1939, increased to 75·3% in 1943. The partition of India was another big landmark in our banking history.

The Banking Companies Act 1949 attemepted to consolidate with certain modifications, the relevant provisions concerning banking companies; it also contained several new provisions for the regulation of banking. This act was subsequently amended in 1950 and 1956. The control of the Reserve Bank over the banking system as a whole increased with these acts and amendments. The task of protecting the interest of the depositors was also undertaken by the Reserve Bank. Discrimination against Indian banks by the foreign countries was also sought to be removed.

D. *Indigenous Banking*

Indigenous banking in India was purely a family business conducted along hereditary caste-lines. The Jains, the Marwaris, the Chettis, Khatris, and the Sikarpuri Multanis were the principal castes engaged in indigenous banking in the different parts of India.

Indigenous bankers, however, should be distinguished from rural money-lenders. While the former received deposits and dealt in hundis, the latter did not do so. Secondly, while the indigenous bankers financed trade and industry, the money-lenders primarily financed consumption only. Thirdly, the indigenous bankers were more violant about the purposes of any particular loan than the money-lenders. Lastly, repayment was more punctual and the rate of interest was generally lower in the case of indigenous banking than in the case of money-lenders. On the other hand, indigenous money-lenders and bankers were alike in that both are disorganised, both are scattered and obiquitious and both are adapted to the regional and hereditary traditions, habits, customs and needs of the people.

The rapid commercialisation of agriculture, impact of high land taxes leading to famines and land transfers, introduction of what appeared like proprietory rights in land by the British, concentration of land in fewer hand—all these set the rural stage ready for capitalist agriculture. But the increase in population and gradual ruralisation of the people leading to increased subdivision and fragmentation, along with the doubtful proprietory rights of the actual tillers and the intermediaries—all these prevented the intensive capitalisation and largescale farming of agriculture. There was no concentration of land holdings, yet ownership gradually became concentrated in fewer hands through money-lending. The usurious capital increasingly financed the village trade and also evolved itself into indigenous banking. The indigenous bankers used to discount agricultural paper and *Hundi* Bills dealing with internal trade. Their business method was generally not up to date, yet popular, relatively elastic and more informal. They relied more on personal credit than against what would be called the first class bills or security. Some of these bankers had also offices and branches in several parts of the country, and especially in all the important trade centres. Again, though their activities were quite independent, some of them were organised into guilds or associations of ancient origin, the main function of which was to settle disputes. They used to rely more on experience and family tradition, their establishments were small and economical. Their close touch with and personal knowledge of their clients enabled them to advance loans more rapidly than the ordinary commercial banks. They received deposits from the public, either on current account or for fixed terms, and used to pay interest on them at rates varying between 3 to 9 per cent. As they seldom failed to make payments; whenever demanded, they enjoyed a high degree of prestige and esteem among their clients. Some of these bankers, especially the Multanis and Marwaris relied more on their own resources than on public deposits. In times of emergencies or temporary shortages, these indigenous bankers also borrowed funds either from the Imperial Bank or from one another.

From the beginning of this century, the European Banks wanted to associate the Indigenous bankers with their activities mainly for two purposes : (a) to draw the wealth earned through usury into the commercial and industrial use, and (b) lending money to the indigenous bankers in order to receive back a portion of high interest earned by them.

The Central Banking Inquiry Committee (1931) recommended that indigenous bankers be entitled to rediscounting facilities by the Reserve Bank of India. They also suggested that these indigenous bankers should be utilised by the Reserve Bank, the Imperial Bank and the other joint stock banks as their agents for the collection of bills and cheques. In 1937 the Reserve Bank of India made certain proposals for linking up the indigenous bankers with the Reserve Bank. Its original scheme contemplated indirect linking of the indigenous bankers through the scheduled banks but this was subsequently revised more or less on lines suggested by the Central Banking Inquiry Committee.

4. Central Banking in India in Retrospect

A. The history of the Origin of the Reserve Bank of India

The Reserve Bank of India which came into existence on April 1, 1935, represented the culmination of a long series of efforts to set up an institution of this kind in the country. Perhaps the earliest reference to the need for setting up a Central Bank may be traced to a Despatch from Warren Hastings in 1773 recommending the establishment of 'General Bank of Bengal and Bihar.' In 1836 'a large body of merchants interested in the East Indies' submitted to the Court of Directors of the East India Company a project for a 'great Banking Establishment for British India'. Such a Bank, 'confining its transactions strictly to banking principles and business,' and 'established by Act of Parliament and possessed of adequate capital, would, under judicious management and control, become an instrument of general good by facilitating the employment of a portion of redundant capital of this country (England) for the general improvement of Indian commerce, giving stability to the monetary system of India, and preventing those occasional fluctuations to which it is at present subject, and also by affording the

Company facilities and advantages in their future financial arrangement.' It was also to 'facilitate the receipt of the revenue and its subsequent diffusion through the various channels of public expenditure, furnish the remittance to Great Britain of the sums required there for the "Home Charges," and enable the East India Company to act up to instruction of the legislature by keeping their Government entirely aloof from that interference with the Commerce of India which the present system of remittance involves...... At present the basis of the Bank of Bengal is too narrow for such a customer as the Government'. From 1860 to 1876 the possibility of the Bank of Bengal's developing into a 'Bank of India' was constantly in the air, successive financial Members of Council being not unfriendly to the idea. In 1867 a specific proposal for the amalgamation of the three Presidency Banks was laid before the Government of India in a memorandum with complete graspe and mastery by Mr. Dickson, celebrated for pre-eminent ability as Secretary and Treasurer of the Bank of Bengal. The Viceroy's minute was unfavourable, in his opinion it will be neither suitable nor manageable.[50]

Before the Fowler Committee of 1898, there were some discussions on the proposal for a Central Bank in India. These were supported by a few of the witnesses ; but apart from Mr. Hambro's memorandum, no attempt was made to deal with the question in detail.

Keynes in his book, *Indian Currency and Finance* (1913) summarised with much vigour the arguments for a State Bank in India. He wrote : "At the present time the arguments in favour of a State Bank of India are very strong,—far stronger than they were in 1867 or even in 1868. The Government have taken over so many of the functions of a Central Bank, that they cannot wisely neglect the rest."[51] The Chamberlain Commission in 1914 included in their

[50] "I submit that it is not for the interest of a State that a great institution of the kind should grow up for all India, the interests of which may in time be opposed to those of the public, and whose influence at any rate may overshadow that of the Government itself. A Bank of such a character would be very difficult to manage. Few men in India would be found equal to the task. And as regards the interests and convenience of the merchants of Bombay and Madras, surely it is only natural that they should prefer separate Banks for those important centres of commerce". Quoted in J. M. Keynes, *Indian Currency and Finance*, p. 234.

[51] J. M. Keynes, *op. cit.*, pp. 235-9.

report a comprehensive memorandum by John Maynard Keynes, one of their members, which proposed that the three Presidency Banks should be amalgamated into one Central Bank to be called the Imperial Bank of India, which would undertake the function now generally associated with a Central Bank. In the later stages of the first world war, with its increased demand on India's financial resources, the necessity of a central institution became more apparent, and the Imperial Bank Act was passed in 1920 on the general lines of the Keynes' Memorandum. Thus, although the Reserve Bank of South Africa was the first Dominion Central Bank to be established (1920), the seed of a central banking institution for India was also planted at the same time.

As it happened, the scheme could not materialise. The underlying intention that the Imperial Bank should gradually take over the currency and other central banking functions could not be fulfilled as, in the meantime, central banking theory had developed on the lines which stated that it was unsuitable that a bank which had important commercial functions should also be the central bank of country. The Hilton Young Commission was of opinion that an entirely separate institution should be created, to be called the Reserve Bank of India, and that the Imperial Bank should be more completely commercialised and should merely operate as the agent of the Reserve Bank of India for the routine management of the Government accounts.[52]

Much controversy centred round the question of who should be the controlling authority of the new institution. The Hilton Young Commission (in paragraph 9 of their report) suggested that the shareholders of the Imperial Bank should be given the first opportunity of subscribing for the capital stock of the new bank, which, of course meant, in view of the large holdings under the control of the firms which constitute its directorate, that it would have had the full effective control from the start. The Government of India immediately rejected this suggestion as politically impracticable. In the Indian Legislature strong opposition developed to the shareholding conception itself, which was intrinsic in the proposals of the Commission. The Legislature wanted a State Bank.

[52] 'That it took nine years for this new line of approach to reach its goal was due to more than one reason. Attached to the report of the Hilton-Young Commission was a Minute of Dissent from an influential Indian member whose views in economic and monetary affairs commanded, and have continued to command, very great respect, and who opposed the creation of a separate Reserve Bank as an unnecessary excrescence on the Indian banking system and recommended the gradual evolution of the Imperial Bank on the lines previously contemplated. Among Government circles also there was powerful support for this view.' Sir Chintaman D. Deshmukh, *Central Banking in India, A Retrospect*, Gokhale Institute, pp. 2-3.

The Commission had opposed the idea of a State Bank on ground of principle ; as a State Bank, responsible to the Central Legislature, would be peculiarly open to political pressure and as such the monetary policy of the country would be dictated by the party in power at a particular period of time. Further, the Commission observed that, in view of the diversity of local conditions in the different parts of India, the American federal reserve system rather than the British unitary system was most appropriate to Indian conditions. There should be different local boards as well as a central board with a majority of members elected by the shareholders, to manage the affairs of the Central Bank in the country as a whole and not of certain predominant financial centres.

The report of the Central Banking Enquiry Committee published in 1931, laid strong emphasis on the early establishment of a Reserve Bank, and in 1933, in the round table discussion, the scheme for the creation of a Reserve Bank was again brought forward, but from a new standpoint. The question at issue was that of transferring financial responsibility at the centre to an executive responsible to the legislature, and it was thought by Government sponsors of the scheme that, if a body of shareholders should be created, they would produce a directorate which would operate as an internal safeguard against any rash financial or currency experiments. The successful institution and functioning of a Reserve Bank was therefore, made a prerequisite to federation, and it was on this basis that the Reserve Bank Bill was placed and passed into law early in 1934.[53]

[53] "The students of economic history of those times will always regret the delay that took place in the establishment of the Reserve Bank. Had it come into existence earlier, India might have been spared action by the government in the field of currency and exchange which proved injurious to India's interests. How the rulers

B. *The Reserve Bank of India*

The Reserve Bank of India was started as a private shareholders' bank with a total share-capital of Rs 5 crores divided into shares of one hundred rupees each fully paid up. Five separate registers of shareholders were maintained in each of the following centres, Calcutta, Madras, Bombay, Delhi and Rangoon. Each shareholder had one vote for every five shares, subject to a maximum of 10 votes. The bank started with five offices, one each in Calcutta, Bombay, Rangoon, Madras and Delhi.

The general management and superintendence of the Reserve Bank was entrusted to a Central Board of Directors consisting of 16 members, while a Local Board of Directors with mainly advisory functions consisting of 8 members was set up at each of the five centres. Fifty per cent of the Central Board, including the Governor the Deputy Governor of the Reserve Bank, represented Government nominees. A further provision which sought to safeguard the public interest was one empowering the Government to supersede the Central Board, if in its opinion the Board failed to carry out any of the obligations imposed on it by Statue.

