

The Historical Origins of Indian Poverty

The Indian subcontinent is today the poorest area in the world. Its living standard is wretched, both through Western eyes, and from the perspective of most other developing countries. But in the sixteenth century, India was considered wealthy by Europeans. This paper attempts to analyse the reasons for the decline in India's relative economic status from the time of the Moghuls up to independence. Such an exercise is essential if we are to make a valid assessment of the tasks and performance of economic policy in India and Pakistan since independence. It may also contribute something of general interest to the economic analysis of colonialism (which is still in a primitive state).

Unfortunately, Indian economic history has been written largely by people with a political axe to grind. Nationalists like Romesh Dutt put most of the blame for Indian poverty on the British raj, and claim that the period preceding British rule was a golden age. More extreme writers see malice in everything done by the British and some seem to imply that India would have attained Western living standards if it had not been for British policy. The nationalist school found support from autocritical British bureaucrats like William Digby and from anglophobe Americans like Brooks Adams. By contrast, academic defenders of the British raj, like Vera Anstey, attribute India's backwardness mainly to its own social institutions, and stress the blessings brought by British law and order, and railways. Now that the British Empire has gone, it is possible to take a more detached view, and to remove some of the mythology.

In this paper, which is intended as no more than an interpretative essay, we examine briefly the nature of the Moghul economy and then analyse the main ways in which British rule promoted or retarded economic growth. Some of the conclusions are novel. Most of them are tentative.

Moghul India

Before the British conquest, India had been dominated by the Moghul Empire. The first Moghul Emperor, Babur (a descendant of both Ghengis Khan and Timur), came to India from central Asia in 1526 (1). Before he came, India was politically divided with the Muslim sultanate of Delhi (founded in 1192) in loose control of the North and the powerful Hindu Kingdom of Vijayanagar in the South. The Moghuls established control over the North of India as well as retaining Afghanistan, and eventually, under Aurangzeb, controlled most of the South as well.

The Muslim population was always a minority but in the Moghul period it had probably become about a fifth or a quarter of the total. A minority of Indian Muslims (about 10 per cent) were descended from the Islamic conquerors (Turks, Afghans and Mongols) who had come to India via the Khyber Pass. The rest included some forcibly converted Hindus, and many more voluntary converts — low-caste Hindus attracted by the more egalitarian Muslim society. The Muslim ratio grew over time because polygamy and widow remarriage gave them greater fertility than Hindus. Muslims were highly concentrated in the North, in the Indo-Gangetic plain. In the South they were mainly in court towns and much more thinly spread. The first Muslim invaders carried out forcible conversions, but later rulers restrained their evangelising activities partly because of Hindu resistance, partly because they realised that this would reduce their elite status. The only area where the indigenous population was converted to Islam *en masse* was East Bengal which had a strong Buddhist tradition and looked on the Islamic invaders as liberators from Hindu rule.

At the height of its power under Akbar, the Moghul Empire exercised religious tolerance. This is one of the reasons why it was more successful in maintaining an extensive domain than the earlier Muslim sultanates of Delhi. There were some attempts to fuse Islamic doctrine with Hinduism of which the main one was the Sikh religion, but this had a very limited success and Sikhs are still only

(1) The Moghul emperors were Babur 1526-1530, Humayun 1530-1556 (whose reign was interrupted from 1540 to 1555 by the Afghans, Sher Shah and Islam Shah), Akbar 1556-1605, Jehangir 1605-27, Shah Jehan 1627-58, Aurangzeb 1658-1707. After Aurangzeb the Moghul Empire collapsed, though its nominal existence continued until 1857.

1 per cent of the population of the subcontinent. There was some interpenetration of religious practices, with the Muslims retaining some elements of caste prejudice, adopting saints and holy men, and the Hindus accepting purdah and the segregation of women. In effect, however, the Muslim rulers did not succeed in creating an integrated society, but simply imposed themselves on top of the Hindus as a new caste segregated by different dietary and social habits, with a ban on intermarriage with infidels.

