Subject: History

Lesson: Trade and industry

Course Developers

Trade and industry: deindustrialization
Trade and industry: drain of wealth
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5.1: Trade and industry: de-industrialization

The common perception about the Indian subcontinent is that it has been dominated by agriculture. Despite the growth of many modern industries, even now more than half of the population of India is still engaged in the agricultural sector. However, for centuries India enjoyed a high reputation as a manufacturer of fine textiles and many other manufactured goods. As you have read in previous lessons, after Vasco da Gama's discovery of the sea route to India via the Cape of Good Hope in South Africa in 1498, European traders started making sea voyages to India to acquire spices and textiles for trade. In the late 18th century the East India Company's trading interests led to territorial conquest and eventually India became a colony of the British Empire. This also coincided with the advent of the industrial revolution in England that was based on the mechanization of production. This meant that machines driven by steam power increasingly manufactured those goods that were earlier made only by artisans by hand.

As machines increased production they required more raw materials that were not available in Britain and a bigger market for industrial goods. India as a colony was utilized for this and from the 19th century goods manufactured in Britain started flooding India. This must have affected India's crafts, craftsmen, economy and the quality of life of its people. However whether the inflow of British manufactured goods harmed India or benefited it has been a matter of intense debate since the late 19th century. British officials, writers, nationalist leaders and thinkers along with historians have tried to assess the extent and variations in a process that has been described as the de-industrialization of India.

Value addition: interesting detail
Indian handlooms textiles
Indian textiles enjoyed a high reputation for their quality, texture, attractive prints, designs and they were also comparatively cheap. They were much in demand in Europe, Southeast Asia, Central Asia and the Middle east. Many words and names have a fascinating history as they evolved with trading links. For example, the cotton textiles that the Portuguese carried to Europe came to be known as 'calico' a word derived from Calicut in Kerala where they first landed. Later on all cotton textiles came to be known as calico. You must have heard about 'muslin' that has a legendary reputation as a fine woven cotton cloth. It is derived from Mosul, a place in Iraq today where Arab merchants brought it from India and European merchants bought it. Bandanna is the name given today to any coloured and printed scarf that is usually tied around the neck or head. It is derived from the Hindi word 'bandhna' (literally means tying) and is used for a range of brightly coloured cloth produced through a method of 'tying and dying'. Similarly the English word 'chintz' is derived from the Hindi word chhint that refers to cloth that has small and colourful floral patterns and designs.
Source: Original

Trade and industry

Figure 5.1.1: Chintz

Source: http://en.wikipedia.org/wiki/Chintz

Figure 5.1.2: Bandanna

Source: http://en.wikipedia.org/wiki/File:Red_and_blue_bandannas.jpg

Figure 5.1.3: Calico

Source: http://www.britannica.com/EBchecked/topic-art/89478/..

What is de-industrialization?

De-industrialization does not mean just decline of handicrafts or artisanal production. Such decline occurred all over the world where modern machine-based industry has developed. In the case of India, which experienced colonization, the decline of traditional artisanal industries was not replaced or adequately compensated by newer or more advanced forms of industrial production. Thus India's traditional industries declined in the face of the influx of British manufactured goods that were sold under colonial conditions that benefited foreign manufactures. Consequently Indian manufacturers were pushed into agriculture and other low-paying occupations. This process is referred to as the 'de-industrialization of India'.

It is possible to talk about the de-industrialization of India during the colonial period because India held a high position in small-scale industry such as hand-loomed textiles and other handicrafts in the pre-colonial period. Around 1750, India supplied about 25% of the world's industrial output, and perhaps a larger percentage of the world's textile exports. This figure fell to 2.4% by 1938 (Bairoch 1982). So what happened? As you know European companies started trading with India from the 17th century. The major exporting regions in India were the Coromandal coast, Bengal, Gujarat and Punjab. Even before the advent of European companies these regions had extensive trading networks. For example, the Coromandal traded with Southeast Asia, Gujarat with the Red Sea and Persian Gulf region, Punjab with Central Asia and Bengal used its waterways to trade with upper India. Even till the 18th century neither the Europeans nor the European markets were the most dominant. The intra-Asian networks continued to be important till then.

The European markets started becoming important with the entrenchment of European companies which traded with their ships. The 16th, 17th and most of the 18th century was the era of mercantile capitalism in Europe. In this era the wealth of a country was measured according to the amount of bullion (precious metals, mainly gold and silver) it possessed. One of the ways to acquire it was profitable trade. Hence the basis of the profit of European trading companies was the difference in the cost prices in India and the sale prices of Indian goods in Europe. The profit margin could be increased if the price paid to the Indian artisans could be lowered. So long as the East India Company was competing with others e.g. the French or the Dutch East India Companies and other Indian and Asian merchants, the Indian artisans were in a better bargaining position for their products. However in the second half of the 18th century the East India Company gained an upper hand. It eliminated the challenge of its European rivals – the French and the Dutch and began the military and territorial conquest of India. The battle of Plassey (1757) and the acquisition of Diwani (1765) in Bengal gave them the dominance required to monpolize the market.

A monopolist has no rivals or competitors and therefore can influence the market to its advantage. This was the advantage that the English enjoyed in Bengal in the last three decades of the 18th century. Using their dominant political, administrative and military position, the East India Company and its servants in their private capacity acquired last quantities of textiles in Bengal at low prices and reaped high profits from sale in the

European markets. On the surface it appeared that the exports and production in Bengal had gone up. But in reality the artisans were forced to produce and deliver goods at prices that made it difficult for them to survive. They were able to do it for some time since artisanal production was based on family labour where living standards could be pushed below subsistence level up to a point. However the lowering of their incomes ruled out the possibility of investing in technology and other resources to improve production.

This coincided with a virtually opposite process that was occurring in England. Technological change along with several other social and political factors led to mechanization of production that led to what is commonly known as the Industrial Revolution in the last decades of the 18th and the early decades of the 19th century. The new machine-produced cloth from the mills of England had the advantage of the economies of large-scale production and Indian goods now started losing out to them in European markets. By 1800, the market for Indian goods in Europe had dwindled. The domestic demand for fine textiles was also on the decline as the indigenous elite and the old nobility increasingly came to be politically and economically subjugated by the English. The new revenue systems initiated by the East India Company also depressed demand in the rural areas due to their high level demand of land revenue in the early years of their implementation. From the early decades of the 19th century India's industrial exports started declining. On top of this duties were imposed on Indian goods on several occasions to make them more expensive vis-à-vis the goods manufactured in England, so that they could not compete in the international markets.

In 1813, under pressure from the manufacturers in England, the **monopoly** of trade that the East India Company had enjoyed was taken away by a Charter Act. Now anyone could freely trade with India. From 1820 onwards English machine-made cloth and yarn started reaching Indian markets. Hence India experienced a double blow. Not only did its exports of manufactured goods suffer; goods manufactured by factories abroad and sold in India under the dominance of a foreign power invaded its domestic markets. India thus experienced a process that was the reverse of industrialization which has been called de-industrialization.

The debate on de-industrialization

The destruction of Indian industries as a consequence of colonialism was noticed and analyzed by a range of writers from the 19th century. Among them the sharpest critique was provided by the early nationalists like DadabhaiNaoroji, M. G. Ranade, and R. C. Dutt. They along with others discussed de-industrialization along with related concepts like 'Drain of Wealth' to provide a comprehensive account of the impact of British rule on India. Their economic nationalism was also developed to counter the claims made by advocates of colonialism who argued that India had developed and benefited by virtue of being ruled by the world's most developed nation, i. e. Britain.

Value addition: what the sources say
R. C. Dutt's analysis
In the first decade of the 20th century R.C. Dutt provided the classic nationalist account of the impact of colonial rule in India and its negative effects on India's domestic crafts: "…in purely agricultural pursuits England had little to teach; but in cleaning and husking the food grains, in spinning and weaving, in manufacture of indigo, tobacco, and sugar, in the growing of coffee and tea, in the forging of iron, in coal-mining and gold mining, in all industries which are dependent on machinery, Europe had adopted more perfect methods than India in 1830. It is possible to conceive that a Government working with an eye to the advancement of the national industries, might have introduced these superior methods among the industrious and skilful people of India, as they have been introduced among the people of Japan within our generation. But it was hardly possible that foreign merchants and rival manufacturers, working for their own profit, should have this object in view, and the endeavor was never made. A policy the reverse of this was pursued with the object of replacing the manufactures of India, as far as possible, by British manufactures."
Source: Dutt, R. C. 1989. *The Economic History of India*,Volume One: *Under Early British Rule 1757-1837*. With a critical introduction by D.R. Gadgil. New Delhi: Publications Division, 190. Originally published in London, 1902.

Subsequently in the 20th century K. S. Shelvankar in *The Problem of India* (1940), the Marxist analyst R. P. Dutt in *India Today* (1940) and many leaders of the national movement repeatedly blamed colonialism for the de-industrialization and resultant backwardness of India. On the other hand authors like Vera Anstey and L. C. A. Knowles questioned the nationalist arguments in the colonial period itself. In the 1960s Morris David Morris, a historian, reopened the debate on de-industrialization in an article in which he questioned the nationalist arguments and assumptions regarding the decline of traditional industries in India. Morris argued that there was not much direct evidence cited by nationalists to demonstrate de-industrialization and according to him the nationalist claim was based more on emotion and ideology than on concrete historical evidence. Morris claimed that British manufactured cloth need not have necessarily harmed Indian industries because growth in population along with an increase in the purchasing power of Indians led to an increase in demand for textiles in India. In other words the demand for cloth must have gone up in India and that was met by rising British imports without damaging indigenous production. In effect Morris suggested that Indians started buying more cloth and this rising demand accommodated the influx of foreign textiles. In his view the nationalists had exaggerated the adverse impact of the import of British manufactured cloth on India.