The main functions of the Reserve Bank of India were described as follows: (1) The bank may accept deposits, free of interest from the Government, local authorities, banks and any other person. The provision as regards interest is necessary in order to prevent the Reserve Bank from competing with commercial banks. (2) The Bank may purchase, sell and rediscount bills of exchange and promissory notes, arising out of *bona fide* commercial transactions or of trade in Government securities bearing two or more good signatures, one of which must be that of a scheduled bank, and maturing within 90 days from the date of such purchase or rediscount. (3) The bank may purchase, sell or rediscount agricultural bills, maturing within 9 months, but one of the two signatures is to be that of a scheduled

of India tried to maintain a 2s. gold rupee and failed miserably is well known. The 2s. gold rating was a last minute brainwave of members of the permanent staff of the India office, and once it was accepted, was rammed through with the wooden obstinacy and maladroitness often exhibited by that office." C. D. Deshmukh, *op. cit.*, p. 4-5.

bank or a provincial co-operative bank. (4) The bank may make loans and advances to native states in India, local authorities, scheduled banks or provincial co-operative banks, repayable either on demand or on the expiry of fixed periods not exceeding 90 days, against trustee securities, gold or silver, eligible paper, promissory notes of scheduled or co-operative banks supported by documents of titles of goods. (5) The bank may make ways-and-means advances to the Central or the Provincial Governments repayable within 90 days. (6) The bank may purchase or sell securities of the Government of India and of the U. K; subject to certain fixed maximum. (7) The bank may act as an agent of the Secretary of State, or of the Central Government or of Local Governments in the matter of purchase and sale of gold and silver, management of public debt, etc. (8) The bank may also enter into agency agreements with central banks elsewhere. (9) The bank may borrow money for a period not exceeding one month from scheduled banks or other central banks. (10) The bank is also endowed with the monopoly of note issue, subject to certain conditions. (11) The bank is also authorised to rediscount rupee import bills when they come into existence and to conduct open market operations.

The Bank is prohibited from: (1) engaging in trade or having a direct interest in any commercial or industrial undertaking (except temporarily to satisfy its claims); (2) purchasing its own shares or of any other bank or company, or from granting loans on such securities; (3) advancing money on immovable property or from owning such property (except for its own business premises); (4) allowing interest on deposits; and (5) drawing or accepting bills payable otherwise than on demand.

Although the Reserve Bank of India is based more on the American than on the British model, in one vital respect, it resembles the Bank of England, in that the Issue Department is completely separated from the Banking Department. The proportional reserve system was accepted as the fundamental principle of note issue. India's membership of the International Monetary Fund necessitated certain amendments of the Reserve Bank Act, 1934. The Reserve Bank, after amendment, could hold other foreign securities in addition to sterling. The term 'foreign' securities replaced 'sterling' securities with effect from 1st January, 1949.

The separation of Burma from India and subsequent division of India into Indian union and Pakistan, as well as the integration of the Princely States with the Indian Union have, over the course of years, altered the area of operations of the Reserve Bank. After the separation of Burma in April, 1937, the Reserve Bank of India functioned as the currency authority of that country till June 5, 1942 and as bankers to the Government of Burma till march 31, 1947. After the partition of the country, the Bank rendered central banking services to the Dominion of Pakistan till June 30, 1948.

In view of the need for close integration between its policies and those of the Government, the question of State ownership of the Bank had been raised from time to time. It was only with the attainment of independence, however, and in the changed climate of public opinion immediately thereafter, that the decision was taken to nationalise the Bank. It is in conformity with the trend in the post war years when several European central banks, including the Bank of England and the Bank of France, were nationalised. Accordingly, in terms of the Reserve Bank (Transfer to Public Ownership) Act, 1948, the entire share capital of the Bank was acquired by the Central Government against compensation to shareholders at Rs. 118-10-0 per share of Rs. 100 nominal. The Government fixed January 1, 1949, as the date on which the shares of the Bank would be acquired by it, and as from that date, the Reserve Bank entered upon its career as a State-owned institution. The Banking Companies Act of 1949 enlarged its powers of credit control and its authority over the banking institutions and the money market as whole. With the advent of economic planning since 1950, it has assumed greater importance and its range of functions steadily enlarged. There has been, since then, a super-imposition of new lines of activity on orthodox central banking functions.

5. Evolution of Federal Finance in India

By the time the British merchants in India found themselves in possession of some measure of political authority, *three Presidencies*

had grown up in different parts of the country. For all practical purposes, these Presidencies were independent of one another in financial and administrative matters. They all were subject to the authority of the Court of Directors of the Company in England, and each of them had direct relations with that body. In 1773, however, *the Regulating Act* gave Bengal a position of ascendency over the other Presidencies, when the title of Governor-General was conferred on the administrative head of that province. Other Presidency Governments were required to transmit constantly and diligently to the Governor-General and the Council of Bengal information on all transactions and matters relating to the Government, revenues or interests of the Company.

In 1784, by Pitt's India Act, the Government of Bengal was designated as the Supreme Government, and its powers were also enlarged. *The Charter Act of 1793* vested the Government with management of territorial acquisitions and revenues of the Presidencies of Madras and Bombay in a Governor and three councillors each. But this Act invested the Governor-General of Bengal with full power and authority to superintend and control.

Each province was thus made financially independent, raising its own revenue and spending it in the manner it liked. To use Dr. Ambedkar's words, 'The several provinces were like separate clocks, each with its mainspring in itself'.[54] The supreme Government (of Bengal) made little exercise of its superintending authority. Considerable divergences existed in respect of methods of taxation and financial procedure in the three Presidencies. 'For the purpose of presentation to Parliament statements were prepared showing the accounts of India as a whole as well as the separate accounts of the different Presidencies It is not clear whether the income derived from the entire country was regarded as one fund ; but the revenues of one Presidency were often employed in meeting deficits in the other Presidencies.'[55]

[54] B. R. Ambedkar, *Evolution of Provincial Finance in British India* p. 7.

[55] Dr. P. N. Banerjee, *Provincial Finance in India*, p. 4-5. "A few words may here be said about the financial situation in each of the three Presidencies. The annual revenue and expenditure of Bengal, on an average of the six years which followed the acquisition of the Diwani, were £2,202,207 and £1,504,934 respectively.

Though the political accounts of the Company were separated from their commercial accounts under the provisions of *the Charter Act of 1813*, the decentralisation continued till 1833. *The Charter Act of 1833* radically changed the pattern of administration and centralised it in respect of all matters,—executive, legislative, and financial. In regard to finance, the Act laid down that a Governor or Governor-in-Council was not entitled to create any new office or grant any salary, gratuity, or allowance without the previous sanction of the Governor-General in Council. All the revenue came to be vested in the Governor-General-in-Council, and the Provinces became merely collecting and spending agencies. The Provinces had no interest in developing revenues nor any inducement for effecting economies. They pitched the demand as high as possible, because they had a 'purse to draw upon of unlimited, because of unknown depth.' Sir John Strachey described the situation in the following manner: 'The distribution of the public income degenerated into something like a scramble in which the most violent had the advantage with very little attention to reason; as local economy brought no local advantage, the stimulus to avoid waste was reduced to a minimum, and as no local growth of income led to local means of improvement, the interest in developing the public revenues was also brought down to the lowest level.'[56]

Not until 1860-61 it was officially felt that a system of barren uniformity and pedantic centralization was unsuited to a country like India with vast continental dimensions and with great diversity of local conditions. The need for more revenues and improvement

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The accounts of the Madras Presidency during this period were as follows: average annual revenue £405,191; expenditure, £595 920. The accounts of Bombay were on a still smaller scale, namely average annual revenue, £76057; expenditure, £306,391. It will thus be seen that while substantial surpluses were realised in Bengal, both Madras and Bombay had large deficits. The Bengal surpluses were utilised in making good the deficiencies of the other Presidencies, in meeting the expenditure incurred in Bencoolen and St. Helena, and in purchasing investments. The result was that, although the income of the Province was large, the financial position of Bengal was prevented from becoming strong. In fact the annual drain on her resources began gradually to undermine her financial position."

[56] For detailed picture of the tussle between the Central and the Provinces and between the Provinces, see P. N. Banerjee, *op. cit.*, p. 12-55.

of administration after the Sepoy Mutiny and transfer of power to the Crown in 1858, speeded up this consciousness of the need for executive and financial devolution of powers.

The first effective step towards decentralisation, however, was taken by *Lord Mayo's Government in 1870*. The Government of India transferred certain departments, local in character, to the provinces. In addition to the departmental receipts from these departments, the provinces were given lump-sum grants to enable them to administer these departments, these may also be supplemented by additional taxation. The practical result was anything but desirable. The grant of the power of additional taxation could hardly make for economical administration in the provinces. It could only result in the increased burden on the poor.

The second step was taken by *Lord Lytton's Government in 1877* when Provinces were made responsible for expenditure of some more departments. Besides annual grants, the Provinces were assigned some sources of revenue. The settlement assigned to the Provincial Governments the financial control over services connected with general administration, land revenue, excise, stamps, law and justice, and at the same time gave them the revenue raised from law and justice, excise, stamps, and some miscellaneous items.

The third great step was taken *in 1881-82 in the Viceroyalty of Lord Ripon*. The defect of the previous settlements lay in the annual grant by the central Government. Every year it proved to be bone of contention. In 1882, therefore, these annual grants were abolished. The Provincial Governments were to receive a certain proportion of the Imperial revenue instead of getting a fixed sum of money from the Central Government. Certain heads of revenue were either wholly Imperial or wholly Provincial, while others were divided between the Central and the Provincial Governments.

With a view to impart greater stability to the finances, the settlement was made subject to revision after every five years. These quinquennial revisions were made in 1887, 1892, and 1897 involving no change of principle but only some minor adjustments. In 1904, these settlements were made quasipermanent by Lord Curzon to avoid any element of uncertainty even after five years. Lord Hardinge's

Government made them permanent in 1912. This system continued till the reforms of 1919 made another radical change.

All the previous steps to devolution culminated in *the Government of India Act, 1919*, which put the financial relation between the Central Government and the Provincial Governments on an entirely new basis. The divided heads of revenue were abolished and a clearcut separation was made between the resources of the Central Government and those of the Provincial Governments. The Provinces were also granted borrowing and taxation powers.

The complete separation of Central and Provincial heads of revenue resulted in a deficit of about Rs. 9 crores in the Centre and a surplus of about Rs. 18 crores to the Provinces. Provincial contributions were necessary to make up this deficit till the growth of Central resources made the deficit disappear. Accordingly, a Financial Relations Committee was appointed in 1920 with Lord Meston as chairman to determine the contributions payable by the Provinces, and the decision given by the Committee has come to be called the *Meston Award or the Meston Settlement*. The Meston Committee recommended a system of initial contributions which were to be gradually reduced over seven years to certain standard contributions from the Provinces to the Centre. The initial contributions were based on the immediate financial situation in a Province, whereas the standard contribution was based on the consideration as to what it can and ought to pay. The Meston Award caused great dissatisfaction to the different Provinces, owing to the arbitrary nature of the method upon which it was based. (a) Increased revenues could not be a scientific proof of increased capacity for payment of doles to the Central Government, irrespective of the needs of the different Provinces. (b) The scheme was defective because it combined growing expenditure with diminishing revenue in the Provinces, and expanding revenues with stationary expenditure at the centre. (c) The existing inequalities among the Provinces had been further aggravated. Relatively industrialised Provinces like Bombay and Bengal suffered, for their main productive source, i.e. the income tax was taken away, while the agricultural Provinces like the Punjab gained, because they got land revenue which was the only important source for them. The improvement in central finances

after 1923 led to a gradual reduction in the provincial contribution and to their final extinction in 1928-29, after having been temporarily suspended in 1927-28.

