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The Impact of the British Economic policy

About the railways the nationalists often complained of constant drainage of wealth through payment of guaranteed interests, which encouraged a lot of wasteful construction. The government also invested directly in railway construction, mainly in the frontier regions to meet the needs of army movement or for "famine lines" in scarcity areas. The nationalists' main objection was against the selection of priority areas for such public investments, as many of them believed that irrigation would have been a more suitable area for such investment promising higher social benefits. For a colonial government looking for profits, there was obviously less incentive for investment in irrigation. Thus the railways, as it seems, did not encourage Indian economic development as it did in industrialising Europe. Although agriculture was relatively favoured, it did not become a growth sector either. But nevertheless, when the British left, in 1946/4 7 there were 65, 217 kilometres of railway tracks in India, covering 78 per cent of the total area.167 The railways had also encouraged the construction of feeder roads and a few other strategic roads interconnecting different regions of India. This did certainly integrate the Indian market to some extent and provideda cheaper mode of transportation for both people and goods, which were taken advantage of by the Indian businesses at a later stage after Independence. And finally, the railways certainly had significant social and cultural impact on Indian society and nation; 168 but those were, one should remember, the unintended results of British imperialism.

The other nationalist complaint against the empire was about its adverse impact on Indian handicraft industries, which at the beginning of British rule in the mid-eighteenth century used to supply about a quarter of all manufactured goods produced in the world16· and constituted chief export items of European trade. Following the industrial revolution, not only did this export demand gradually evaporate, but colonial rule opened the Indian markets for British

manufactured goods and led to "deindustrialisation" or destruction of indigenous handicraft industries, reducing the number of people dependent on secondary industries. Initially, the British imported goods, mainlywoollen textiles, had a limited market in India; but then industrial revolution changed the scenario. The preferential tariff policies between 1878 and 1895 were meant to solve a crisis in British industrial economy, which could be overcome by having a captive market in India, now being integrated by the railways. Thus, disappearance of export demand as well as invasion of the home market by cheap manufactured goods from England resulted in the destruction of craft industries. For India its obvious outcome was increasing pressures on land and pauperisation. However, some modem economic historians have questioned this
nationalist thesis. They argue, first of all, that the rate of deindusrrialisation, if it did occur at all, is difficult to quantify, because of the paucity of reliable data and also multiple occupations of the Indian artisans, many of whom were often involved in agriculture as well. And if the cotton weavers are supposed to be the chief victims of this onslaught of cheap Manchester produced cotton textile, there is enough evidence to suggest that the Indian handlooms continued to produce coarse cotton cloth for the poorer consumers at home well up to 1930s, when they were overtaken only by the Indian mill produced goods. 170 Some other recent researches, however, reveal that the nationalist position might not have been so incorrect after all, as the available statistical data from Gangetic Bihar clearly show that the proportion of industrial population to total population of that region declined from 18.6 per cent in 1809-13 to 8.5 per cent in 1901. Greater fall was in the percentage of weavers and spinners, whose proportion to the total industrial population declined drastically from 62.3 to 15 .1 per cent during the same period.171
That does not bring the "deindusrrialisarion" debate to a convenient conclusion, for it has been shown further that while employment declined, real income per worker in industry increased between 1900 and 194 7 and this did not indicate overall regress in the industrial situation. This rising industrial income was not certainly due to the intervention of modern industries in India, b ut, as Tirthankar Roy has argued, because of increasing per worker productivity in the crafts. This was achieved through technological specialisation and industrial reorganisation, such as substitution of family labour **with** wage labour within the small-scale industry, which was mostly the case in the handloom textile secror. ! " As Roy further suggests, there is also evidence of "a significant rise in labour productivity" in other small-scale industries as well, resulting from a process which he describes as "commercialisation". It included producing

for non-local markets, a shift from local to long distance trade, evolution of infrastructure and institutions to support that change and shifts in consumer and producer behaviour as a consequence of that. These factors helped artisanal industry, but did not lead to successful industrialisation, with the necessary structural changes and economic development. The basic occupational structure in the subcontinent remained substantially unchanged between 18 81 and 1951, with agriculture providing for 70 per cent, manufacturing 10 per cent and services 10-15 per cent. Modem manufactures grew rapidly only after World War One; but the rate of increase in theover all income from the secondary sector before World War Two was only 3.5 per cent per annum, not "fast enough to set India on the path of an industrial revolution". l 74

One of the reasons behind this lack of overall economic development was that the colonial state in the nineteenth century was far from just a "night watchman", as supposed by Morris D. Morris (1968). Officially the British government was committed to a laissezfaire policy, but actually it was a policy of discriminatory intervention, which amounted to, as one economic historian has described them, "non-market pressures exerted by the government" .11s Such pressures successfully nudged out Indian entrepreneurs like jamsetjee Jeejeebhoy116 or Dwarkanath Tagore, 177 who still mistakenly believed in the idea of partnership. Since 18 13 when Indian trade was freed from the monopoly of the East India Company, India came to be considered as a lucrative field for British private capital investment, chiefly in railways, jute industry, tea plantation and mining. Indian money market was dominated by the European banking houses.