The arguments of Morris invited sharp reactions from other historians like Bipan Chandra, the Japanese historian Toru Matsui and TapanRaychaudhuri who published their articles in the journal *The Indian Economic and Social History Review* in 1968. Regarding the issue of lack of evidence for the decline of Indian industries they pointed out that evidence was scattered in different types of sources. Travellers' and eye-witness accounts, famine reports and official enquiries and government reports of the East India Company administration were full of references to the heavy impact of British manufactured goods in India and the worsening conditions of artisans. While conceding that population in India may have gone up a little they asserted that there was definitely no evidence to prove that income per capita had gone up. In fact all evidence points to the contrary, that is, a falling per capita income in the 19th century particularly because spinning suffered heavily. Spinning was usually done by women at home mostly to supplement family income and the influx of cheap machine-made British yarn destroyed the market for indigenous yarn. Family incomes therefore must have fallen, although statistics for the number of spinners will not be available, as they were not recorded. Contemporary accounts however are full of descriptions of the decline of spinning activity.

Morris had argued that cheaper British yarn must have been available to Indian weavers, bringing down the cost of production of their cloth to be able to compete with British cloth. In reply Bipan Chandra cited figures to show that the ratio of yarn imports to woven cloth was very low. In the forty years between 1849 and 1889 the import of cloth into India increased by 25.5 million sterling, which amounted to a twelve and a half time increase. By comparison yarn imports increased by 1.8 million sterling that was a four time increase. During this period the productivity of the Indian weaver remained stationary while that of the British weaver was rising. What made matters worse for Indian weavers was the fact that the export price of British cloth fell far more rapidly than the export price of yarn. The average export price of per pound of yarn fell from 29 pence in 1819-21 to 15.3 pence in 1829-31 to 12 pence in 1844-46 to 11.7 pence in 1859-61 to 12.8 pence in 1880-82. In the same period the average export price per pound of cloth fell from 70.3 pence to 40.6 pence to 22.5 pence to 20.5 pence to 19.4 pence. Indian weavers therefore could not really benefit from the decline in yarn prices which comparatively fell less and it did not bring about the required reduction in the cost of their cloth to be able to compete with British woven cloth that became cheaper by much more.

The general criticism that the nationalists have faced is that the statistical evidence for de-industrialization is weak, especially for the period before the census. Data about various aspects of Indian society started getting generated by Census operations that began in 1872 and were carried out every ten years thereafter. Census statistics are an invaluable store of information about Indian society and therefore critics always doubted the nationalists' assertion of de-industrialization for the pre-census period. However later historians like Amiya Kumar Bagchi have managed to get some statistical evidence from sources that were not available to nationalist or Marxist writers. Bagchi analyzed the evidence provided in the survey conducted by Francis Buchanan- Hamilton in Gangetic Bihar between 1809-13 and the Census data of 1901. According to Bagchi's analysis the percentage of population dependent on industries was 18.6 in 1809-13, which declined to 8.5%.

However Bagchi was criticized for the methodology he used to arrive at his conclusions. MarikaVicziany questioned the way in which Bagchi classified Indian society into primary (agricultural), secondary (industrial) and tertiary (services) sectors. She argued that in India, especially in rural areas, it was not possible to separate the occupations neatly, as people combined various types of work. She criticized Bagchi for over-estimating the number of people engaged in industrial activities in early 19th century in Gangetic Bihar that led Bagchi to argue a case in support of de-industrialization. Vicziany pointed out that Buchanan-Hamilton's own survey could not be regarded as very reliable as he gathered information from local informants who may have given him incorrect information, given the fears Indians had of the motives of foreigners. Local people suspected that the Company might use the information given to increase taxes or intervene in the life of Indians in other ways. Vicziany also argued that Buchanan-Hamilton's estimate of spinners was weak as many of the people classified as spinners could not have supported themselves only on the basis of spinning. In her view spinners did not earn enough and should be classified as part-time spinners.

Defending his methodology, Bagchi argued that in the early 19th century spinners earned enough to support themselves and even if spinning did not support spinners fully it constituted the principal means of livelihood for them. Other historians joined the debate. SumitGuha and J. Krishnamurty hinted that Bagchi may have over-estimated the dependence of artisan families on industries. These historians warn against any absolute decline but we can conclude from the extensive research of many historians that there was a decline in major industries like cotton and silk. However Indian artisans did demonstrate the ability to survive. For instance many of them shifted to the production of coarse cloth using coarse handspun yarn. Other goods like common pottery, leather goods and carpets and durries also did not disappear.

Value addition: did you know?
Buchanan-Hamilton
Francis Buchanan-Hamilton (1762-1829) was a Scottish physician who came to India from England. He served in the Bengal Medical Service from 1794 to 1815 and also made significant contributions as a geographer, zoologist and botanist. He served as a surgeon to Lord Wellesley, the Governor-General of India in Calcutta (now called Kolkata) where he organized a zoo that later became the Calcutta Alipore Zoo. Under instructions from the Government of Bengal he conducted detailed surveys of the areas within the jurisdiction of the British East India Company between 1807-14. He became the Superintendent of the Calcutta Botanical Garden in 1814 but returned to England due to ill health in 1815. There he inherited his mother's property and took her surname calling himself "Francis Hamilton, formerly Buchanan". However he came to be known as Francis Buchanan-Hamilton or just Buchanan-Hamilton.
Source: Original

Census data: what it tells us and its limitations

So far we have been focusing on the pre-census period, i.e. before the availability of data from 1872 onwards. Many historians have analyzed the data from census reports arguing that the case of de-industrialization can be examined with greater accuracy for the later period. The questions they have asked are: did de-industrialization take place in the late 19th century and the 20th century under colonial rule? Even if there was de-industrialization in the early decades of the 19th century did the growth of new and modern industries restore the balance later on? Moreover is it not a fact that in the 20th century Indian handloom industry and other traditional handicrafts not only survived but also showed signs of growth? These complex questions have elicited interesting responses from a range of historians who have emphasized different aspects of the state of Indian industries in the late colonial period.

In the early 1960s Daniel and Alice Thorner argued that analysis of census data on occupations between the decennial (ten-yearly) censuses from 1881-1931 showed that there was not much change in the proportion of population engaged in industrial occupations. They said that on first impression census figures indicate that the male work-force in agriculture was 65% and increased to 72% in 1931. In the same period their proportion in industry declined from 16% in 1881 to 9% in 1931 suggesting de-industrialization. However the Thorners questioned this by describing the census categories as erroneous because they assumed a clear-cut separation between agricultural work force and general labour and between industrial work- force and trade. In their view that was not possible in an agricultural economy like that of India. According to the Thorners, if these categories are merged then the picture looks different. Then the increase in the work force in the primary sector, i.e. agriculture works out to about 2% and the decline in industry and trade amounts to only about 3% between 1881-1931. The Thorners also dismissed the statistics on female labour on the ground that census officials themselves regarded them as inaccurate. Therefore in their view, which is somewhat controversial, the census figures do not provide evidence to support substantial de-industrialization. The Thorners however conceded that there may have been de-industrialization in India before 1881.

However several questions have been raised about the conclusions of the Thorners. Historians like Tirthankar Roy and others have objected to the exclusion of women from the analysis. Women's participation declined dramatically during the census period. It seems that in the Indian social context women in many artisan families gave up artisanal work earlier then men to take up household or agricultural work. Hence any exclusion of their data would not show much change in occupational structure while the inclusion of data related to women will show a decline in the number of people engaged in industrial activity. Another economic historian J. Krishnamurty criticized the use of work force as a criterion and reliance on demographic (i.e. population related) evidence to arrive at any conclusion regarding de-industrialization as the Thorners had done. Krishnamurty argued that the use of capital-intensive techniques can lead to rise in output per capita while there can be a decline in the size of the industrial work-force. In other words less people can produce more and how can we suggest 'de-industrialization' if manufacturing output was rising? His own view was that from the late 19th century there was a shift towards capital- intensive techniques in Indian industry leading to higher output though the size of the manufacturing sector in India did not change significantly. However some scholars suggest that higher output under colonial conditions was for the export market and did not benefit India. Further, any rise in output was not enough to bring about an all round industrialization of India given the general condition of backwardness under colonial rule.

Evaluating de-industrialization: some recent findings and interpretations

In the last three decades a number of studies have thrown new light on the extent, impact and nature of de-industrialization in India. These studies have qualified the assumptions and conclusions of the nationalist and Marxist perspectives. Recent research suggests that different regions and commodities experienced the impact of machine-made goods in different ways depending on when they came under colonial rule. Thus for example, British manufactured goods affected the economy of eastern India far more than other regions. Historians like TapanRaychaudhury argue that the conditions of the artisans and weavers of eastern India started deteriorating soon after the battle of Plassey (1757) and their condition worsened in the 19th century. It has also been suggested that that the Madras Presidency suffered less compared to Bengal and in western India, particularly Rajasthan, the poor development of transport facilities delayed the inflow of British manufactured goods. Clearly the timing of colonial intervention in a particular region shaped this pattern.