The 1935 constitution was preceded by a series of financial enquiries which resulted in the following allocation of revenues between the Centre and the Provinces :

A. Federal Resources : The Central sources were Customs, Income Tax (other than agricultural income), Corporation Tax, Salt, Railways, Excise Duty on tobacco and other goods manufactured in India (except alchoholic liquour and other narcotic drugs and medical and toilet preparations containing these things), Currency and coinage, Posts and Telegraphs, Telephone, Wireless and Broadcasting, Property Tax (except on agricultural land), Succession duty (except on agricultural land), Stamp Duties on negotiable instruments like cheques, bills of exchange, etc. letters of credit, insurance policies, proxies etc., Terminal taxes on goods and passengers carried by rail, Taxes on fares and freights on the railways. All income from the railways was to be received by the Federal Railway Authority, and surplus profit to be shared with the Federal Government on a basis to be decided by the Federal Government.

B. Provincial Resources : The Provincial sources were Land Revenue, Irrigation, Excise Duties (on alcoholic liquour, opium, and other narcotics and drugs, medicinal and toilet preparations containing alcoholic liquour), Taxes on agricultural incomes ; Taxes on land, buildings etc ; Succession Duties on agricultural land ; Capitation Tax ; Taxes on mineral rights ; Taxes on trades, professions, calling and employment ; taxes on animals and beasts ; Cesses on goods entering a local area for sale or consumption ; Taxes on advertisements and sales of goods ; Taxes on luxuries, amusements, entertainments, gambling and betting ; Stamps ; Registration ; Taxes on goods and passengers carried on inland waterways ; Tolls ; and Fees for services rendered.

C. The following taxes, however, were to be levied and collected by the Federal Authority but were assigned to the Provinces :

(i) Succession Duty on property other than agricultural land ; (ii) Stamp Duty on cheques, bills etc. ; (iii) Terminal taxes on goods and passengers ; (iv) Taxes on freights and fares.

D. The proceeds of the following taxes were shared between the Federal Authority and the Provinces ; (i) Income tax (other than on agricultural income) ; (ii) Salt tax ; (iii) Excise Duty on tobacco and other goods manufactured in India except those in the Provincial list ; (iv) Export Duty with a special reference to jute export duty. But the Federal authority may not give up any share till its own financial position is improved.

The actual details of division of several tax revenue between the Centre and the Provinces were to be decided by an expert committee. Sir *Otto Niemeyer* was appointed in 1935 to conduct this enquiry. The solution that Sir Otto Niemeyer suggested was no doctrinaire solution conforming to any ideal theory of public finance nor based on absolute fiscal justice. He took a realistic view of the matter and gave a solution which, in the existing circumstances, was the best possible. In making his recommendations he kept two principles in view : (i) That the financial stability and credit of the central Government are of primary importance, and in no case should the financial position of the centre be undermined or jeopardised ; and subject to this, (ii) he wished to recommend such financial aid to the Provinces that they may be adequately equipped at the beginning of the Provincial Autonomy, and that they should have reasonable working surplus. His main object was to do away with the chronic deficits in certain Provinces and to 'put the tottering Provinces on their legs.' This he tried to achieve through cash subventions, subsidies, and reduction of cancellation of debts owed by the Provinces and by giving a share of income-tax and jute export duty. He recommended annual cash subventions to the U. P., Assam, Orissa, the N. W. F. P. and Sind, and non-recurring grants to Orissa and Sind.

The situation created by the Second World War led to an amendment in February, 1940, of the Niemeyer formula with regard to income-tax. This amended system was extended till 1946-47 after which the provincial share of the income-tax retained by the centre was gradually reduced.

The Niemeyer Award did not succeed in reconciling the conflicting 'aims of the various Provinces to their respective shares in income-

The partition of the country necessitated further adjustments

in the Niemeyer Award. *Sri Chintaman Deshmukh* was engaged by the Government of India in November, 1949, to suggest a suitable allocation of income-tax and export-duty on jute. The division pool of income-tax had been increased by the reduction in the number of Provinces due to the partition. Sir Deshmukh's task was (a) to determine the shares to be taken away from Bengal, the Punjab and Assam in respect of parts of these Provinces now included in Pakistan, and (b) reallocate it among the Indian Union Provinces. It was not his function to suggest a reallocation *de novo* according to certain new principles. His approach was conservative and he adhered to the traditional distribution. It was merely a reiteration of the Niemeyer Award.

Due to partition the percentage share of Bengal and the Punjab was reduced respectively from 20 and 8 to 12 and 5 per cent. This reduction as well as the shares released by Sind and the N. W. F. P. increased the divisible pool of income-tax, according to Shri Deshmukh's estimate, by 14·5 of what it was in 1948. His recommendation was given below :

Province	Basic initial share	Addition	Total
Bombay	20	1	21
Madras	15	2·5	17·5
West Bengal	12·5	1	13·5
United Provinces	15	3	18
C. P. & Berar	5	1	6
East Punjub	4	1·5	5·5
Bihar	10	2·5	12·5
Orissa	2	1	3
Assam	2	1	3

The new allocations of jute export duty were to be : West Bengal Rs. 105 lakhs, Assam Rs. 40 lakhs, Bihar Rs. 35 lakhs and Orissa Rs. 5 lakhs.

No Province was satisfied. West Bengal complained that the injustice done to it by the Niemeyer Award had been perpetuated. The complaint of Bihar was that it gave 'more to the states having much and less to those that have little.' Bombay pressed for a 'juster treatment'. Madras found in it 'variation against Madras', and so on.[57]

[57] *And Deshmukh said* : 'I have made no attempt to deduce the percentage to be excised from the share of undivided Bengal and the Punjab by the mechanical

The *new constitution of India, 1950,* practically accepted the pattern of distribution of financial resources set up in the Government of India Act, 1935.

6. Indian Income Tax

A. The Origin

The history of Income Taxation in India under the British rule is unique in the sense that, in its origin and impact, it differs widely from the history of income taxation in other underdeveloped countries. During the fifties of the last century the per capita income was so low in India that all current income had to be spent to maintain the subsistence level. There was, however, signs of large income-disparity, mainly in Land, the high income earners were landlords and old traders now turned Mahajans. Since industrialisation had not begun, the saving of the upper income groups was never channelled into investment. Considering the productivity of land the land revenue was very high, and it was, one may say, the only source of State revenue. In Japan, unequal distribution of income contributed greatly to financing developmental investment after the initial wave of government investment. Here in India, the government not only did not invest, it disinvested. It took the land-revenue out of the country, there was export of landrevenue without a direct equivalent. R. C. Dutt observed : 'For when taxes are raised and spent in a country, the money circulates among the people, fructifies trades, industries and agriculture, and in one shape or another reaches the mass of the people. But when the taxes raised in a country are remitted out of it, the money is lost to the country forever ; it does not stimulate her trades or industries, or reach the people in any form.'

At the end of the fifth decade of the last century, the Mutiny was over. It had been decided by the British Government to throw the

application of any precise, composite residence and population factor, since no precise factor of general application was employed by Niemeyer. To my mind the only practical way of determining these lapsed percentage share would be to estimate as nearly as possible, the percentages that might have been allotted by Niemeyer to the parts of the Provinces, now included in Pakistan, had they been in existence as separate provinces at the time, in relation to the shares he allocated to provinces of comparable dimensions and fiscal status.

whole cost of the Mutiny Wars on Indian finance ; and the debt of India increased by over forty millions sterling. The annual interest of this was enormous and Indian tax-payers were called upon to meet the demand. James Wilson ('a sound political economist according to R. C. Dutt) was made the first Financial Member of the Governor-General's Council. He created a State Paper Currency, and imposed a License Tax and an Income Tax to meet the growing expenditure. The first Income-Tax came in 1860, it was levied at the rate of 2 per cent on incomes between Rs. 200 and Rs. 500, at the rate of 4 per cent on all incomes above Rs. 500. For 1862-63, the minimum taxable income was raised to Rs. 500 per annum. For 1863-64 and 1864-65 the rate was reduced to 3%.

The measure was a novel one in the Indian economic scene and had roused intense emotional responses from many quarters. The 1860-65 Income Tax created much discontent throughout the country, mainly among the upper classes, both Indian and European. Many officials, including Sir Charles Trevelyan, Governor of Madras, strenuously opposed it.[58] In 1865, when Trevelyan was Finance Member, it was allowed to expire, though in opposition to the wishes of both Lawrence and Sir Charles Wood. In 1867-68 Trevelyan's successor, W. N. Massey, imposed a License Tax on trades and professions at 2% on incomes of Rs. 200 per annum and above. For 1868-69 this was amended to a Certificate Tax of 1·6% on incomes of Rs. 500 per annum and above.

In 1868, Richard Temple took his seat in Council as Finance Member, in the last year of Sir John Lawrence's Gevernor-Generalship.[59] Mayo, who succeeded Lawrence, came to india determined to

[58] J. P. Niyogi : *The Evolution of Income Tax*, pp. 25-30.

[59] "Lawrence and Temple had been moulded in the same Evangelical milieu. They were both enthusiastic advocate of rapid economic development and deeply admired the Indian carrer of Dalhousie. Firm paternalists, they combined sympathy for the agricultural classes with suspicion of landlords and the traditional 'gentry' classes and contempt for the urban professional and commercial groups. In all this they expressed that facet of 'Punjab Tradition' which was so heavily assailed in India after 1857. Though Lawrence left India within twelve months of Temple's appointment as Finance Member, the new Governor-General, the Earl of Mayo, maintained the character of Lawrence's government. The continuity of policy was reflected in Mayo's preoccupation with finance and the public works

end the series of deficits which endangered the stability of the British rule and Temple urged him to seek one remedy in direct taxation. 'Though the rate of taxation in India was far below that of the poorest European states, it was high in relation to India's poverty and her low agricultural productivity. It was also extremely inequitable, since both the Land Revenue (whether classified as rent or taxation) and the Salt duty pressed chiefly upon the cultivating classes. In contrast, the Bengal Zamindars, Government fund-holders and the commercial and professional classes were practically exempt. Direct taxation alone could remedy this injustice, and Temple urged the introduction of an Income Tax for reasons of equity as well as financial necessity.'