One major reason why the Indian entrepreneurs failed and their European counterparts thrived was the latter's greater access to and command over capital, facilitated by their connections with the banks and agency houses, while the Indians had to depend on their kins, families and castemen.111 On the other hand, British economic interests in India operated through the Chambers of Commerce and the Managing Agency Houses, which influenced government policies and eliminated indigenous competition. The managing agencies, controlled by the British "merchant adventurers", offer an interesting story of economic domination of expatriate capital. These were private partnership firms, which contrclled through legal contracts a host ofjointsrock companies, with no obligations to their shareholders. Thus a large firm like Andrew Yule would control about sixty companies in 1917. They preferred racial exclusivism and autonomy, and resisted all attempts at integration. On the eve of World War One, there were about sixty such agency houses, dominating jute industry, coal mining and tea plantations, controlling 75 per

cent of the industrial capital in India and almost half of the total industrial employment.P? So whatever industrialisation that did occur was mostly, though not exclusively, through British capital, with the profits being regularly repatriated. And the major factors that favoured this development were the discriminatory official policies.
An ideal example of such economic favouritism was the tea plantation in Assam, which was developed in 1833, directly under thesponsorship of the government, seeking to reduce import of expensive
tea from China. Later, plantations were transferred to individual capitalist ownership, and here native investors were deliberately ignored. The Inland Emigration Act of 1859 secured them a steady supply of labour, by preventing the migrant workers from leaving the plantation sites. Tea industry remained dominated by British capital until the 1950s; so was coal mining in eastern India. The development of jute industry in Bengal is another interesting saga that needs to be recounted here. jute as a cheap substitute for flax was developed in the early nineteenth century and Bengal remained the chief supplier of raw jute for the industries in Dundee. In 1 855 the **first** jute mill was started in Bengal, and then closeness to sources of raw materials and cheap labour gave it a competitive edge over the Scottish industry. The opening of the Australasian markets in the late nineteenth century, World War One and the wartime demand hike gave the industry a real push. The amount of paid up capital in jute industry increased from 79.3 million in 1914-15 to 106.4 million in 1918-19, to 179 .4 million in 1922-23. Bulk of the capital invested was British capital, organised through the Indian Jute Mills Association (IJMA), which controlled output i n order to maintain high prices. The profitability of the industry continued until the Great Depression, when both exports and net profits began to decline. 180
However, this dominance of expatriate capital notwithstanding, from the 1920s some Calcutta-based Marwaris, who had made money as traders and shroffs, began to intrude into this exclusive sphere and started investing in jute industry. First, through buying stocks and lending money, many of the Marwaris got themselves elected to the boards of the European managing agencies. And then, people like G.D. Birla and Swarupchand Hukumchand set up their own mills in 1922. This marked the beginning of Indian jute mills around Calcutta, as in this decade one Armenian and six Indian mills were started, accounting for over 10 per cent of the loomage. In the 1930s this position was further consolidated, as some mills dared to operate outside the control mechanism of the IJMA, thus challenging the hegemony of expatriate capital in this industry. This
Marwari strangleholdwas gradually extended to other sectors, like

coal mines, sugar mills and paper industry. Between 1942 and 1945, they began to take over some of the European companies, so that by 1950, argues Omkar Goswami, they were "poised to take over almost all the older industries in the region" which had hitherto been dominated by European capital.'! ' While Tomlinson would ascribe this development to the flight of expatriate capital because ofdecolonisation, 1 1 2 Goswami would give more credit to Marwari entrepreneurial skills.

The real success ofthe Indian industrialists, however, came in the cotton industry of western India. Until the beginning ofWorld War One imported textiles dominated Indian markets. This import considerably declined during the war-more than halved between 1913-14 and 1917-18-partly because ofthe transport dislocations caused by the war and partly due to 7 .5 per cent import duty on cotton textiles imposed in 1917. The Japanese competition was not so serious yet, while on the other hand, excise duty on Indian textiles remained static at 3 .5 per cent. In addition, there was the military demand and the call for 'Swadeshi', proposing a boycott of foreign goods and the use of their indigenous alternatives. Cotton industry existed in India before World War One, and along with the European managing agencies, certain traditional trading communities like the Gujarati banias, Parsis, Bohras and Bhatias, who mademoney through export trade with China, had maintained their presence in this sector. But as opportunities contracted and their subordination in export trade of raw cotton became more constrictive, they began to diversify into manufacturing as a strategy for survival.