Historians also emphasize the need to distinguish between the 19th century (till about the 1870s and 1880s) and the era of late colonialism, that is, the late 19th century and the 20th century. In a series of writings Tirthankar Roy has questioned the idea of a steady long-term decline of handicrafts in India. He agrees that a decline of traditional industries did occur for most of the 19th century but also asks the question: how did many Indian handicrafts eventually survive? Roy suggests that many positive forces began to work in favour of handicrafts from the late 19th century. In the mid-19th century two types of hand-woven cloth faced competition from foreign and later Indian mill-made cloth: printed and bleached cotton cloth; and 'coarse-medium' cotton cloth. Compared to them machine-made cloth proved superior. But Indian weavers adapted by shifting to very coarse or very fine cloth with complex designs that were made according to local tastes and preferences. There were technological changes that increased productivity: the use of the fly-shuttle, power loom, new techniques of plating and polishing of brassware, use of power in the plating of the wires in **zari** production, etc. There was a greater spread of labour-saving tools adaptable to small-scale workshop and household production. Roy shows that production also increasingly shifted from industrial households to wage-labour using workshops. Handicraft production also showed a shift from rural to urban centres with growing urbanization in India. Craft-towns tried to improve the quality of their products and adapt to the needs of the mass market like Mirzapur carpets, Moradabad brass goods and Surat**zari**.

Douglas Haynes suggests that that in several regions (particularly in western and southern India) agricultural growth and commercialization strengthened local demand for traditional textiles and market networks. Moreover tariff protection to the textile industries from the mid-1920s onwards also helped the handloom industry. According to Tirthankar Roy handloom production rose by 30% in the first twenty five years of the 20th century. Modern large-scale industry accounted for merely 5% of industrial output in 1900 and even in 1991 its share was 29%. Even in 1931, more than 90% of the work-force was engaged in handicrafts. India had a comparative advantage in labour-intensive industry and craftsmen could survive because they could lower their consumption. Therefore despite adverse circumstances an overwhelming majority of Indian industrial workers continued and even now work in small-scale industry.

Figure 5.1.4: Fly shuttle

Source: http://glimakrausa.com/wp-content/uploads/2011/04/flyattach.jpg

Figure 5.1.5: Mahatma Gandhi with charkha

Source: http://en.wikipedia.org/wiki/File:Gandhi_spinning.jpg

Figure 5.1.6: Power loom

Source: http://en.wikipedia.org/wiki/File:Strickmaschine_im_Museum.JPG

5.2: Trade and industry: drain of wealth

The 19th century in India was a period of intellectual reflection and debates about the impact of British rule in India particularly its role in turning India into a poor country. With the spread of nationalist ideas in the second half of the 19th century many leaders and writers asserted that one of the most important causes of the poverty of India was the drain of its wealth to England. They strongly believed that a part of India's national wealth was being exported to England by the colonial government in India for which India got no adequate material or economic returns. In other words India as a colony was paying an indirect tribute to England. Many nationalist leaders made the theory of drain the basis for their anti-colonial agitations and the theory acquired wide popularity. Predictably, the theory invited criticisms from defenders of colonial rule who argued that the idea of drain was a baseless charge as drain had been calculated erroneously ignoring the positive effects of British rule in India.

The background of the concept of drain

The concept of the 'drain of wealth' was theoretically developed and most forcefully stated in the writings of DadabhaiNaoroji and R. C. Dutt from the late 19th century. However the idea had a longer history. Soon after the commencement of the rule of East India Company in the second half of 18th century one of its officers, Alexander Dow highlighted the problem of drain in the 1770s. Other Company administrators like John Shore, Philip Francis and Lord Cornwallis also discussed some aspects of economic drain from India in the 18th century. The well known British politician Edmund Burke also developed a theory in the 1780s that was based on an understanding of drain. The renowned Indian reformer Raja Rammohun Roy was the first Indian who worked out an estimate of the amount and sources of the drain of wealth from India to England around 1830. However it was DadabhaiNaoroji who worked out the intricacies of the concept of drain of wealth beginning with a number of writings in the 1860s and culminating in his monumental work, *Poverty and Un-British rule in India* that was published in 1901. As the concept gained acceptance it was popularized by a large number of Indian nationalists, newspapers and writers like Bankim Chandra Chattopadhyaya and Rabindranath Tagore. The theory was further elaborated in William Digby's'*Prosperous' British India* (1901) and R.C. Dutt's two-volume *Economic History of India* (1902 & 1904).

Value addition: life stories
DadabhaiNaoroji
DadabhaiNaoroji (1825-1917) was a Parsi who became the first Indian professor at Elphinstone College, Bombay. In 1855 he took charge of the London office of a business firm. Thereafter he acted as a link between Englishmen interested in India and Indians active in public life. He believed that reform of British rule in India required education of the British public and legislation. Naoroji formed the East India Association in 1866 in London and launched a paper called *Voice of India* in 1883 for this purpose. He took an active interest in British politics and in 1892 he became the first Indian to be elected to the British Parliament from an English constituency. Many Indian students stayed with him in London, including Gandhiji. As the diwan or prime minister of the princely state of Baroda and as an elected member of the Bombay Municipal Corporation he initiated many administrative and educational reforms. He presided over several sessions of the Indian National Congress and like many of his contemporary nationalists wanted an improvement and not elimination of British rule. He demanded reduction of military expenditure and Indianization of government services. However it was the theory of the drain of wealth that was the cornerstone of his critique of British rule in India. Despite being anglicized he was widely respected by both moderate and radical nationalists and came to be fondly known as the 'Grand Old Man of India'.
Source: Various

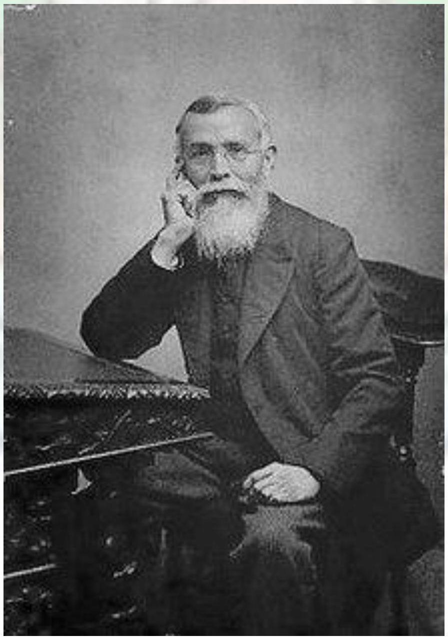

Figure 5.2.1: Dadabhai Naoroji

Source: http://en.wikipedia.org/wiki/Dadabhai_Naoroji

What constituted the drain of wealth?

There were several ways in which the drain of wealth from India took place and different writers have emphasized different aspects of drain over a period of time. Several Englishmen along with Indian nationalists pointed out that the early decades of East India Company rule were marked by plunder and loot combined with illicit gains by the servants of the company. This process began immediately after the battle of Plassey and continued till the 1830s. Indian nationalists of the late 19th century did not feel the need to demonstrate this as this was reported by many officials as well as non-official Englishmen. When the Company acquired the revenues of Bengal (diwani) in 1765 this brought about a fundamental change in its finances. Before that the company along with other European trading companies had to bring bullion (precious metals, mainly gold and silver) from Europe with which they bought commodities in India for sale in Europe since they did not have much to sell in India. After it acquired the revenues of Bengal the company could purchase goods for export from Bengal from the income it received as a territorial power. Such purchases were known as 'investment'. Now the company no longer had to pay for goods bought in India with bullion. Through 'investments' it transferred income generated in India that came to be also described as 'tribute' by some, although the extent and economic significance of that tribute might be disputed. Among others the British politician Edmund Burke too regarded the 'investment' of the company as the main cause of the impoverishment of India. In addition, private individuals also transferred huge sums of money to England from India.

However after 1833 and especially after 1858 there was no obvious tribute paid by India nor was there any transfer of surplus revenue from India to Britain. So how did the nationalists explain drain for the later period? Naoroji and others stressed forcefully that drain of wealth continued even after the revolt of 1857 as imperial domination of India acquired new dimensions. Consequently other components of drain emerged that the nationalists listed. The most important constituent of drain according to them was the money sent home by Englishmen in India from their salaries, incomes and savings. There were English army men, civil and railway employees along with doctors, lawyers etc working in India. Many of them also received pensions from the Government in India that were paid to them in England. Another major source of the drain according to Indian nationalists was profit of private foreign capital invested in industry or trade in India. The other important constituent of drain was 'home charges of the government of India' which referred to the expenditure incurred by the colonial government of India in England. Home charges consisted of:

a. The expenditure of the East India Company's London establishment and dividends to its shareholders. After 1858 this was replaced by the cost of the Secretary of State's India Office.
b. Pensions and allowances to Europeans officials and army officers of the Indian Government.
c. Payment of interest on public debt, that is, the debt that India had in England including the guaranteed interest on railways.

Put simply, home charges were the price India paid in return for 'good governance' of India which invited sharp criticisms and sarcastic comments from the nationalists. Thus DadabhaiNaoroji remarked in 1886: "The short of the whole matter is, that under the present evil and unrighteous administration of Indian expenditure, the romance is the beneficence of the British Rule, the reality is the 'bleeding' of the British Rule". But what form or mechanism was used by the colonial government in India after the revolt to transfer money to England? The nationalists pointed out that the colonial government used the 'export surpluses' of India to transfer funds to Britain. The export surplus of a country consists of the excess of exports over imports. They said that India was forced to export goods to different countries which earned India foreign exchange. This was deliberately kept higher than the value of imports in the late 19th century. The excess of exports over imports generated a surplus which was then sent to England to pay for home charges etc. Subsequently modern-day economists and historians have explained the intricacies of this mechanism in greater detail as follows.