Temple imposed an Income Tax from 1869 to 1873 in the face of bitter opposition, both official and non-official, until Northbrook compelled him to abandon it. It was, however, permanently restored in 1886. Dr. J. P. Niyogi has described the period between 1860-1886 as one of trial and error in which the Indian Government sought to adjust the burden of taxation between the landed interests, fund-holders, and the commercial and professional classes, but without any guiding principle.[60] This was no doubt true, but this 'inconsistency stemmed mainly from disagreement among senior officials as to whether direct taxation for India was profitable, practicable or expedient.'[61]

Temple's first budget, for 1867-70 contained a 1% Income Tax on incomes of Rs. 500 per annum and above. 'Its yield was estimated at approximately £900,000 per annum and affected 150,000 people. Traders, professional men, and non-official Europeans were already subject to direct taxation, but landowners and Government fund-holders were not. The new Income Tax netted the latter two groups'. The opposition was started mainly by the Zemindars, hitherto

department and in his concern for the welfare of the ryot, unexpected in an Irish landlord." G. R. G. Hambly, *The Income Tax controversy in India*, 1869 to 1873, article reprinted in Contributions to Indian Economic History', vol. II.

[60] Dr. J. P. Niyogi, *The Evolution of the Indian Income Tax*, p. 3.

[61] 'Trevelyan, Durand and Grey opposed it on political grounds as likely to cause unrest. Fere believed it to be a financial necessity; Temple and Strachey considered it to be necessary and expendient. Lawrence prevaricated.'

exempted from almost all taxation, who bitterly resented the Income Tax and they found some supporters amongst non-official Europeans in the press and in the Legislative Council. The Indian traders, and professional people, the European merchants and planters, and the Zemindars of Bengal who claimed that their privileges were being infringed, made common complaint in the press and in public meetings that 'a tax intended to fall exclusively upon the middle and upper classes of this country, who comprise less than one-thousandth part of the whole population is unjust'.[62] The tax ceased to exist from 1873-74 budget.

B. The recent history

Within six years Temple's policy of introducing direct taxation was vindicated, when in 1877-78, Stratchey as Finance Minister introduced a License Tax on trades. Finally, in 1886, Auckland Colvin levied a tax on all incomes derived from non-agricultural sources, arguing that it was a disgrace that India's poor should pay for the security of the rich. On incomes of Rs. 2000 and upwards it was at the rate of 5 pies in the rupee; on incomes between Rs. 500 and Rs. 2000 it was 4 pies in the rupee. In 1903, the taxable minimum was raised to Rs. 1000. In 1916-17, to finance the war, the rates of income-tax were completely revised and largely increased; and the progressive principle was definitely adopted. Another feature of war-taxation in India was the imposition of the super-tax in 1917. This was levied in addition to the ordinary income-tax on large

[62] This resolution was one of several passed at a mass public meeting of Indians and Europeans in Calcutta Town Hall, on 18 April, 1870, See Hambly, *op. cit.* p. 11. Also p.p. 18: "But Northbook was immovable and on 28 March 1873 a Government resolution announced that the Income Tax would not be reimposed. Against this resolution Temple wrote an impressive Minute of Dissent, ranging over every aspect of the subject, and stressing that loss of the Income Tax was injurious to the general welfare because, as a tax, it redressed the balance of Indian taxation hitherto so advantageous to the rich and so unfavourable to the poor. In returning to this argument for social justice and State intervention to protect the weaker sections of the community from the more powerful and predatory elements in society he was deliberately challenging the raison d' e' tat character of the "aristocratic reaction" by reaffirming the paternal idealism implicit in the "Punjab tradition."

incomes above Rs. 50000. Further changes were made in 1922, when the law relating to income tax was placed on a more satisfying basis. The Income Tax Act of 1922 was a purely administrative measure which regulated the basis, the methods, and the machinery of assessment, but did not contain any provision relating to the rates of taxation. The rates were, however, increased in that year; these increased rates remained unchanged till 1930.

Many increases in the rates of income-tax were made between 1930 and 1934, including the imposition of surcharges, owing to deficit in the budget. In 1935-36 surcharges on the income tax and on the super-tax were reduced as the result of an improvement in the financial position, and in 1936-37 incomes between Rs. 1000 and Rs. 2,000 per annum were made free of income-tax.

The Taxation Enquiry Committee had referred to the various lacunae of the Income-tax system and to the difficulties that might arise in applying the principle of graduation in income-tax under the step system, according to which the whole income of a person was taxed at a rate meant for that particular level of income. It led to an anomalous position when a person in a higher income bracket after paying the income-tax at a higher rate on his entire income became worse off than a person in a lower income bracket who had paid income tax at a lower rate. An Income-tax Enquiry Committee was appointed in 1936 for making recommendations as to the best method for reorganising the Indian Income-Tax system. The Committee recommended the 'slab' system in place of the previous 'step' system. On the basis of these recommendations the Income Tax Act of 1939 was passed. Under the new system, the income is divided into 'slabs' and each successive slice is taxed at a separate rate, higher than the rate of the previous slice. Evasion was made more difficult.

During World War II, Excess Profits Tax at the rate of 50% above a taxable minimum of Rs. 30,000 was levied on extra profits made during the war. It was later raised to $66\frac{2}{3}$%. A surcharge on income-tax was also levied first at the rate of 25% and later raised to $33\frac{1}{3}$%. The Excess Profits Tax was abolished on 31st March, 1946. However, business profits tax was introduced in the 1947-48 budget. In the 1945-46 budget, for the first time, a distinction was given to persons who earned income themselves to unearned income receivers. The capital gains tax was introduced in 1946.

Companies have all along been treated as distinct taxable entities. In 1886 the net profits of a company were taxed at a flat rate, but in 1916 an element of graduation was introduced. In 1939, the exemption limit for super-tax was removed. In 1948, a principle of differentiation in favour of small companies was introduced. In 1939 a modification in the method of taxing dividends in the assessment of shareholders was introduced. The gross dividends were taxed at rates applicable to personal income, and credit was allowed for proportionate income tax paid for the company.

The history of Indian Income Tax would reveal its two very important aspects relating to our economic development. The Income tax was never conceived and used as an instrument for the mobilisation of savings, of promoting incentives for investment and helping the redistribution of income and wealth. And secondly, agricultural incomes were exempted from taxation, and there was a definite bias against income from industrial and trading activities. With commercialisation of agriculture, growth of money-lending and rise of a section of big peasants, the agricultural income should have been taxed under ordinary Income Tax law. Even the Indian Taxation Enquiry Committee of 1924-25 pointed out that, 'on grounds of equity, there is no reason why the surplus of the larger land holder should be exempt'.[63]

7. Public Debt in India

Public debt was unknown in India till the advent of the British rule. Prior to that, if the rulers of the State incurred any debt, it was their personal affair, the debt of course was repaid from royal treasury out of revenue raised from the people. The East India Company was a commercial body which had to maintain accounts of income and expenditure, of profit and loss to satisfy the requirements of its shareholders. The modern method of financial book-keeping of the earnings and spendings by the State in India was gradually evolved by the British rulers.

[63] *Indian Taxation Enquiry Committee Report*, 1924-25 p. 223.

In the days of Clive, when India was run by the East India Company as a Zemindari Estate, the accounts of the State were kept not separate, it was a part of the Company's income-expenditure balance sheet and its own profit and loss accounts. The administration of the country was run on a profit-making basis, and there was a steady transfer of capital from India to England. The tax-revenue was used by the Company officials in India to purchase goods here, in order to sell them in England and Europe; the sale-proceeds being entered into Company's commercial income accounts. The Bengal revenue was also spent for military conquests of the other areas of India and even in 1792, when the commercial and political accounts was not separated, a sum of £9,142,720 was shown in the ledger-book as the public debt of India. R. C. Dutt has shown how this 'public debt' has increased year after year since the beginning of the nineteenth century.[64]

'An Act was passed in 1813 which directed a separation of the East India Company territorial accounts from commercial accounts. It was directed that the territorial revenues should be applied (1) to military expenditure; (2) to civil and commercial establishments; and (3) to the payment of interest on the Indian debt. And the ommercial profits were to be applied (1) to the payment of bills of exchange and the current payment of other debts; (2) to the payment of dividends; and (3) to the reduction of the Indian debt or Home Bond Debt.'

The growth of the debt in the early decades of the last century was charted by Dutt as follows:

April 1792	£ 9,142,720
,, 1809	£ 30,812,441
,, 1814	£ 30,919,620
,, 1829	£ 47,255,374

He has also shown how large additions to the debt were made during the warlike administrations of Lord Wellesley and Lord Hastings. The surplus commercial profit of the Company was to be used to reduce Indian Debt or the Home Bond Debt. But with gradual reduction in Company's trade, the surplus profit did not accrue and the debt went on accumulating.

[64] R. C. Dutt, *Economic History of India*, vol. I, ch. XVI; vol. II, ch. XIII.

In the words of Dadabhai Naoroji the public debt of India was 'simply a political burden put upon India by force for the very acquisition and maintenance of the British rule. It is entirely owing in the evil administration of expenditure in putting every burden on India.'[65]

Let us consider the following few items debited to Indian revenues in the pre-mutiny period.

		(in million £)
1.	First Afgan War	12
2.	Two Burmese Wars	14
3.	Expeditions to China, Persia, etc.	6
4.	The Indian 'Mutiny'	40
5.	Redemption of Company's Capital and Dividends	37
		£ 109 millions

The first Afghan War was undertaken by the Government of Great Britain in opposition to the desires of the East India Company and yet the whole cost has been charged up to the revenues. As regards the other wars in Asia Sir George Wingate wrote: 'Most of our Asiatic Wars with countries beyond the limits of our Empire have been carried on by means of the military and monetary resources of the Government of India though the objects of these wars were in some instances, purely British, and in others but remotely connected with the interest of India..... India, in fact, has been required to furnish men and means for everything in all our Asiatic wars and has never, in any instance, been paid a full equivalent for the assistance thus rendered which furnishes irrefragable proof of the one-sided and selfish character of our Indian policy.'[66]

About 'The Mutiny', John Bright said: 'I think that the forty million pounds, which the revolt has cost, is a grievous burden to place upon the pepole of India. It has come from the mismanagement of Parliament and the people of England. If ever men had what was just, no doubt, those forty million pounds would have to be paid out of the taxes levied upon the people of this country.' Sir George Wingate drew attention to the 'unparalleled meaness' and 'selfish tradition in Indian policy.'[67]

[65] From his note on 'Administration and Management of expenditure—. Its Results,' submitied to the Welby Commission on 9th January, 1896.

[66] Sir George Wingate, *Our Financial Relations with India*, pp. 17-19.

The last item in the above chart represents the purchase price of the East India Company's stock and the interest paid to them. This is a most unique financial transaction, 'an instance which will be difficult to match even in the shady annals of speculative company management.' The debt of the Company was inherited by the present Indian Government when the authority passed from the Company to the Crown. And not only that. The company had also to be paid dividends till its stock was liquidated in 1874.

After the mutiny when the British crown assured the reins of Government of India, it became furthermore easier as there was no Court of Directors to be convinced or wooed. All that was needed was a firman to the Indian administration from the Secretary of State to debit certain charges to the Indian revenue. There were, however, a few recalcitrant officers like the Earl of Northbrooke, who fought for 'principle' and resigned their posts of duty as a protest against such dishonourable dealings.