The development of cotton industry went through three distinctive phases. It had its early beginning in Bombay in the 1870s and 1880s; its diversification beyond Bombay began in the 1890s, first to Ahmedabad, and then to other centres like Sholapur or Kanpur, its major expansion coming after World War One and in the 1920s; the third phase of its development came in the 1930s when it withstood the initial pressures of depression and then began to expand. The industry remained dependent on foreign collaboration for imported machinery, chemicals and technological expertise. But technology was not the most crucial factor behind its growth, which depended on three things, as Rajnarayan Chandavarkar has identified them, i.e., "relentless improvisation in the use of old machinery, the manipulation of raw materials and the exploitation of cheap labour." m

Although import of cheap Japanese goods threatened its growth temporarily in the 1930s, by the rime ofWorld War Two, the Indian cotton industry had established "an unchallenged monopoly over its vast domestic market and began competing with Lancashire in foreign markets". 114

Iron and steel industry, under the leadership ofTata Iron and Steel Company (flSCO), began at the turn of the century under direct government patronage. Because, here the monopoly of the Birmingham steel industry had already been broken by continental steelexcept in matters of government and railway orders. Revision of store purchase policy during World War One and protection after the war provided a real push to the growth of TISCO. But during W orld War Two, when there was 'another opportunity for expansion, the government showed "a strange unconcern" . 18s But by then (1938-39) TISCO was producing on an average 682,500 tons or 66 per cent of the steel consumed in India. Apart from cotton textiles and steel, the other industries that developed during the inter-war period were shipping, coal, paper, sugar, glass, safety matches and chemical industries. I t is true that protection after W orld War One, motivated by fiscal compulsions and the need for a local power base, stimulated growth in a number of manufacturing industries in India. But their growth potential was limited to domestic market alone, which remained consistently depressed, given the massive poverty of the Indian population. The situation could only improve through effective government intervention, which was not forthcoming

If the government policies and the stranglehold of British capital inhibited Indian enterprise in certain sectors, recent researches show that below the westernised enclave and above the subsistence economy of the peasants, there was an intermediate level-the bazaarwhere Indian businessmen and bankers continued to operate. This tier consisted of the sectors where either the returns were too low or risks too high to attract European investors, who 'confined them - selves to sure bets" or the exclusive spheres protected by the empire. 186 This phenomenon which Rajat Ray has called the "imperial division of economic space", 1 87 provided a sphere of operation, though less rewarding and more risky, for the enterprising communities from Gujarat, Rajasthan or Tamilnadu. The recent microstudy of Bihar by Anand Yang shows how the bazaar provided a profitable ground for the operations of the indigenous merchantscum-bankers from the mid eighteenth century right up to the period of the Gandhian movements in the twentieth. 1 88 Some of these indigenous firms took advantage of the new opportunities of the empire, such as the railways and telegraph, and ran sophisticated and fairly integrated business networks that covered the whole of the subcontinent. These firms later expanded overseas to China, Burma, Straits Settlement, Middle East and East Africa. It was these operations which generated indigenous capital, which was later invested in industries after W orld War One, when the imperial economic policies began to slacken due to multifarious pressures, both financial and political. India's underdevelopment was therefore not due to any lack of entrepreneurial skills. This brings us back to the point where we began, i.e., India's economic and financial obligations to the empire and how did it fulfill them till the end of the imperial connection. Between 1 880 and World War One successive financial crises showed that India was incapable of shouldering the financial burden of serving the empire. The financial crises were due to various reasons, such as greater Indian demands for a share of resources. Development of an articulate political opinion made any increase in internal taxation rate a risky proposition. There were also the macro-economic factors, like fluctuating exchange rates, trade depressions etc. or the vagaries of nature. These led to the weakening of the imperial goal and resulted in greater devolution of power. Gradually import tariffs were imposed against British textile, which virtually amounted to a protection for Indian industries. There was also a shift in British industrial economy and the Indian market lost its importance for the growth sectors in British economy. British investments in Indian capital market also declined, so did the use of Indian army for thedefence of empire. The Indian army could still be used, but the cost had to be borne by London or by the dependent colony, which needed it. Thus, gradually India's role in the greater imperial structure was subordinated to its own domestic requirements. The imperial goal and ideology were muted to accommodate pressures built up in India, both financial and political. This diminution of imperial economic interests in India is regarded by some historians as a major factor behind the decision to transfer power.