In the second half of the 19th century, as Britain increasingly became an industrial and urban society, two important features of its foreign trade emerged. It required huge quantities of agricultural goods (raw material for its industries and food for its people) that it had to import. On the other hand its manufactured goods were facing difficulties in the export markets as the developing capitalist countries of Western Europe and America imposed tariff duties on British goods to give protection to their own industries. These two features meant that Britain was facing a severe deficit in its balance of payments, that is, its export earnings were less than what it had to spend on imports. The gap between higher imports and lower exports was worrying and imperial Britain used its dominant position to force India to export raw materials and agricultural goods to other countries. India thus earned a considerable amount from its exports and in fact came to have an export surplus that was then transferred to Britain through mechanisms like home charges. In other words India became part of a complex triangular foreign trade by the end of the 19th century. It earned export surplus with countries other than Britain and that income helped reduce and settle Britain's deficit in foreign trade. In the process India emerged as a major supplier of raw materials and agricultural commodities to other countries but its own economy got impoverished as it could not utilize its export earnings for its own development. The Indian nationalists repeatedly pointed towards India's growing export surplus in the late 19th century, arguing that in reality this was drain of wealth in the name of 'free trade' that was used for Britain's financial needs.

Drain: various estimates and interpretations

While many Indian nationalists made the theory of drain an inseparable part of their critique of British rule, there was no consensus about the exact amount of drain. Since different methods and criteria were used at different points of time the estimates of drain also varied. The most passionate advocate of drain, DadabhaiNaoroji, constantly revised his estimates depending on the type of criticisms he faced. In 1867 he calculated that the drain amount came to 8 million pounds. He raised this figure to 12 million pounds in 1870. In 1876 he computed the amount of drain after leaving out interest paid on capital borrowed to build railways in India as follows:

Years	Drain (yearly average in British pounds)
1835 to 1839	5,347,000
1840 ” 1844	5,930,000
1845 ” 1849	7,760,000
1850 ” 1854	7,458,000
1855 ” 1859	7,730,000
1860 ” 1864	17,300,000
1865 ” 1869	24,600,000
1870 ” 1872	27,400,000
Source: Chandra, Bipan. 1966. *The Rise and Growth of Economic Nationalism in India*. New Dellhi: People’s Publishing House, 648.	

DadabhaiNaoroji calculated the amount of drain at Rs 25 crores a year for 1893 and Rs 51.5 crores for 1905. Other nationalists also gave their estimates. For example, according to G. V. Joshi Rs 25 crores were going out of India as drain annually in 1888. In 1901, D. E. Wacha, in his Presidential Address to the Indian National Congress stated that the amount of drain was between Rs. 30 to 40 crores a year. A more conservative estimate was provided by R. C. Dutt who put the figure at around 20 million pounds in the early years of the twentieth century. In order to convey the impact of drain in simple terms Dutt also said that about one-half of India’s net annual revenue flowed out of the country. Almost all advocates of the theory of drain believed that whatever may be the actual amount, it constituted a net transfer of capital from India. This capital loss hindered the economic development of India and was held to be the main reason for the slow growth of modern industry in India. The nationalist newspaper, the *Amrita Bazar Patrika* was also a champion of the theory of drain. From around 1870 it singled out this drain as the principal cause of the poverty of India that simultaneously contributed to the growth of wealth in Britain. The drain theory got a stamp of approval when it was officially adopted by the Indian National Congress at its Calcutta session in 1896. The drain of wealth was held responsible for the frequency of famines and growing poverty in India. According to William Digby, the per capita income of Indians for 1899 was Rs. 18 while Naoroji’s calculation was Rs. 20. The colonial government disputed these figures and in 1901 Lord Curzon calculated it as Rs. 30.

Figure 5.2.2: R. C. Dutt, 1848-1909

Source: http://en.wikipedia.org/wiki/Romesh_Chunder_Dutt

Criticisms and evaluation of the drain theory

Right from the beginning the theory of drain had to face severe criticisms that can be grouped into two categories. Firstly the methodology of the calculations of drain by the nationalists was questioned. It was argued that remittance of profits on British capital invested in railways, mines, **plantations** or mills in India could not be called drain as it was after all 'developing' and 'modernizing' India. Defenders of British rule claimed that India could not develop on its own as it was backward and it was British rule that was bestowing the fruits of modern development on India. The second major criticism of the drain theory has been that it was exaggerated and somewhat crude in its analysis as export surpluses could amount to only a small part of India's national income.

The nationalists replied to these criticisms and modern historians have also examined them. According to the historian SumitSarkar, "surely DadabhaiNaoriji had a point when he argued (before the Welby Commission in 1895) that the amount being drained away represented a potential surplus which might have raised Indian income considerably invested properly inside the country". (Sarkar 1983, 27). The imperial claim of providing 'good government' that brought about the development and modernization of India is even more difficult to accept given the level of poverty that prevailed at the time of independence. Historians do concede that the calculations of drain may have been exaggerated since some nationalists had a tendency to describe all government expenditure as wasteful and regard all remittances as drain. However we must remember that the nationalists did not have the advantage of full access to statistics and tools of modern economic analysis then. Moreover, for them the theory of drain was not merely an academic exercise but part of a larger political struggle against colonial rule. The strength of the theory of drain was in its simplicity - that could be easily grasped by the common people of India. Finally, for the nationalists the most important aspect of drain was that it was the defining feature of foreign domination in India. They said that for centuries different rulers had come to India from far-off lands but they did not transfer wealth from India. The British on the other hand systematically sent wealth out of India on a sustained basis for about two centuries. This set them apart from even the most despotic rulers of India who at least kept their wealth within the country. This aspect was also emphasized by the renowned poet and thinker Rabindranath Tagore.

Value addition: what the sources say
Rabindranath on drain
Commenting on the times that brought European traders to India Tagore wrote that it was an age when "legions of adventurers scattered over foreign lands to trade, but behind the display of their wares they raised empires... At that time India was renowned for her immense wealth, a subject repeatedly referred to by foreign historians in those days… subsequently king and trader met in India and in this fateful moment began the hacking of a tree of wealth – an oft-repeated but discordant tale. But yet it will not do to smother in utter oblivion. India had her wealth, but if we forget by what it means to be transported beyond the seas, a basic fact of modern history will elude us"
Source: Sinha, Sasadhar. 1960. *Rabindranath Tagore, Letters from Russia* (translated from Bengali). Calcutta: Visva-Bharati, 97-99.

5.3: Industrialization in modern India

Introduction

The emergence of modern industry in India is generally associated with the second half of the 19th century when there was a movement of merchant capital into industry. In the late 19th century, an Indian owned complex of modern industry sprang up in western India – the cotton mills of Bombay and Ahmedabad –which was subsequently followed almost half a century later by modern industry between the two world wars. In tracking the history of India's industrial experience under the colonial dispensation, a number of questions arise. This lesson proposes to address some of these issues around which major debates have also cohered. For example, the impact of British capital and British government policy on the development of Indian industry has been keenly debated. Secondly, there is the question of the nature of Indian business enterprise in the intermediate area of the **bazaar** that functioned in tandem with and in contradistinction to the world of European dominated business. Thirdly the regional variations in the pattern of Indian industrialization will also be addressed; what was it about western India that enabled it to become a launching pad for capitalist development and what was it about eastern India that it lagged behind, especially in the first stages of industrialization? Fourthly the lesson will also raise the issue of class formation and refer to some of the major issues that have emerged in the historiography of Indian labour. The overall thrust of the lesson will be to examine why the linking of Indian capital to Indian industry came so late and why indeed the Indian economy was unable to affect an industrial revolution. Was it to do with the process of de-industrialization of the 19th century from which India could never recover or was India too backward any way to enjoy the preconditions to industrialization?

Let us begin with a few simple definitions. What do we conventionally mean by industrialization? What are the preconditions that have been connected with this phenomenon in history? What was different or exceptional about India which after all was a colonized country by the end of the 18th century? How did early colonial restrictions undermine commercial society and artisan production? How did this change in the 20th century?

Industrialization is to be understood as a process through which industrial and manufacturing capacity is created and becomes the principal basis of a given economy. Historians have seen industrialization and the industrial revolution as the beginning of the modern period of history, associating the revolution with the maturation of the capitalist mode of production. Traditionally historians have seen England as the first workshop of the world where a series of conditions facilitated the articulation of capitalist enterprise that could rely on a dependable home market and an expanding foreign one**.**The emergence of capitalist relations in agriculture, the expansion of trade and the development of technology and movement of capital towards industry and innovation meant that England by the end of the 18th century was experiencing the first industrial revolution. The same period saw the emergence of the British colonial regime in India where by the end of the 18th century, a series of developments were beginning to tie the two economies in a relationship of subordination and dependency with serious consequences for the colony. Here we shall merely focus on those sectors that directly affected India's industrial prospects and thwarted India's leap to industrialization.

There are generally two types of industrialization, one based on large scale industry that is capable of generating rapid increases in labour productivity, and therefore in average income. It does so by means of capital intensive technology and efficient organization of resources. Small scale industry, the other type, on the other hand tended to be more labor intensive and did not have the potential to generate the same level of employment. In India large scale industrial development occurred, but only in a limited way and the reasons for this were a combination of the impact of colonial policies and the availability of cheap labour and the relative scarcity and costs of capital. To investigate this phenomenon, we need to look more closely at the conditions of industrial production in pre colonial India.