Some of these are charted below :

1867	Abyssinian War	£ 600,000
1875	Perak Expenditure	£ 41,000
1878	Second Afghan War	£ 17,500,000
1882	Egypt	£ 1,200,000
1882	The N. W. F. Wars	£ 13,000,000
1886	Burmese War	£ 4,700,000
1896	Sonkim	£ 200,000
		About 38 crores of Rupees
1914-19	European War Expenses	39 ,, ,, ,,
	,, ,, Gift	150 ,, ,, ,,
	Excess Defence	170·7 ,, ,, ,,
		Rs. 397·7 crores of Rupees

[67] "In this crisis of the Indian Mutiny, then, and with the Indian finances reduced to an almost desperate condition, Great Britain has not only required India to pay for the whole of the extra regiments sent to that country, from the date of their leaving these stores, but has demanded back the money disbursed on account of these regiments for the last six months of their service in this country, previous to sailing for India. There may be good reasons for the adoption of a course that reminds one of Brennus throwing his sword into the scale, which determined the reason of the vanquished Romans, but as we had the service of the men, and as their pay for the period in question was spent in supporting the industrial classes of this Kingdom, and could have been of no benefit to India, we are laid under a moral obligation to explain the principles of justice, or of honest dealing, by which we have been guided in throwing this additional heavy charge upon the overburdened finances of India." Sir George Wingate, *op. cit.*, 15-16.

Apart from these specific wars, the annual military expenditure was pitched very high. India was used 'as a barrack in the Eastern Seas', for providing troops for British Imperial purposes. Indian Expenditure Commission 1897 also sharply pointed out this.[68]

In the pre-war years, Government made vigorous attempts to cut down the amount of unproductive debt through the manipulation of merely an accounting transaction. The surplus revenue was utilized in public works ; but it was first supposed to be repayment of the ordinary or unproductive debt and then re-lent for public works schemes. Thus each surplus utilized for public works increased the productive debt. But it at the sametime decreased correspondingly the unproductive debt. The result was that in 1914 the unproductive debt was reduced to the small figure of Rs. 3 crores. The unproductive debt would have been evaporated altogether in this way in a few years, had not the war of 1914-18 come in with a heavy load of the unproductive debt, war gift of £100 million to the British Government and recurring deficits in post-war years added to our debt. The amount of unproductive debt in one decade (i.e. by 1924) rose to Rs. 258 crores, the productive debt rose from Rs. 400 crores to Rs. 700 crores during the same period. Mr. Gokhale was the strong critic of such a method of reducing the unproductive debt. In his opinion, there was no need for such unseemly haste, for the amount of the unproductive debt was not large. It would have been better to utilize the revenue surpluses either in giving relief to the tax payer in the form of lowering or remission of taxes or in extending the scope of beneficent activities like education, public health, etc.

[68] The military strength of India is the main factor in the struggle of our Empire in the East. In virtue of that strength Great Britain is a great Asiatic power. We have had over-whelming practical evidence of the value to the Empire of the military forces of India in the aid, both direct and indirect, which she is rendering to us in the South African war......surely, therefore both on general grounds and from our recent experience of the efficient help that India's military strength can give to the Empire, it is established beyond question that India's strength is the Empire's strength and in discharging these Imperial duties India has a fair claim that part of the burden should be borne by the Imperial Exchequer." *Indian Expenditure Commission*, 1895, vol. IV, p. 149.

TEN

Trends and Fluctuations

"Agricultural skill and knowledge are of slow growth, and still slower diffusion. Inventions and discoveries, too, occur only occasionally, while the increase of population and capital are continuous agencies. It therefore seldom happens that improvement, even during a short time has so much the start of population and capital as actually to lower rent, or raise the rate of profits......Population almost everywhere treads close on the heels of agricultural improvement, and effaces its effects as fast as they are produced."

—J. S. Mill

1. Estimates of the growth of National Income in India[1]

Historical evidences reveal that Indian economy upto 1800 was above the level of economic development in countries which are today highly advanced in industries. India was a manufacturing as well as an industrial country; the industrial development of this country was at any rate not inferior to that of the more advanced European nations. Upto the middle of the 18th century British industry was in a very backward condition, 'her industrial life at home was mainly agricultural.' Japan was far behind India both in agriculture and industries. Agriculture was relatively more efficient in India. The textiles, iron and ship building were industries which flourished late up to the end of the eighteenth century. On these facts,

[1] In the eighteenth and early nineteenth centuries, national wealth as against National Income was used as a satisfactory measure of the results of economic activity in a nation. The aim in the economy then was to maximise the surplus product over the cost of materials and labour. The strength of nations was often compared in terms of *capital* rather than in terms of *output*. With the growth of interest in the improvement of the standard of living of the people and social welfare, there was a changing emphasis in economic policies. Attention was focussed on national income as the appropriate measure of the results of economic activity. The construction of national income estimates for the specific purpose of economic analysis, however, became customary only in the inter-war period and received final impetus during and after the last World War. The system of national income accounts now in vogue is derived from the problems of economic growth that developed in the last three decades in western countries.

it is possible to infer that the contribution of manufacturing to the national product should have been much higher than that of agriculture, the proportion of the latter being, perhaps, under 30 per cent. But the tide turned since the beginning of the nineteenth century and for historical reasons, Indian economy was growing backward and turned to be predominantly agricultural, while other countries were making continuous progress, in the process of Industrial Revolution. The share of agriculture in national product rose to as much as 89 per cent. The proportion appears to have remained steady around 66 per cent from the latter part of the 19th century till about the period of the first world war. Since then there has been a change, the share being placed at 57 per cent for 1925-29 and 53 per cent for 1931-32. In the post-independence period, the share has moved around 50 per cent.

The first attempt for a statistical measurement of India's total and per capita wealth was made by Dadabhai Naoroji as early as 1870. In a paper read before the East India Association, Bombay, named 'Wants and Means of India' he estimated "total production of India". Taking the gross land-tax as £21 million and assuming this tax to be one-eighth of the gross agricultural produce, he derived £168 million as the total value of the output in the agricultural sector. To this were added the gross revenues from salt, opium and forests and the total was then rounded upto £200 million after counting in the value of production of coal etc. Another £100 million was added 'to include the value of manufacturing industries, excise on spirits and a large margin for other omissions'. This gave a total national income of £300 million or Rs. 300 crores and a per capita income of 40 shillings or Rs. 20 per year. He continued his discussion in two further papers on 'Property of India' read in 1876. He made slight changes and put the total figure at £340 million or Rs. 340 crores.[2]

[2] What led Dadabhai to invoke the science of political economy was the need for refuting the lie put forward in an annual return prepared by the Secretary of State called the 'Material and Moral Progress of India.' This was very imperfect and misleading. Dadabhai maintained that nothing short of a continuous series of annual estimates of total or per capita income would reflect also the constancy of the income flow, an important criterion of economic welfare, "unless such complete and accurate information is given *every year* in detail, it is idle and useless to make more unfounded assertions that India is prospering."

Dadabhai's tools were simple and inadequate enough, but his labour and sincerity made up the deficit. Like the Physiocrats he omitted services as unproductive and emphasised the materiality of incomes. As Dr. V. K. R. V. Rao points out that 'in omitting the value of services Dr. Naoroji seriously impaired the utility of his estimate'. And Dr. Rao concludes that 'the per capita income during the year would be more in the region of Rs. 23-24 than in that of Rs. 20.'

That Dadabhai's estimate was mostly correct is proved by two estimates attempted to refute it. In 1882 Evelyn Baring (Lord Cromer) calculated per capita income to be Rs. 27 per head and despite the increase in agricultural and industrial output, the rise in prices and foreign trade during the eighties and nineties, Lord Curzon's estimate was Rs. 30.

Digby asserted that in 1899 the per capita income in British India was Rs. 18. While Curzon's estimate used some of the official statistics Digby dismissed the use of official statistics altogether. His method of calculation of total agricultural output was mostly like Dadabhai's i. e., use of land revenue as a basis and multiplying it by the necessary number of times because 'the government revenue (from the land) is assumed to bear a definite ratio to the produce of the soil.' Like Dadabhai he also excluded services from his calculation.

Digby's strong condemnation had to be answered and an official named F. J. Atkinson was put into the task. He endeavoured to compare 1875 and 1895. For 1875 his estimate gave a per capita income of Rs. 30·5 and for 1895 it was Rs. 39·5. He thus showed a 31 per cent increase within these twenty years. Such a result was shown by a wrong estimate of agricultural output. Later critics, such as Dr. Rao have suggested that his estimate of an increase of 1·88 billion rupees in agricultural income during these two decades be cut in half.[3].

[3] Dr. V. K. R. V. Rao, *An Essay on India's National Income*, 1925-1929, Pp. 28-36. Atkinson willfully concluded that within this period (1) area under crops increased by 33·5 million arcres ; (2) average yield per acre of all crops (food and non-food, irrigated and non-irrigated etc.) increased by 4 per cent ; and (3) prices of agricultural products rose 31 per cent, and money income rose accordingly. No deduction was made for seed, wastage and depreciation.

ESTIMATES OF NATIONAL INCOME IN INDIA

Year	Total Income in Rs. (crores)	Per capita income in Rs.	Contribution of Agriculture		Estimate by	Coverage
			in Rs. (crores)	Percent		
1867–68	340	20	260	77	Dadabhai Naoroji	For most of British India
1882	530	27	350	67	Baring-Barbour[2]	For British India—all non-agricultural income assumed to be half of agricultural income.
1897–98	670	30	450	67	Curzon[3]	—do—
1898–99	430	18	280	67	William Digby[4]	For British India
1895	880	39·5	560	63	F. J. Atkinson[5]	—do—
1913–14	1210	44	860	70	Wadia & Joshi[6]	—do—
1910–14	1770	58·5	1110	64	Vakil & Muranjan[7]	For the whole of India
1921	2600	107	1710	66	Findlay Shirras[8]	For British India
1921–22	2360	74	2100	89	Shah & Khambatta[9]	For the whole of India
1925–29	2300	78	1290	57	V. K. R. V. Rao[10]	For British India
1931–32	1690	62	900	53	—do—	—do—
1931–32	2810	82·5	—	62	R. C. Desai[11]	For the whole of India
1945–46	6230	198	2740	44	Ministry of Commerce[12]	For British India
1948–49	8670	247	4250	49	Central Statistical Organisation.	For Indian Union

1. Dadabhai Naoroji, *Poverty and Un-British Rule in India*. 2. Barling Barbour, *Budget Speech*. 3. Curzon, *Budget Speech*. 4. William Digby, '*Prosperous' British India*. 5. F. J. Atkinson, *A Statistical Review of Income & Wealth*, JRSC LXV, 1902. 6. Wadia & Joshi, *The Wealth of India*. 7. Vakil and Muranjan, *Currency and Price in India*. 8. Findly Shirras, *The Science of Public Finance*. 9. K. T. Shah & K. J. Khambatta, *Wealth and Taxable capacity of India*. 10. V. K. R. V. Rao, *An Essay on India's National Income*, 1925—29, and *National Income of British India, 1931—32*. 11. R. C. Desai, *Standard of Living in India & Pakistan, 1931—32* to *1940—41*. 12. Ministry of Commerce, *National Income of Indian Provinces, 1945—46*.

Just on the eve of the First World War, according to Prof. Wadia and Joshi, per capita income in British India was Rs. 44. For the whole of India Profs. Vakil and Muranjan put it at Rs. 58·5 during 1910-14. For 1921 Mr. Findlay Shirras put it at so a high figure as Rs. 107 for British India. Prof. K. T. Shah and K. J. Khambata worked with better statistics and materials and estimated the per capita income at Rs. 74 for 1921-22, for the whole of India and without taking services into account.

For 1925-29, estimate was made by Dr. Rao with more sophisticated methods than any of his predecessors and for British India the per capita income came out to be Rs. 78. For 1931-32, however, he reduced his figure to Rs. 62, plus or minus 6 per cent. Dr. Rao used both the 'inventory' (or value of net product) method and the 'income' method, for agriculture the former one, and for remaining sectors the latter one. For the same year, however, R. C. Desai in his study entitled *'Consumer Expenditure in India, 1931-32 to 1940-41,'* put the figure at Rs. 82·5 While Rao concluded that national income per capita was slowly rising in India, Desai asserted 'it is quite probable that national income per capita has not been rising'.

The next estimate available was that for 1945-46 for British India calculated by the Ministry of Finance. The war-time progress was shown in the figure brought out i.e.. Rs. 178. Postwar inflation was recorded in the Central Statistical Organisation's estimate of Rs. 247 for 1948-49 for the Indian Union.

The estimates enumerated as above show that these cannot be combined into a series from which the trend of national income can be found out. Sharp variations in the area of coverage, items, data, concepts, methods, weightage, selection of base year, prices etc. make the problem highly complex.

In recent years investigators are working on old and available data to find out a workable series from the beginning of this century. During the preliminary conference on Research on National Income in 1957, Arora and Iyenger presented a paper entitled "Long Term Growth of National Income in India, 1900-1955." They utilised

For further criticism of Atkinson's perverse use of science, see Daniel Thorner, *Longterm Trends in output in India*, Article in *Economic growth, Brazil, India, Japan*, edited by Kuznets.

George Blyn's series of agricultural production and index of business activity derived out of the indices worked out by Findlay Shirras for the earlier years and Capital Index of Industrial Activity available from the year 1932-33.[4]

2. Trends in Output[5]

Increased commercialisation of agriculture brought with it increasingly wider commodity markets and richer merchants into the trade. They required reliable statistics to guide them in speculation. Government of India came out with an annual series named *Agricultural Statistics of British India* in 1886. By the 1890's it started listing up the acreage sown under various crops throughout almost whole of British India and some of the Indian States. In the same decade there also appeared the first number of another annual series *Estimates of Area and Production of the Principal crops in India.*[6] George Blyn made his study based on the data in these two series and estimated the total production of agricultural crops in virtually whole of India (omitting Burma) for the years 1893/94 to 1945. And the central feature of his study is the attempt to utilise the incomplete historical data on acreage under crops and on estimates of output as a basis for estimating total output of all agricultural crop production in India since the early 1890's. That these figures are fairly reliable is an assumption which he cannot but make.

The table below summarises the annual estimates of production in average for five decades :

[4] For a suggested revision of Arora & Iyenger's estimate see article by K. Mukherjee, *A note on the Long term Growth of National Income in India 1900-1 to 1952-53* in 'Papers on National Income' vol. II.

[5] This section is written on the basis of Daniel Thorner's article, *Long term trends in output in India, op. cit.* His article was based on George Blyn, *The Agricultural crops of India, 1893-94 to 1945-46 ; A statistical study of output and trends* (unpublished manuscript in South Asia Regional Studies Department, University of Pennsylvania).

[6] Daniel Thorner observes that, "It is significant that these series came into being largely as a result of the demands of commercial interests seeking uniform and adequate statistics to guide them in trade and speculation." *op. cit.*, P. 120.

All India Estimates of Gross Food-crop Production[7]
1893/94 to 1945/46

Years	Average Annual Production (Million tons)
1893/94 to 1895/96	73·9
1896/97 to 1905/06	71·5
1906/07 to 1915/16	74·0
1216/17 to 1925/26	73·3
1926/27 to 1935/36	69·6
1936/37 to 1945/46	69·3

The arithmetic mean of the annual estimates for the period as a whole is 71·7 million tons. The table shows that gross production of food crops in India during the entire period remained nearly stationary. In fact, since the first world-war, food crop production shows a downward trend. This tendency in particular applies to the rice production which constitutes roughly half of total food crops. Changes in the production of other crops have failed to counteract this trend, despite considerable increase in wheat production.

Commercial crops, in contrast to the declining trend of food crop production, expanded vastly. Largest increase took place in groundnut, cotton, sugarcane and tea. On the basis of a production index for food crops, commercial crops and all crops, constructed by weighting the volume of output with average prices for each crops during the quinquennium 1924/25 to 1928/29 and taking the base period 1893/94 to 1895/96 at 100, it can be seen that commercial crop production nearly doubled over the time-span studied.

Thorner observes that 'what is striking is that this increase in commercial crops was achieved largely at the expense of food crop production. For although total crop outpout shows a distinct upward movement, the magnitude of the over-all increases is very small, the net increase from the initial to the concluding period being only 10 per cent. Thus it appears that the overall increase was completely accounted for by the commercial crops, and that the large increase in the latter was, at least in part, obtained by reducing food-crop output. The output ratio of non-food to food crops,

[7] Crops included are rice, wheat, barley, jowar, bajar, ragi, maize, gram and "other food grain and pulses."

which was roughly 1·5 in the initial period rises to nearly 1·2 by the concluding decade of the study'.

The increase in net acreage sown in the various crops of British India during the period from the 1890's to the 1940's shows that there was little or no increase in per acre productivity which was in fact on the decline. The increase in crop production was due mainly to extention of acreage, from about 190 million acres sown in the initial period to about 210 million acres in the concluding decade, an increase of about 10 per cent.

Data describing the above movements are summarised in the following table :

All India Estimates of Food-Crops, Commercial Crops[8] *and Total Crop Production, 1893/94 to 1945/46*

Years	Indices of Average Annual Crop output			Non-Food to Food-crop out-put Ratio
	Food	Commercial	Total	
1893/94 to 1895/96	100	105	100	·22
1896/97 to 1905/06	96	106	98	·24
1906/07 to 1915/16	99	126	104	·28
1916/17 to 1925/26	98	142	106	·32
1926/27 to 1935/36	94	171	108	·41
1636/37 to 1945/46	93	185	110	·44

What is very much important to note about this slow upward movement in agricultural output is that during the same decades population increased at a much higher rate, especially in the years following World War I. The average rate of population growth per decade from 1901 to 1941 is 6·4 per cent, but total crop production increased only at 2·3 per cent during these decades. Thus population has grown nearly three times as fast as total crop output.

Thus over-crowding and increased ruralisation continued. Population-Output relationship is significantly brought about by the

[8] Food crops included are as in the previous table. Commercial crops included are linseed, sesamum, rapeseed and mustard, groundnut, castor, sugarcane, cotton, jute, indigo, coffee, tea and tobacco. The indices are based upon aggregates weighted by the average price of cash crops for the peried 1924/25 to 1928/29.

per-capita output figures for food crops and total crop output. Using the data from the previous table together with the population statistics and converting the results into indices with the initial period set at 100. Thorner found out that total crop production per capita fell by 20 per cent from 1893-96 to 1936-46. Per capita food-crop production fell by an even greater amount, to 32 per cent less than the early level. Putting the relationship into terms of pounds of food crop output rather than index units, he has shown that per capita production fell from nearly 600 pounds per year to about 400 pounds in the closing period. We can thus conclude with Thorner that: "In short, statistical survey indicates that since the 1890's total output of all crops has risen, but unimpressively; total output of food crops has fallen off; and per capita output of both food crops and all crops has declined impressively. The trend in agricultural output over the last sixty years may be characterised as stagnation."[9]

In contrast to agriculture, there seems no doubt that total non-agricultural activity has been rising in India over the last sixty years. The contribution to the total national product from manufacturing industry, commerce and the services has been on the increase. 'Whether, in view of the static condition of agriculture and growing population, this expansion of other sectors has been sufficiently large to maintain the level of per capita total product is a difficult question

[9] D. Thorner, *op. cit*, p. 123. The table is given below:

All Indian Estimates of Average Annual Per capita Food Output, And All-Crop Output, 1893/94 to 1945/46

Years	Population Index	Output in Index units Per Capita		Output of Food crops, pounds per capita
		Food Crops	All Crops	
1893/94 to 1895/96	100	100	100	587
1896/97 to 1905/06	101	95	97	560
1906/07 [illegible]15/16	107	91	97	547
[illegible]5/26	109	90	98	538
[illegible]/36	120	78	90	461
[illegible]46	138	68	80	398

to answer.[10] In default of precise data, recent writers on Indian economic development have put forward two different opinions. Some hold that in the twentieth century per capita income has been rising; others, that it has not been rising. There is a third logical possibility, that per capita income has been *declining*. Until knowledge of India's economy and its evolution comes to rest on a more solid foundation, it would seem premature to rule out this third possibility."

3. Trends of Population Growth and allied aspects in India

A. Population Growth

Till very recently, the census figures were very much defective, 'most unreliable of all the statistics prepared by the Government.'[11] In the nineteenth century, census operations generated strange suspicious. When the first census was taken in 1872 there was a rumour that the Government enquiries were to know persons above the age of thirty who would be fit for Afgan War. Some thought that the census was a stratagem to catch a criminal who had escaped. After 1881, census operations were advarsely affected by famines, epidemics and political agitation. The Census Report of 1941 remarked about the previous census: 'At that time Gandhi's civil disobedience movement was in full swing and all over India, the census, as a governmental activity, incurred hostility as such. In Ahmedabad city the census could not be taken at all and similar effects were undoubtedly apparent in Surat and Gujerat areas......Ten years ago and indeed at all previous censuses peoples' attitude toward

[10] To make a reasonably accurate calculation, we would have to know the relative weight of product from non-agricultural activity as compared with agricultural; and we would also need to establish the trends in product from the various non-agricultural sectors. At present we cannot satisfy properly either of these two requirements. We have no suitable studies of the total product of modern industry, or of domestic trade. We know that old style village handicrafts have been declining; but we do not know the extent to which they have been replaced by newer handicrafts based on materials which have been partly processed in factories. A beginning has scarcely been made in estimating the contribution of the services. These are all fields in which sustained research and analysis are required. Thorner *op. cit.*, Pp. 127-28.

[11] Sir Albion Banerjee, quoted by V. G. Karve, in *The population Problems of India*, p. 261.

enumeration might be described as passive. In 1941, it was extremely active.'[12]

The following figures will reveal the population trend since the first census :

Population Growth Trend (in millions)

	United India		Indian Union	Percentage increase	
Years	Census estimates	Kingsley Davis's estimates	Census estimates	for Indian Union	Davis's Estimates
1867-72	203·4	255·2	—	—	—
1881	250·2	257·4	—	—	0·8
1891	279·6	282·1	235·9	—	9·6
1901	283·9	285·3	235·5	0·2	1·0
1911	303·0	303·0	249·0	5·7	6·2
1921	305·7	305·7	248·1	0·4	0·9
1931	338·2	338·2	275·5	11·0	10·6
1941	389·0	389·0	312·8	13·5	15·0
1951	—	—	356·9	14·1	—

It is seen that Kingsley Davis has revised the figures of earlier censuses. This he did to take account of (a) extension of census operations to new areas ; (b) increased efficiency of enumeration. It cannot be estimated whether since the beginning of the nineteenth century population has grown or not. Increase might have been taken place due to rise in production, the stopping of certain customs such as 'sati' and infanticide, and the improvement of law and order ; and the forces which counteracted populations rise were increasing recurrence of famines and immisersation of the peasantry. Since 1872 the population growth was not very rapid compared with that in other countries. Prior to 1921, the growth was not only slow but also sporadic. There were decades of marked increase, slight increase or slight decline. This sporadic movement is largely explained by famines and epidemics. There was a great famine in 1867-68, the decade 1891-1901 saw several famines in widely diffused areas. In September 1896 there was bubonic plague in Bombay city which gradually spread in other parts of the country. There were malaria and kalazar in fairly extensive regions. The 1901-10 decade was

[12] *The Census Report*, 1941, Part I, p. 24.

comparative normal. But the next decade saw the great influenza epidemic of 1918, which on a conservative estimate took a toll of 12 to 13 million lives. This was reinforced by epidemics of cholera, plague, malaria and the incidence of two successive bad seasons and extensive crops failures at the end of the first world war.