Research on pre colonial India's commercial and manufacturing economy has demonstrated beyond doubt that the Indian economy accommodated very sophisticated levels of development, in terms of both commercial and monetary organization as well as the state of its manufactures. The range and competitive advantage of Indian export items, especially textiles, the depth and ramifications of India's credit and banking system and the levels of commercialization in the economy were important factors that could be seen as signs of a proto-industrial phase. Yet the century of transition that brought with it the English Company's monopsonistic and monopolistic controls, the subordination of the economy to the requirements of the larger metropolitan one certainly inaugurated a phase of what some historians have called 'arrested development'. The long term decline of Indian trade and its replacement by British imports of cheap textiles combined with the price depression in the Indian economy in the 1830's and 40's have been seen as inaugurating a period of 'deindustrialization' by which was meant a decline in artisan industries. Whether or not there was de-industrialization has been a contentious debate, the details of which are not the focus here. However, the evidence that we do have on employment would seem to suggest that the emergence of modern industry in the 19th and 20th centuries did not offset the decline in artisanal industries. Modern industrialization did expand appreciably but factory production remained relatively small in proportion to the economy.

The prehistory of industrialization: regional variations

Any study of modern industrialization in India has to deal with two of its dominant features; one the regional variations in industrial experience and the other relating to colonial policies of restriction and discrimination and their impact on the nature and patterns of industrialization. In a sense the two are interrelated and to appreciate this we will need to briefly sketch the features of economic organization in early colonial India. By the first half of the 19th century, the trading economy of India had been definitely subordinated to the larger world economy. What this meant was an appreciable change in commodity composition as well as in the orientation of India's trade. India rapidly became a provider of raw materials in place of manufactured produce and substantial sections of its agricultural population was forced to opt for new commercial crops, the most visible being that of opium and indigo. The influx of European private trade and capital, embodied in part by the emergence of **agency houses** and managing agencies in 19th century Bengal, worked through networks of Indian capital and enterprise as well, although in Bengal this partnership came to an end with a series of severe commercial crises that shook the confidence of indigenous, especially Bengali, enterprise. Consequently, a situation developed where economic boundaries got redrawn with Europeans controlling the higher reaches of the economy, the intermediate sector, generally designated as the **bazaar** controlled being by **Marwaribanias** and shroffs, and the subsistence economy operated by peasants, artisans and petty dealers.

The redrawing of the economic boundaries was largely a consequence of European colonial ascendancy, one that relegated the bazaar bankers and merchants to an intermediate space. In the older traditional commercial order bankers and merchants had played an important function as money changers, remitters and supply merchants. The hundi, so important in Mughal India as the principal channel of remittance, underwent a major change in the mid 19th century when it became a pure bill of exchange in the inland trade of the country, servicing the larger export trade that was facilitated by the setting of rail lines.

Trade and industry

European corporations worked through inland merchants, commission agents and bazaar bankers who undertook the business of procuring produce and marketing imports. They did not however, represent big business which in eastern India had to wait a century before experiencing large scale industrialization.

The situation in western India was different. Here the robustness of commercial society and the fact that colonial penetration came almost half a century later, enabled indigenous capital to retain their older business connections and retain an important toehold in foreign trade. Both Parsis and Gujarati Hindu and Muslim merchants traded extensively in cotton and opium – the China trade of western India - and made impressive fortunes. Representing a formidable financial and commercial power, they moved into large scale enterprise – the cotton mills industry of Bombay and Ahmedabad which expanded steadily despite political hostility of the textile lobby in Manchester. In southern India, commercial groups like the Chettiars expanded their operations under the new Imperial dispensation as they moved into the business of financing plantation agriculture in Burma, Malaya and Ceylon. Capital accumulated in these operations flowed into industry especially after the two world wars.

The birth of large scale modern industry

Textiles

In India too, like in metropolitan England, King Cotton embodied the move to industrialization. Ironically the industry emerged even as cotton imports into India expanded substantively. Sales of Manchester goods for instance soared from 300 million yards in 1857 to more than 3 billion yards in 1914. In this year India absorbed 45 percent of British exports of cotton goods. And yet it was this industry that developed which in itself was not surprising, as India produced one fifth of the world's supply of cotton occupying a place next to the United States and had an abundant supply of labour which became cheaper as the mills moved inland and closer to the cotton fields. Additionally, it had a specialized population of cotton workers – weavers- and thanks to the railways an integrated market for coarse cotton and yarns. The initial beginnings were modest and the early mills manufactured low count yarns for handloom weavers. The cotton mill industry was initiated in Bombay by a Parsi and by a Gujarati Nagar Brahmin in Ahmedabad in the 1850's. The Parsi financier and broker, CawasjeeNanabhoyDavar was an export merchant before he founded the Bombay Spinning and Weaving Company while RunchodlalChotalal, an English educated bureaucrat, was an employee of the banking house of KaramchandPremchand when he founded the Ahmedabad Spinning and Waving Company. The latter project was backed by three major Ahmedabad firms. It was in the 1870's that the growth of the industry was perceptible, a phenomenon that requires some explanation.

Trade and industry

Growth of the cotton industry (1876-1910)

Year	Factories	Spindles	Looms
1876	47	1,100,000	9,100
1880	56	1,460,000	13,500
1890	137	3,270,000	23,400
1900	193	4,950,000	40,100
1910	263	6,200,000	82,700

The burgeoning industrial expansion of western India was closely linked with the consequences of the American civil war that pushed up speculation in cotton. The Civil War cut off supplies of cotton to Britain that turned to India as its principal resource supplier. The resultant boom created huge speculation and profits followed by a spectacular crash but not without showing the way for industrial investment. The great boom of 1866 was all the more remarkable not only because a merchant like PremchandRaychand was able to outwit his European counterparts but because it pointed to the strength of capital accumulation tendencies that flowed into industrial investment subsequently. All the great textile magnates had their fingers in the cotton boom pie or else had strong residual and enduring connections with foreign trade. The Petits and the Tatas, the Currimbhoys and Sassoons were good examples of merchant enterprise that deployed their older connections and expertise and combined it with the roles they played in the colonial economy to advantage. ManackjeeNasserwanjee Petit for instance was a broker to English firms in Bombay and the owner of a large sailing ship plying between China and Bombay. His son was a China trader, while NasserwanjiWadi started as a mill designer in the Petit empire.

Value addition: did you know?

The cotton king of Bombay

Did you know that PremchandRaychand (1831-1906) the 'cotton king of Bombay' made several endowments to the University of Bombay? He donated money for the University library and erected the Rajabai clock tower in the University. Premchand himself had benefited immensely from his linguistic skills and it would appear that he was entirely in favour of modern secular western education. In this respect, he was like members of the city's Parsi community.

Source: http://en.wikipedia.org/wiki/File:Mumbai_Clock_Towerr.jpg**.**

In Ahmedabad on the other hand, the capital for investment seems to have come from banking and retail trade and opium speculation. The Sarabhais and Lalbhais for example were prominent Jain bania**sarrafi** families who benefited from the cotton boom as well but who continued with their older banking operations. The changes in the constituency of entrepreneurs had their impact on the way the mills developed. While the Bombay mills broke into the China market for yarns, the Ahmedabad mills focused on the domestic market supplying yarns to the handloom weavers in India. This in turn stimulated handloom weaving in western India and fostered an important set of linkages between machine made yarns and handloom textiles.

From 1904 onwards and especially after the Swadeshi movement, Indian factories turned towards production for the home market partly on account of the growing competition of Japanese textiles in the China market and because of a self conscious preference for home made goods. Industrialists capitalized on these new developments so much so that the market share of Indian factories was at around 20-25 per cent in 1914.

The cotton industry was from the very beginning dominated by Indian capital. In contrast to the Jute industry where initiatives came from the Europeans, the textile industry saw very little investment and control from British firms. The growth of the jute industry, located in Eastern India, was almost entirely export oriented while its labour force was constituted largely by migrants from Bihar. We will have occasion to refer to this later.

The iron and steel industry: the archetypal modern industry

If cotton was the first industry to flag off industrialization, iron and steel represented the more mature phase of the phenomenon. The post-swadeshi temper produced an interest in other and more diverse kinds of industrial activity ranging from chemicals to paper. But by far the most dramatic initiative came in the form of the iron and steel industry, the brainchild of a remarkable entrepreneur J. N. Tata. Capital for this was Bombay based and part of the reason why this succeeded so spectacularly was because of the discovery of a an appropriate location that gave the entrepreneur access to coal, iron, dolomite, limestone and water as well as its proximity to Calcutta that was the most important hub for eastern India. To this was added government support in the form of an assured purchase amounting nearly to 20000 tonnes of steel annually for ten years. Financial requirements for operationalizing this were high but the Tatas were able to do this thanks to their links with an organized money market in Bombay.