The post-1921 period saw a steady and increasing rate of growth. Between 1921-51, the total increase has been of the order of 44 per cent, as against the world increase of about 33 per cent. During this period the highly industrialised North America had an increase of 45 per cent and Europe (including Asiatic U. S. S. R,) 20 per cent. Since 1921 there was no major calamity except for the Bengal famine in 1943 whose impact was localised but severe involving a loss of 2·5 to 3 million lives. Extended irrigation and transport checked famines to a large extent. Improvements in public health and sanitation prevented the outburst of major epidemics. Mortality was fairly high though it was much reduced relatively to earlier decades.

Economic history shows that the period of increasing production is the period of increasing population. Why the first stage of industrialisation explodes population has not yet been properly analysed. The commonly accepted view attributes this phenomena to fall in the death rate caused primarily by improvements in medicine and public health. In addition to this common belief it is held that industrial development provides expanding economic opportunities, increasing demand for labour, a rise in real wages, all leading to early marriages and increasing average size of the family in the country. Adam Smith and Malthus related the rapid increase in population to "a great and continued demand for labour.' In his classic work on industrial revolution, Mantoux presents a similar view that industrial growth leads to population growth through an increasing birtn rate.[13] In recent years Habakkuk also argues similarly. Indian experience, however, disproves the views of Adam Smith and Malthus. Here population increased due to a fall in the death rate, and not through a rise in birth rate or by a 'great and continued demand for labour' generated by an increasing real wages. In our country population rose, demand for labour stagnated and real wages fell.

[13] Paul Mantoux, *The Industrial Revolution in Eighteenth Century*, 354-364.

Indian experience also disproves the Hirschman thesis that population pressure acts as a stimulant to growth. Albert Hirschman suggests that, even in underdeveloped countries, population pressure may provide the stimulus needed to improve production techniques.[14] But in India as labour was already abundant and therefore redundant, the growth of the labour force did not bring a shift in production technique; and also as capital was short and state policy unhelpful for rapid accumulation and investment, population explosion could not act as a 'shock' to move our economy off the dead centre.

B. *Birth, Death and Fertility Rates*

Trends in Population growth may be better followed up by analysing (a) the trend in birth rate and the death rate; and (b) the net reproduction rate. Birth and death figures are available from (i) official reports on vital statistics and (ii) census reports. Kingsley Davis has deduced birth and death rates from census data as he considered registration of births and deaths in India as mostly inaccurate.[15] His results and official information can be compared in a tabular form : (*see table next page*)

Both in the case of birth rate and the death rate the estimates upto 1921 show an erratic trend, since 1921 the trend is regular, both are falling, the death rate falling faster. Since 1921, birth rate

[14] He starts from Duesenburry's "fundamental psychological postulate" that people resist any lowering of their living standards and try to prevent it if possible. His two propositions are (a) "that population pressure on living standards will lead to counterpressure, i.e., activity designed to maintain or restore the traditional standard of living of the community;" and (b) "that the activity undertaken by the community in resisting a decline in its standard of living causes an increase in its ability to control its environment and to organise itself for development," Albert O. Hirschman, *The Strategy of Economic Development.*

[15] The official statistics have been considered inadequate by Kingsley Davis and even by the Census Commissioner. He attributes the inadequacy to three major defects: (1) the registration covered only ⅘th of the total population; (2) birth reporting is incomplete; (3) rates are published not according to the age of the mother. "To understand why this deficiency exists we have simply to recall the illiterate, rural character of the population and the man, the village watchman, who usually serves as registrar. Nowhere can the official figures be accepted as representative of the total number of births."

slowly falls till 1941, after which the fall is more marked. This may be due to (a) rising proportion of children, and (b) falling ratio of females in the reproductive ages. It is difficult to say anything about decline in fertility rate or change in the attitude to reproduction.

Trend in Birth & Death Rates

Year	Estimated Birth Rate	Estimated Death Rate	Life Table Death Rate	Registered Birth Rate	Registered Death Rate
1881-91	48·9	41·3	40·0	—	—
1891-1900	45·8	44·4	42·0	34	—
1901-10	48·1	42·6	43·7	37	—
1911-20	49·2	48·6	49·8	37	34
1921-30	46·4	36·3	37·3	33	26
1931-40	45·2	31·2	31·5	34	23
1941-50[16]	39·9	29·4	31·2	28	20

Two important features of the death-rate in India are (i) the high infant mortality, and (ii) heavy mortality of females at reproductive ages. Commenting on this high death rate Dr. Gyanchand stated: 'The most significant point about Indian population is not its increase but the high cost at which the increase is being maintained. If our net increase every year is about 3·5 lakhs it is being secured at the cost of 40 lakhs more deaths than would occur in the United States.' D. Ghosh has tried to estimate its importance from the standpoint of capital-formation and economic development. 'From the economic point of view, the manner of our growth involves an immense waste of national resources and productive capacity. First, we nurse, feed, clothe, house and train every batch of newly born population only to lose 45% of them before they reach the age of 15 at which they can make contribution to National Income. If the cost of maintaining a young person up to the age of 15 is assumed to be half that of an adult, we throw away some 22·5% of our national income on rearing up persons from whom the community gets little or no return.'[17]

Trends in fertility in India is showing no decline. Western demographic experience shows that beginnings of a decline in fertility are first revealed in differential fertility, i. e., between urban and rural

[16] The last decade estimate from S. P. Jain.

[17] D. Ghosh—*Pressure of Population and economic efficiency in India.*

communities, or various socio-economic groups. Using child-woman ratio as a measure of fertility, Davis observed that it is inversely correlated with degree of urbanisation. He found that "the difference between city and country and between cities of different size remained about the same over the whole period from 1891 to 1941." Fertility surveys[18] recently conducted in our country do not show any differential either by rural-urban groups or by other socio-economic classes.

C. *Age-Composition*

The structural impact of birth rate and death rate is on the age-composition of the people. In India the persistently high fertility rate has produced an age-composition which has remained constant. The age-distribution of a country's population can be represented in the form of pyramid, the base representing the children born. As one goes up the pyramid, it becomes narrower towards the top, the shape of the pyramid reflects the survival rate in the country. The Indian pyramid has a broad base and a sharp tapering top. The census figures reveal that the fraction of the population under 15 has varied between 38·3 per cent and 39·3 per cent during 1891-1951, a little than 60 per cent is between 15 and 64, and a small fraction of 2 to 3 per cent is 65 and above. In the industrialised west, there is a sharp contrast. A comparison is detailed below which shows that our position is more similar to under-developed countries like Egypt and Ceylon.

Age-composition of Indian Population

Country	% Under 15	% Between 15 and 65	% Above 65
India	About 40	About 60	About 3
U.S.A. (1950)	27·6	64·7	7·6
Sweden (1943)	22·6	67·5	9·9
France (1950)	21·7	66·7	11·7
Egypt	39·2	57·0	3·6
Ceylon	37·2	59·3	3·5

[18] In U. P. Madhya Pradesh and Travancore at the time of 1951 census as well as the U. N. Survey in Mysore.

D. *Working and Dependent*

Indian age-distribution shows the relatively smaller size of the age group 15-64. This implies a lower ratio of working to non-working population. Besides age-composition the relative strength of the labour force is influenced by traditions, conventions and opportunities regarding participation of women, children, and the aged etc. Traditional conventions persisted in Indian economy during the period under review. On the basis of census reports, the office of the Registrar-General of Census has recently prepared a statement of employment trends in successive decades in the Indian Union. The table is given below :

Year	Total Population (in millions)	Total Working Population (in millions)	Working Force as % of Total Population
1901	235·5	117·2	50
1911	249·0	124·2	50
1921	248·1	121·3	49
1931	275·5	129·6	47
1941	314·8	122·4	39
1951	356·9	142·3	40

The table shows that while total population increased by 50 per cent between 1901 and 1951, the working population increased by only 21 per cent so that the proportion of working force to total population declines from 50 in 1901 to 40 per cent in 1951. As there was no major shift in age-composition of population, this trend can only be explained by the failure of a stagnant economy to absorb annual additions to labour force.

E. *Occupational Structure*

Studying economic development in relation to the economic structure of different countries, Colin Clark has positively maintained that as a country develops, the proportion of its working population engaged in primary production (agriculture, foresty and fishing) declines, the proportion in tertiary production (commerce, transport, services) increases, and the proportion engaged in secondary production (manufacturing, mining and buildings) rises to a maximum and then begins falling—thereby indicating that each nation reaches a stage of maximum industrialization beyond which industry begins to decline relatively to tertiary production. Keeping this in mind, what is the trend in India's occupational structure, and what does that trend signify ?

The table below shows the shift in the occupational divisions of the working population :

Year	Working Force	Working Force in agriculture	% of Working Force in agriculture	Working Force outside agriculture	% of non agriculture working force (5) as % of (2)
	(in millions)	(in millions)		(in millions)	
(1)	(2)	(3)	(4)	(5)	
1901	117·2	73·3	62·4	43·9	37·6
1911	124·2	83·5	67·7	40·7	32·3
1921	121·3	83·1	68·6	38·2	31·4
1931	129·6	81·4	63·1	48·1	36·9
1941	122·4	84·9	69·6	37·4	30·4
1951	142·4	98·2	69·0	43·1	31·0

The figures show an increase in the share of agriculture from 62·4 per cent in 1901 to 67·7 in 1911 and a relative constancy thereafter. The sharp decline in 1931 was not real, as 7 million females of agricultural families were then reported in domestic service, who ought to have been included in agriculture. Within these five decades, the total working force increased by 25 millions, but the non-agricultural force remained the same. The additional hands, therefore, were engaged in agriculture itself. Employment in non-agriculture sector has remained constant because handicraft declined and factories were established. The sharp decline of non-agricultural labour force between 1901 and 1911 is yet to be analysed properly, perhaps it is due to breakdown of handicrafts. Additional absorbtion in agriculture was due not to increase in acreage or output, but the prevalence of joint family system where increasing hardships had to be equally divided between larger numbers. The trends in occupational structure of Indian population since the beginning of this century cannot but reveal stagnation in agriculture. These show

no sign of an agricultural revolution which precede an industrial revolution in most of the present industrialised countries .