The world wars and industrialization

The outbreak of the First World War and its aftermath created a fresh set of conditions for Indian industrialization. The most important development in this period was the gradual erosion of old business structures that had maintained and functioned within clearly demarcated spaces of European and bazaar Indian enclaves. Bazaar shroffs who had hitherto functioned in an intermediate economy were now able to slowly peg away at the old structures and move in. Until this point, barring a few Bombay based merchants who had a toe hold in the upper reaches of the economy, bazaar merchants had operated within very identifiable spaces of inland transactions. Now with the **Great Depression** and the interruption faced by steamship rings and syndicates, bazaar merchants were able to rewrite the boundaries of economic space. This was demonstrated by two important deals – one when WalchandHirachand entered the steamship business, setting up the Scindia Steam Navigation Company and G. D. Birla entered the jute scene and emerged as one of the principal exporters of jute, a major break in an industry that had so far been dominated by

European capital. Ten years after G. D. Birla established the first Indian office in London in 1917 for the export of jute, the Federation of Indian Chambers of Commerce was established to represent Indian business interests. Clearly Indian business as a category, and the Indian capitalist class had emerged.

The historian Rajat Ray has mentioned that the First World War was an important bench mark. It reduced imports, stimulated industrialization by import substitution, disrupted the supply lines of expatriate business firms and brought increased liquid assets into the hands of the bazaar speculators and traders for investment in the industrial field. Marwaris emerged as key players now and speculated so hugely that Europeans found their control over the supply channels seriously undermined. This was particularly so in the jute industry that had remained an exclusive European preserve. This derived from the fact that Europeans in eastern India, unlike those in the western region, controlled river transport and coastal shipping, banking and exchange and also virtually every level of the jute trade. From the buying of jute from the peasant to the shipping of jute and jute fabrics, Europeans were in control and London was the principal entrepot. The situation changed during and after the war when supply channels broke down and enabled Indians to enter the trade.

During the war Indians also captured a large part of the capital of the jute mills and set many new mills up after the war. The interwar period was relatively favourable for Indian industry although the depression of the 1920’s hurt export oriented industries like jute. In a sense the effects of the Second World War were quite different as Indian industry was more diversified by this time. However the scarcity of food, poor distribution and famines produced more serious consequences in this period. The problems faced by industry in this period continued to be structural – over-dependence on capital goods imports and on foreign technology and foreign technicians continued to impose severe constraints, leading to what AmiyaBagchi describes as stunted industrialization.

The growth of Marwari enterprise in the inter-war period was especially marked if we consider the staggering European dominance in Eastern India. Of 849 tea plantations, 729 or 86 per cent was controlled by Europeans. All 50 jute mills were in their hands and in the field of coal as well, nearly all the major collieries were dominated by Europeans. Yet it was in this situation that the Marwaris were able to penetrate into industry. Part of this was because of their close participation in the business of raw jute procurement, trade and export. This had institutional expression as well; by 1903, the Calcutta Baled Jute Association had 45 Marwari firms. Additionally, there was the growth of Marwari futures trading, all of which enabled the community to come into its own when the right situation presented itself. Stock trading has been identified by OmkarGoswami as an important explanatory factor and by 1920 Marwaris began to buy shares and enter the boardroom in European managing agencies. In addition to this, they opted for direct entry in jute and coal and set up Indian owned and Indian controlled companies. From here on their growth expanded steadily and by the time of the Depression, Marwari mills using cheap equipment were turning out produce for America.

Value addition: biography
Ghanshyam Das Birla
Ghanshyam Das Birla, undoubtedly one of the most talented businessmen of the 20th century came from a traditional Marwari family of Pilani that literally migrated on a camel's back to Bombay. The family traded in a variety of agricultural produce and Ghanshyam Birla began his apprenticeship in the family firm. He was a wealthy man by his early twenties and even dabbled in terrorism for a while. His association with Gandhi was of long standing and testified to the changing relationship between nationalist politics and Indian business in the 20th century. Jamnalal Bajaj was another instance of the resilience of Marwari enterprise.
Source: Original

Figure 5.3.1: Birla and Gandhiji
Source:
http://sandpaper.bitsaa.org/archives/links/SandpaperSummer2008/from_the_annals/images/index_clip_image006.gif

No review of India's industrial experience is complete without reference to the implications of imperial control over industrialization and to the regional variations of the experience. That imperial arrangements were grossly asymmetrical and were designed to the advantage of Britain can hardly be overstated. Until the First World War, India constituted the single biggest market for traditional British exports and India's exports to hard currency areas provided the critical balancing item in the balance of payments of the British Empire with the rest of the world. On top of this was the fact that India's payment of Home Charges facilitated the transfer of surplus from India to Britain. All this clearly meant that India stood to lose by the imperial connection. According to Bagchi, the nature of imperial control was what determined the patterns of industrial growth and backwardness – in regions like Eastern India where formal colonial control came earlier and was buttressed more strongly by ideologies of racial exclusiveness, indigenous enterprise tended to be weak, while in western India, the nature and timing of colonial control combined with a more robust commercial society enabled greater industrial success and innovation. The shortage of capital, according to Bagchi, was not per se responsible for industrial backwardness.

That brings us to the two major components of industrialization: capital and labour. Whether capital was scarce in India or not is a contested issue. According to Bagchi, there is no hard evidence for shortage of capital. On the other hand Tirthankar Roy suggests that capital for investment was perpetually scarce and that the high cost of capital was why entrepreneurs came from business communities alone. Business communities who entered industry were in western India where Gujarat banias and Jains, Parsis, Bhatias and Lohanas many of whom were able to develop innovative ways of deflecting the colonial dispensation and operate important intermediate sectors of the economy referred to as the 'bazaar'. In southern India, on the other hand, the initiative came not from traditional business communities but from those with an agrarian background like the Chettiars. In eastern India, it was the Marwaris who dominated the business scene and the stock market and moved into spaces that had been vacated by local men for whom incomes from land seemed to hold greater prospects.

There has been important work on organization and ways of doing business in India. Timburg referred to the typical Marwari form, where notions of family ties and reciprocity were important. Corporate management was a relatively new concept and therefore was subject to experiments and legislation. The situation changed by the 1870's when limited liability became popular and many small investors bought shares in a new company.

Labour history has emerged in recent years as an important subfield of Indian economic history. It has become a site for re-examining issues of migration, mobility and gender. Given the fact that factory labour was a new source of employment in India and produced a major shift from traditional occupations, the question that arises is how this affected the habits and life styles of workers. Did their status and standards improve? How did it affect family life? Did it give an opportunity for mobility and can we make a case for a revolutionary route to capital accumulation that Marx spoke of?

Before addressing some of these questions, let us take a brief excursus into the world of Indian factory labour. Until well into the inter-war period, skilled workers in cotton, jute, steel and other large scale industries comprised of a significant percentage of foreigners, followed by Hindu literate castes with education. Unskilled workers on the other hand came from agrarian and artisanal castes and were recruited by jobbers. The jobber or labour contractor was an important figure in the labour force – his primary duty being to recruit men, to act as interpreter and even as petty creditor. Jobbers were deeply involved in the politics of the mill area. Inside the mill, their duties were more supervisory as they allotted work, granted leave, gave training and enforced the company's regulations. Workers could be fined or dismissed for non-attendance and other forms of insubordination. Jobbers made full use of their special position and took commissions for their agency work – also dasturi or bribes.

Mill workers tended to come from very distinct catchment areas – the Konkan, Deccan and U.P in case of cotton mills, and from Bihar, eastern U.P and Orissa in the case of jute. The patterns of migration may have been most probably informed by poor agricultural returns in the migrants' regions. Also more recent work suggests that city work was a supplementary source of income and did not represent a break; and also that migration was segmented; i.e. migrants of specific backgrounds went into specific occupations. The use of women as labour had important implications; SamiaSen has argued that with the increase in migration, there was a change in the perception of women's work. Women workers were disadvantaged in the urban labour market by new perceptions of their familial role.

Among the most innovative works to come in recent years on labour history has been that of DipeshChakravarty who argues that the formation of labour as a class was problematic. Not only was it not homogenous and knit around a clear and cohesive mentality, the ethnic fractures and social divisions made this a very unusual formation. Adaptation to factory discipline was not easy or uniform – the residual habits of peasant economies persisted on the shop floor. More recent works suggest that it would be a mistake to exaggerate distinctions such as rural and urban or pre-industrial and industrial. Rural conditions were never fully given up and while there was an adaptation to new working conditions, older connections and identities were not fully jettisoned.

5.1 Summary

- Before colonial rule India had a high reputation as a manufacturing country with a share of nearly 25% of world industrial output in the middle of the 18th century. India's share fell to 2.4 in 1938. India's handicrafts, especially its textiles were demanded and traded for profit by European trading companies.

- The nationalists in the late 19th century and Marxist scholars in the 20th century argued strongly that from early 19th century the inflow of machine-made British manufactured goods, especially textiles and yarn, had an adverse impact on the Indian handicraft sector and artisans. Loss of markets and profits forced craftsmen to shift to low-paying jobs in agriculture and other non-industrial occupations. This process came to be known as de-industrialization. Colonial viewpoints asserted that India received the benefits of modern development as an industrially advanced country like Britain ruled it. The nationalists and Marxist critics of colonialism questioned this.

- The debate on de-industrialization was renewed in the 1960s. Morris D. Morris questioned nationalist assumptions but Bipan Chandra and others countered Morris's evidence and conclusions especially concerning the rise in per capita income and consequent growth in demand for textiles in India that are supposed to have absorbed British imports into India. Amiya Kumar Bagchi argued in favour of de-industrialization in the Gangetic Bihar in the 19th century based on the surveys of Buchanan-Hamilton.

- Daniel Thorner conceded that that de-industrialization may have occurred before the census period, that is, before 1872. By analyzing census figures on employment in the manufacturing and agricultural sectors he however argued that census data does not support de-industrialization between 1881-1931. Other scholars doubt the usefulness of the categories used in different census reports and questioned exclusion of data on women.

- Recent research qualifies the old de-industrialization thesis by analyzing the impact of de-industrialization depending on regional variation, type of industry and the changing nature and requirements of colonial rule. They also argue that though the number of people engaged in both modern and traditional industries may have fallen, there was some rise in manufacturing output.

- Despite differences most scholars agree that the impact of machine-made manufactured goods was harmful for India's weavers and other craftsmen for most of the 19th century. Bengal Presidency suffered the most as it was subjected to colonial domination earlier than other regions. Spinning, done mostly by women as a household activity suffered heavily. Even if there are no statistics available the evidence from contemporary descriptions is overwhelming.

- Traditional industries in India were not totally wiped out. Weavers survived by producing very coarse or very fine textiles, adopting new technology, receiving government protection in the 20th century and the persistence of cultural preference for hand-made goods in India. Hence de-industrialization did occur but not in an unqualified, linear and uninterrupted manner. As a whole India came to have a backward industrial sector that was the result of arrested economic development under colonial rule.

5.2 Summary

- The concept of the drain of wealth from India was developed by some nationalist leaders and writers from the late 19th century. DadabhaiNaoroji was a very passionate advocate of the idea which he elaborated in his numerous speeches and writings. The idea received support from many other nationalist writers like R. C. Dutt, newspapers like the *Amrita Bazar Patrika* and was officially adopted by the Indian National Congress.

- The supporters of the drain theory argued that after the battle of Plassey large amounts of money was taken out by the East India Company. The plunder and drain of India's wealth was also noted by a number of Englishmen in India and politicians in Britain.

- The nationalists stressed that the drain of wealth continued after the revolt of 1857 when the rule of the East India Company was replaced by the rule of the British Crown. Drain had many components: the payment of salaries and pensions to employees of the colonial government in India who also transferred part of their savings and profits to Britain; India also paid 'home charges' that is, payment for the administration of India that included the cost of the administrative establishment in Britain for India. The British justified it by describing it as charges for providing 'good government' to a backward India.

- Some advocates of the drain theory also included the interest paid on capital borrowed in Britain for the building of railways etc in India. Critics said that this could not be regarded as drain as this capital was invested for the development and modernization of India. Hence different estimates of drain were given by nationalists depending on what was included in its computation.

- In the last decades of the 19th century India became part of a triangular foreign trade. It was forced to export agricultural goods and raw materials for industries to the developing countries other than Britain. India thus earned a forced export surplus as its exports exceeded imports. This export surplus was then transferred to

Britain to finance the deficit in Britain's balance of trade. According to the nationalists this constituted a form of drain.

- Despite varying estimates of drain all nationalists argued that a part of the national income of India went out to Britain that could be potentially invested for development within India. Transfer of wealth from India showed that British rule essentially remained foreign.

- Drain of wealth from India to Britain may have been incorrectly calculated or exaggerated at times but the idea had a strong political appeal. The concept of drain gained popularity during the national movement due to its simplicity and emotional content also. The nationalists made it a part of their overall critique of colonial rule and held the drain of wealth from India responsible for the growth of poverty in India.

5.3 Summary

- The emergence of modern industry in India is generally associated with the second half of the 19th century when there was a movement of merchant capital into industry. In the late 19th century, an Indian owned complex of modern industry sprang up in western India – the cotton mills of Bombay and Ahmedabad –which was subsequently followed almost half a century later by modern industry between the two world wars.
- Research on pre colonial India's commercial and manufacturing economy has demonstrated beyond doubt that the Indian economy accommodated very sophisticated levels of development in terms of both commercial and monetary organization as well as the state of its manufactures.
- By the first half of the 19th century, the trading economy of India had been definitely subordinated to the larger world economy. What this meant was an appreciable change in commodity composition as well as in the orientation of India's trade. European corporations worked through inland merchants, commission agents and bazaar bankers who undertook the business of procuring produce and marketing imports.
- The situation in western India was different. Both Parsis and Gujarati Hindu and Muslim merchants traded extensively in cotton and opium – the China trade of western India - and made impressive fortunes. Representing a formidable financial and commercial power, they moved into large scale enterprise – the cotton mills industry of Bombay and Ahmedabad, which expanded steadily despite political hostility of the textile lobby in Manchester.

Trade and industry

- The burgeoning industrial expansion of western India was closely linked with the consequences of the American civil war that pushed up speculation in cotton. While the Bombay mills broke into the China market for yarns the Ahmedabad mills focused on the domestic market supplying yarns to the handloom weavers in India. The cotton industry was from the very beginning dominated by Indian capital. In contrast to the jute industry where initiatives came from the Europeans, the textile industry saw very little investment and control from British firms. The growth of jute industry located in Eastern India was almost entirely export oriented while its labour force was constituted largely by migrants from Bihar.

- The outbreak of the first World War and its aftermath created a fresh set of conditions for Indian industrialization. The war meant a boom of industrial production and a structural change in the organization of industry. The jute industry received new orders and soon enabled the Marwaris to emerge as major players. The Indian steel industry also reached its take off stage in this period. According to AmiyaBagchi, the nature of imperial control was what determined the patterns of industrial growth and backwardness – in regions like Eastern India where formal colonial control came earlier and was buttressed more strongly by ideologies of racial exclusiveness, indigenous enterprise tended to be weak while in western India, the nature and timing of colonial control combined with a more robust commercial society enabled greater industrial success and innovation.

- The relationship between business and politics was a complex one. Merchants have traditionally tended to be pragmatic and opted for any regime that guaranteed security. When it came to nationalist politics, the responses were not that simple and straightforward. During the 1930's, for example, the attitude of the Indian capitalists was marked by sharp twists and turns. During 1930-31, most business groups supported Gandhi against the Raj for they hoped that a mass campaign would force the British to alter their monetary policy. During the second phase, 1932-36, there was a split in the ranks of big business as the Tatas openly opposed the Congress while the Ahmedabad textile mill-owners openly supported the Congress. But after 1936, the Indian capitalist class en masse would appear to have endorsed the Congress line but even at this stage, there was no question of the capitalist class operating as a bloc or pursuing a long term policy with well defined objectives.

5.1: Exercises

Essay questions

1) What do you understand by the term 'de-industrialization'?

2) Do you think the arguments of Morris D. Morris have no basis?

3) Evaluate Amiya Kumar Bagchi's methodology for analyzing de-industrialization in Gangetic Bihar.

4) 'The data from the census operations does not indicate de-industrialization in India'. Do you agree with this statement?

5) What circumstances and factors enabled some types of handicrafts to survive in India in the colonial period?

Objective questions

Question Number	Type of question	LOD
1	True or False	1

Question

a) European traders came to sell spices and textiles in India. b) The industrial revolution first occurred in England. c) Census operations started in India in the 20^{th} century. d) The prices of British yarn imported into India fell at higher rate than prices of imported machine-made cloth.

Correct Answer /	a) False

Option(s)	b) True c) False d) False

Justification/ Feedback for the correct answer

a): India was famous for its textiles and spices hence European traders could not bring them from any where and sell in India. Instead they bought textiles and spices in India to sell elsewhere for profit. b): In the second half of the eighteenth century a number of factors led to the mechanization of industrial production in England. This meant that goods made by artisans with hand were increasingly made with machines in factories that used steam power to run machines. Scientific and technological growth combined with socio-economic changes in England led to the first industrial revolution. c): Census operations began in India from 1872. Every ten years data on population was gathered which is a very important source of tracking changes over a period of time. d): Cheap machine-made yarn and cloth flooded Indian markets from the early decades of the nineteenth century. However data shows that the price of machine-made cloth fell at a higher rate than the price of machine-made yarn. Therefore in spite of using cheaper yarn Indian weavers' cloth found it difficult to compete with cheaper machine-made cloth.

Resource/Hints/Feedback for the wrong answer

a): Till the conquest of Bengal European traders bought spices and textiles from India primarily with bullion. b): Industrial revolution first occurred in England and happened in other countries later on. c): Census operations started in India in 1872 and were done every ten years subsequently. d): If yarn had been cheaper than machine-made British cloth then Indian weavers could have made cheaper cloth with it to compete with British cloth.

Reviewer's Comment:

Question Number	Type of question	LOD

2	Match the following	2

Question

Match the following:

a) Bullion	i) *IndiaToday*
b) Bandanna	ii) Mirzapur
c) R. P. Dutt	iii) Precious metals
d) Carpets	iv) coloured printed scarf

Correct Answer / Option(s)	a) and iii) b) and iv) c) and i) d) and ii)

Justification/ Feedback for the correct answer

a): Bullion refers to precious metals like gold and silver.

b): The word Bandanna is derived from the Hindi word *bandhna* which means tying and is used for coloured printed scarf.

c): R. P. Dutt was a Marxist living in Britain where he wrote *IndiaToday* (1940) that is one of the first books on modern India with a Marxist perspective.

d): Mirzapur is a district in the state of Uttar Pradesh which is famous for its carpet industry. It is close to Varanasi district.

Resource/Hints/Feedback for the wrong answer

Other combinations are false.