F. *Population growth and trends in Agriculture and Food Production*

There was increased volume of agricultural working force, but little or no expansion of area under cultivation. This has obviously resulted in decreasing per capita cultivable land. The following figures will reveal the rate of decline :

Census Year	Cultivated area per capita (in cents)
1891	109
1901	103
1911	109
1821	111
1931	104
1941	94
1951	84

The table shows that per capita cultivated area fluctuated up to 1921, after which the population explosion has led to decreasing land per head.

What happened in the sphere of food crop and non-food crop production ? The following table shows all India estimates of movements in food crops and non-food crops area as well as in the value of food crops and non-food crops since the turn of the present century.

Years	Area under food crops (in millions acres)	Area under non-food crops (in million acres)	Total area under culti-vation)	Value of food crops (in million rupees) at 1938-39 prices	Value of non-food crops	Total value of agricul-tural output
(1)	(2)	(3)	(4)	(5)	(6)	(7)
1900-05	221	53	274	7630	5620	2010
1910-15	238	66	304	8110	5920	2010
1920-25	237	64	301	7730	5450	2280
1930-35	247	63	315	8350	5750	2600
1940-45	258	72	330	8700	5780	2920

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31 per cent respectively, while articles of food, metals and other raw materials and manufactured goods rose by about 25 per cent. There was a small increase in the price of country sugar but appreciable decrease in tea and coffee, imported sugar, dyeing and tanning materials, especially indigo, coal and shellac, as also a slight fall in the prices of other textiles. Relatively to some other countries rise in prices was greater in India. From quinquennium 1894-8, the prices rose by 40% in India in 1907-11, in England it was 21 per cent, in U.S.A. 38 per cent, and in Australia 20 per cent.

Dutta Committee divided the causes of price rise into world causes and causes peculiar to India. The world factors were : (a) shortage in the supply of agricultural commodities and their increased demand, (b) the increased goldsupply from the world's mines, (c) the development of credit, (d) destructive wars, and increase in standing armies in the countries of the world. Factors peculiar to India were : (a) short supply of agricultural products, both of food grains and raw-materials due to (i) the growth of cultivation not keeping pace with the growth of population ; (ii) Unreasonable rainfall ; (iii) the substitution of non-food for food crops ; and (iv) inferiority of new lands taken up for cultivation ; (b) increase in the demand for commodities for increase in factories and urbanisation internally ; (c) development of railways and communications in India, and the lowering of the direct and indirect costs of transport in India itself and between Indian ports and foreign markets with increasing demand ; (d) improvement in the general monetary and banking and facilities increase of credit ; (e) increase in the volume of the circulating medium.

Both the Government and the nationalist public opinion differed with the findings of the Dutta Committee. The Government did not agree with the view that the rise in prices was due to internal causes. They asserted that canal-irrigated area had practically doubled itself during these years ; therefore, there could be no shortage in food crops. They ascribed the rise in prices only to world factors and increased credit. The nationalist opinion, on the other hand, blamed the internal causes, mainly the currency policy of the Government. Gokhale attributed this rise to the heavy coinage of rupees. The rupee being no longer printed in silver (but in much less valuable metal) and being inconvertible into gold, it was almost as easy to issue it excessively as inconvertible paper currency. Even Keynes, who was an admirer of Gold Exchange Standard in India admitted excessive rupee coinage. He wrote : 'The effects of heavy coinage are cumulative. The Indian authorities do not seem to have understood this. They were, to all appearances, influenced by the crude inductive argument that because there was a heavy demand in 1905-6, it was likely that there would be an equally heavy demand in 1906-7 ; and when there actually was a heavy demand in 1906-7 that this made it yet more likely that there would be a heavy demand in 1907-8. They framed their policy, that is to say, as though a community consumed curreny with the same steady appetite with which some communities consume beer.'[20]

The third stage consisted of war period (1914-18) and the pre-depression (1918-20). When prices touched unprecedented heights. The trend was most marked in 1920, the year of post-war boom. By 1919, prices of food grains had risen on an average by 93 per cent since the beginning of the war, the increase in piece goods was just under 190 per cent for imported goods and just over 60 per cent for India-made goods. Such a high rise in prices was due to many causes. (a) A number of commodities were now in short supply because of import restrictions and the diversion of resources for war purposes. (b) The increase in the volume of currency and credit was considered to be the more important cause. War-expenditure

[20] Keynes, *Indian Currency and Finance*, p. 134. The view that currency inflation through heavy coinage was mainly responsible for the rise in prices was voiced in the Imperial Legislative council by Gokhale in 1908 : 'The stock of rupees in existence in India before 1893 was estimated by Mr. Harrison, the expert, at 130 crores. During the last ten years the Government have made a net addition to this stock of over 100 crores. Such a sudden inflation is bound to result in a general rise in prices...The rupees issued by the Government in response to the demands of trade go into the interior and spread themselves among those from whom purchases are made. But they do not flow back quickly to centres of trade or to banks, and thus new rupees have to be obtained from transactions for which the old rupees might have sufficed. Meanwhile the melting of rupees having ceased (as a result of the token character of the rupee since the closing of the mints in 1893 and its artificial higher exchange value), every issue becomes a net addition to the volume of currency,' G. K. Gokhale, *Speeches*, p. 150.

was met by three ways—taxation, borrowing and printing notes—and each of them helped the inflationary process. Taxes were added to the prices by the sellers, loans helped credit expansion by the banks, and printing notes directly increased the flow of money in a more or less stagnant economy. The notes in circulation in India amounted to Rs. 237 crores in 1914, Rs. 265 crores in 1916 and Rs. 362 crores in 1919. Prices reached highest peak in 1920, with Calcutta index number at 201 as compared to 100 in 1914. (c) The failure of rains in 1918-19 and 1919-20 accentuated the rise in prices which reached their highest level in 1920.

The fourth stage consisted of the downward trend during the depression. From its high peak in 1920, prices began to decline since 1921. (a) Prices were falling all over the world, each affecting the other. Prices in India, U. K., U. S. A. and other countries slowly moved downwards more or less parallel to each. (b) The sale of reverse councils in 1920 led to deflation of currency and helped the fall in prices. (c) The balance of trade was adverse in 1920-1, and in '21-'22 leading to export of gold.

This downward trend continued until 1929 when the Great Depression in the West forced the Indian prices into steep decline. The prices of primary products fell more than those of industrial products, and India suffered more than the industrial nations of the West due to adverse barter terms of trade. In 1931, prices were below the 1913 level. The Calcutta wholesale price index number (July 1914=100) stood at 143 in September 1929. In September 1931, when Great Britain went off the Gold Standard, the index stood at 91. The rupee was then delinked to sterling. The downward trend however further moved on to 88 in December 1932 and 82 in March 1933. Along with world recovery, there was a slow and partial rise in prices from April 1933 to August 1937, when the Calcutta Index showed 105. This rise was due to worldwide rearmament and increasing speculation. There was a setback in this rising trend with a mild recession in the U. S. A. and other countries about the middle of 1937. Price in India again depressed, the index shown 94 i- 1938. After that a firmer tendency was noticeable and the ...ber rose by the eve of the second world war, Indian prices ... it had been on the eve of the first world war.

The significance of this period of price-movements was mainly three. First, it has been seen that the price-fall was greater in India than in other industrialised countries. While in other countries, the governments came out with recovery programmes, in India, however, no such action took place. Second, the fall in prices was relatively much greater (almost double) in primary products than in manufacturing articles. This unravels the nature of cyclical movements in an under-developed economy. Ordinarily speaking. in a predominantly agricultural economy, the cyclical fluctuations should be the causes of monsoonal factors with seasonal variations. Theoretically, production in industry was to fluctuate and the self-consumption-oriented agriculture was to show the steadiness. But in India, agricultural prices were dependent on exports of primary products and this brought the foreign cyclical wave on the Indian shore. And why, it may again be asked, the prices of primary products were more sensitive to cyclical fluctuations than the prices of finished goods ? This was due to the phenomenon that Indian manufacturers were capable to overcome the crisis by throwing extra burden on the agriculturists by depressing their prices further. Third, this shows the vicious circle of overproduction crisis in an agricultural economy. The peasant was hard hit because his receipts dwindled owing to price-collapse while his obligations in the shape of land revenue, rent, interest charges etc. remained the same, and therefore became more burdensome. This not only aggravated economic depression by a reduction in the purchasing power or the effective demand. Due to this fall in prices, the peasant had to produce more than before in order to meet his contractual obligations, Decline in prices led to over-production and over-production further depressed prices. The starting point of this circle was not over-production, but a decline in prices due to some exogenous factor.

The Fifth stage of rising prices started at the end of 1939 with the start of the Second World War. Until 1943, the government did not attempt to check their upward trend. The rise in prices was the combined result of inflation of currency, diversion of goods for war purposes, transport bottlenecks, speculation, hoarding and blatant profiteering, and maldistribution of goods. England entered the Indian market as buyer of food and consumer goods. Her purchases increased currency on the one hand, and reduced the volume of available goods on the other. The food situation worsened and Bengāl was struck down by a famine which (writes the Bengal Famine Enquiry Commision Report) 'stands out as a great calamity even in an age too familiar in human suffering and death on a tragic scale. In 1943 an enemy—generally thought to have been finally vanquished—reappeared in full strength and its victims thronged in their thousands the streets of the greatest city in India, Calcutta.' Hundreds of thousands died of the accompanying epidemics of malaria, small-pox and cholera. But 'only one section of the community suffered from starvation—the poorer classes in the rural areas.' The table showing the movement of wholesale prices is given below.

Index of Wholesale Prices[21]
(Base : Week ended August 19, 1939=100)

Year	Agricultural Commodities	Raw Materials	Primary Commodities	Manufactured Articles	General Index
1939-40	127·5	118·8	124·2	131·5	125·6
1940-41	108·6	120·5	113·4	119·8	114·8
1941-42	124·2	146·9	132·5	154·5	137·0
1942-43	166·2	155·9	166·0	190·4	171·0
1943-44	268·4	185·0	232·5	251·7	236·5
1944-45	265·4	206·0	240·5	258·3	244·2
1945-46	272·8	210·1	246·4	240·0	245·0
1946-47	314	245	280	259	275
1947-48	357	254	313	288	308

The *sixth stage is the post-war period* when the prices continued the upward move, wholesale prices did not register a fall ; there was, on the other hand, a continuous rise. The general index went on rising upwards. Post-war period can be divided into two periods : the pre-devaluation and post-devaluation periods. (a) The pre-devaluation period : At the end of the war the price index was 245. Due to scarcity of goods and a pent up demand from an increased popu[illegible]n the prices went on steadily rising. For instance, they [illegible]ints to 275 in 1946-47 ; by 33 points to 308 in 1947-48, [illegible]ints till August, 1949, just before devalution. The

[illegible]rency and Finance, 1951.

partition and the immigration had stepped up this rising trend. (b) The post-devaluation period can be devided into three different phases. (i) During the first phase, the prices continued rising ; from 389 in August 1949, they rose to 396 in June 1950 when the Korean war was declared. (ii) During the second phase, as a result of the out-break of the Korean war, the pace of the rise in prices was greatly accelerated, so much so that they reached 439 in March recording a rise of 11% in the post-Korean war period against a mere rise of 1·7% during the first six months after devaluation in the pre-Korean war period. (c) After mid-April, 1951, the prices declined, as the Korean war stock-piling ended.