Reviewer's Comment:

Question Number	Type of question	LOD
3	Multiple choice question	3

Trade and industry

Question

1) Mercantilist ideas were dominant in Europe in: (a) 20^{th} century (b) 10^{th} century (c) 4^{th} century B.C. (d) 16^{th} to 18^{th} century
2) The conquest of Bengal by East India Company led to: (a) colonization of India (b) industrial revolution in India (c) stoppage of all exports from India (d) the rise of other European trading companies in India
3) The living conditions of spinners in India during the British period: (a) improved substantially (b) deteriorated (c) became better because they turned agriculturalists (d) improved because they migrated to Britain

Correct Answer / Option(s)	1) and d) 2) and a) 3) and b)

Justification/ Feedback for the correct answer

1): Mercantilism is a term that refers of a set of beliefs and practices in the economic sphere with the aim of making the country politically and economically strong between the 16^{th} and 18^{th} century in Europe. Mercantilists equated the wealth of a country with the amount of precious metals it possessed. 2): The victory of East India Company in the battle of Plassey in 1757 led to the conquest of Bengal that paved the way for the colonization of India. 3): As British machine-made yarn and cloth stared coming into Indian markets from the early nineteenth century spinning in India done mostly by women lost out. As a result the condition of spinners declined.

Resource/Hints/Feedback for the wrong answer

1): Mercantilist ideas accompanied the rise of absolutist states in Europe in the 16^{th} century. They were dominant till the 18^{th} century and declined with the advent of industrial revolution and capitalism. 2): The conquest of Bengal did not stop all exports from India. It eliminated competition from other European trading companies and was not directly responsible for the industrial revolution in England. 3): Spinning in India suffered due to the influx of British machine-made yarn and cloth. Spinners' income fell and they lost livelihood while the burden on

agriculture increased as it had to support more people. Thus spinners' condition could not have improved nor could they have migrated to England.

Reviewer's Comment:

5.2: Exercises

Essay questions

1) Outline the history of the idea of the drain of wealth from India to Britain.

2) Critically evaluate DadabhaiNaoroji's method of the calculation of drain.

3) What constituted 'home charges'? Can they be regarded as drain of wealth from India?

4) Explain the mechanism of the triangular trade and the generation of export surpluses for India from the late 19th century.

5) In your opinion what were the weaknesses (if any) of the nationalists' theory of drain?

Objective questions

Question Number	Type of question	LOD
1	True or False	1

Question

a) DadabhaiNaoroji was a leading proponent of the theory of drain of wealth. b) The Indian National Congress never accepted the idea of drain of wealth from India. c) India had export surpluses in the late 19th century.

d) The nationalists said that drain of wealth stopped from India after the revolt of 1857.

Correct Answer / Option(s)	a) True b) False c) True d) False

Justification/ Feedback for the correct answer

a): It was DadabhaiNaoriji, a prominent early nationalist who developed the theory of drain giving factual evidence for it and made it part of his overall critique of colonial rule. b): The Indian National Congress accepted this theory and adopted it officially in 1896. c): In the second half of the nineteenth century India as a colony of the British was exporting raw materials and other goods to different countries of the world earning foreign exchange providing India with export surpluses. d): Indian nationalists pointed out that since this surplus was transferred to Britain, 'drain of wealth' continued from India in this form even after 1857.

Resource/Hints/Feedback for the wrong answer

a), b), c) and d): The early nationalists like DadabhaiNaoriji and the Indian National Congress were strong advocates of the theory of the 'drain of wealth' from India. They argued that India's export surpluses earned after the revolt of 1857 were transferred to Britain draining the colony's wealth.

Reviewer's Comment:

Question Number	**Type of question**	**LOD**
2	Match the following	2

Trade and industry

Question

Match the following: a) *Poverty and Un-British Rule in India*   i) A nationalist newspaper b) Edmund Burke   ii) Currency of Britain c) *AmritaBazarPatrika*   iii) DadabhaiNaoroji d) Pound   iv) A British politician

Correct Answer / Option(s)	a) and iii) b) and iv) c) and i) d) and ii)

Justification/ Feedback for the correct answer

a): DadabhaiNaoriji, an early nationalist, also known as the 'Grand Old man of India', wrote *Poverty and Un-British Rule in India*.

b): Edmund Burke was a famous eighteenth century British politician known for his critical views on the activities of East India Company in India.

c): *AmritaBazarPatrika* was a newspaper published from Calcutta (now Kolkata) known for supporting nationalist causes.

d): The 'pound' is the currency of Britain.

Resource/Hints/Feedback for the wrong answer

Other combinations are false.

Reviewer's Comment:

Trade and industry

Question Number	Type of question	LOD
3	Multiple choice question	3

Question

1) The nationalists argued that drain of wealth from India had: (a) made Britain rich (b) made Britain poor (c) made India rich (d) weakened colonial control of India

2) "Home Charges" were: (a) paid by India to the United States of America (b) paid by Britain to India (c) paid by India to Britain (d) paid by the government of India to the nationalists.

3) The idea of drain: (a) had no history before DadabhaiNaoroji (b) received support from some Britishers also (c) was fully accepted by the colonial government (d) was rejected by the Indian National Congress

4) Drain of wealth happened: (a) only from Bengal (b) only after 1857 (c) from India to Britain (d) from Britain to India

5) During the colonial period India's export surpluses were used to settle the trade deficit of: (a) Germany (b) Japan (c) China (d) Britain

Correct Answer / Option(s)	1) and a) 2) and c) 3) and b) 4) and c) 5) and d)

Justification/ Feedback for the correct answer

a): The nationalists emphasized that part of Britain's wealth was based on the drain of wealth that occurred from India to Britain.

b): After the revolt of 1857 when British crown took over the administration of India from the East India Company, India was made to pay "home charges" to Britain in return for providing 'good government' in India.

c): The idea of drain of wealth was referred to by several British politicians (like

Edmund Burke) who were critical of the policies of East India Company in India. d): This drain of wealth was a one-way process, that is, from India to Britain. e): Britain used the exports surpluses earned by India to settle its own balance of payment deficits with other countries in the later decades of the nineteenth century.

Resource/Hints/Feedback for the wrong answer

a), b), c), d) and e): Drain of wealth did not happen only from Bengal but from the whole of India to Britain. Obviously it contributed to Britain's prosperity and certainly made India poorer. Although DadabhaiNaoriji developed the theory of the drain of wealth from India it had been talked about since the late eighteenth century. It was India that paid "Home Charges" to Britain since India was its colony. Britain also used its dominant position in India to transfer India's export earnings to settle its own deficits or gap in foreign trade (the difference between higher imports and lesser exports) with other countries of the world.

Reviewer's Comment:

5.3: Exercises

Essay questions

1) What do you understand by industrialization?
2) What were the distinguishing features of India's pre-colonial trading economy?
3) What were the specific conditions that stimulated the textile industry in western India?
4) How did the two world wars affect India's industrial development?

Objective questions

Question Number	Type of question	LOD
1	Multiple choice question	1

Trade and industry

Question

Where did the first Textile mills emerge in 19th century India? a) Madras b) Bombay c) Calcutta d) Kanpur

Correct Answer / Option(s)	c)

Justification/ Feedback for the correct answer

Resource/Hints/Feedback for the wrong answer

Reviewer's Comment:

Question Number	Type of question	LOD
2	Multiple choice question	1

Question

Parsis: a) Bazaar operations b) Agricultural Production c) Opium trade d) Inland banking

Correct Answer / Option(s)	c)

Justification/ Feedback for the correct answer

Resource/Hints/Feedback for the wrong answer

Reviewer's Comment:

Question Number	Type of question	LOD
3	Multiple choice question	1

Question

CavasjeeNanabhoyDavar:

a) Tata Iron and Steel

b) Ahmedabad Spinning and Weaving Company

c) Bombay Spinning and Weaving Company

Correct Answer / Option(s)	c)

Justification/ Feedback for the correct answer

Resource/Hints/Feedback for the wrong answer

Reviewer's Comment:

5.1 Glossary

Demography: Study of changes and trends in population

Fly Shuttle: Invented by John Kay in 1733, this device improved the quality of cloth and doubled the amount of work that a weaver could do - the weaver pulls a cord that triggers hammers to propel the shuttle left, then to the right across the width of the cloth

Monopoly: Sole power, or privilege in dealing with anything; exclusive control of the market

Zari: A type of thread made of fine gold or silver wire used in traditional Indian and Pakistani garments. This thread is woven into fabrics, primarily made of silk to create intricate patterns. It is believed this tradition started during the Mughal era

5.2 Glossary

Tariff protection: protection of trade by duties on imports

Plantation: an estate or a farm used for growing rubber, tea, cotton or sugar etc. for sale

5.3 Glossary

Agency Houses: these were firms set up by European merchants and former employees of the English East India Company in collaboration with indigenous capital in the late 18th century. The firms traded in opium, indigo, silk, textiles and sugar. They also engaged in banking in a limited way. They drew their capital reserves from the deposits of the Company officials.

Bania: term used to indicate either a caste category or a professional one that encompassed Hindu/Jain business groups and who engaged in banking and brokerage

Bazaar: market in a general sort of way but more specifically indicates the intermediate sector in the colonial economy that lay between the commanding heights of European dominated import-export trade and the sector of subsistence agriculture.

Great Depression: the Great Depression was a severe worldwide economic depression preceding World War II. The timing of the Great Depression varied across nations, but in most countries it started in about 1929 and lasted until the late 1930s or early 1940s.

Marwaris: a generic term used to describe communities of merchants and money-lenders who migrated from Marwar to major towns and cities in colonial India and participated in speculation, forward trading and banking.

Sarrafs: bankers who dealt with a series of money related functions like money-changing and money-assaying and the issuing and discounting of Hundis. Sarrafs were generally Jains.

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