At the base of economic life was the Hindu village which had changed little for 2,000 years. The villages were defensive self-contained units, designed for survival in periods of war and alien domination. The chief characteristic which differentiates the Indian village from other types of society is the institution of caste. This system divided the population into rigid hereditary groups whose economic and social functions were clearly defined. There are thousands of castes and sub-castes, but the four main groups are *brahmins*, a caste of Hindu priests at the top of the social scale whose ceremonial purity was not to be polluted by manual labour; next in priority came the *kshatriyas* or warriors, thirdly the *vaishyas* or traders, and finally the *sudras*, i.e. the farmers. Below this there were outcastes to perform menial and unclean tasks. Members of different castes could not intermarry or eat together, and kept apart in their social life. Outcastes were not even allowed in the temples, and any kind of physical contact with them was regarded as pollution. This system encouraged sanctimonious arrogance at the top and obsequious submission at the bottom. It prevented social mobility and the development of a strong national sense. Hence the relative passivity of India towards foreign invaders and rulers. The rigidity of the system prevented foreigners from assimilating. They were faced with either the enormous task of destroying the system or the relatively easy task of establishing themselves as a separate caste. The latter was the choice exercised by both the Muslim and the British conquerors. Newcomers to India did not enter a melting pot out of which they fused a homogeneous society, they simply added a fresh slice to a stale and desiccated layer cake. To add to the segregation, India was also split into more than a dozen major language groups, several of them with different scripts.

Landholding within the villages was based on custom rather than precise legal rights. In relations with the State, the village usually acted as a community. In particular, land taxes were usually paid

collectively and the internal allocation of the burden was a village responsibility. Unlike feudal Europe, the upper classes were not landlords cultivating holdings with the help of serf labour. Instead they collected a land tax from the peasants, part of which they kept for themselves and part of which went to the central power. In India the cultivation unit has always been small scale. This arrangement in which the upper class had no deep roots in the production process made the political structure unstable and provided no incentive to increase productivity. Furthermore, the religions of India, both Islam and Hinduism, did not have the elaborate hierarchic structure and political influence which the Catholic church enjoyed in Europe. These organisational weaknesses were perhaps the reason why village society developed such rigid institutions to hold itself together, and why, having elaborated them, it was so indifferent to what happened on the national level.

Because of poor transport facilities, villages were largely self sufficient. In the South of India there was no wheeled transport, and goods were carried on pack animals. In the North transport was confined to bullock carts. Horses were a luxury item and not used for transport of goods. Within each village there was a class of artisans who catered to local needs for non-agricultural commodities and services, e.g. the blacksmith, carpenter, potter, cobbler, weaver, washerman, barber, water carrier, astrologer, watchman and occasionally a dancing girl. Spinning was not a specialised craft but was carried out by village women. There was also a group of village servants to perform menial tasks, i.e. sweeping, removal of human and animal manure, etc. Probably 10 to 20 per cent of the village labour force was engaged in non-agricultural activity. Village servants and artisans had a guaranteed income paid collectively by the village and did not sell their services piece-meal to individuals. This rigid caste division of labour prevented people switching jobs or learning new skills and is still a deeply ingrained characteristic of the Indian and Pakistani labour force. Each household operated on a joint family basis. All generations of the family lived together and pooled their income, with little distinction between brothers and cousins in terms of family obligations. This system inhibited individual incentives to work or save, and provided no motive for limiting family size.

From the time of Akbar to Shah Jehan the Moghul court was one of the most brilliant in the world. It was cosmopolitan and

religiously tolerant. Literature and painting flourished and there were magnificent palaces and mosques at Agra, Delhi, Fatehpur Sikri and Lahore. The Moghul nobility had a very luxurious style of life, living in walled castles with harems, gardens, fountains and large retinues of slaves and servants. They were particularly addicted to splendid garments of fine cotton and silk and had huge wardrobes.

In order to cater to their needs, a number of handicraft industries produced high quality cotton textiles, silks, jewellery, decorative swords and weapons. These luxury industries grew up in urban centres. The urban population was bigger in the Muslim period than it had been under Hindu rulers, for caste restrictions had previously kept artisans out of towns (2). Most urban workers were Muslims (3). The main market for these urban products was domestic but a significant portion of luxury textiles was exported either to Europe or South East Asia. Other export items were saltpetre (for gunpowder), indigo, sugar, opium, and ginger. Imports were mainly precious metals, woollens and metals. It is sometimes suggested that India's export trade was of vast proportions (4), but, in fact, Indian exports in the mid-eighteenth century were much smaller than those of the U.K. which had less than a tenth of its population. At the middle of the eighteenth century, India's exports were probably no more than 2 per cent of its G.N.P. The main factor limiting exports was that India had little taste for the goods which Europe could offer in exchange so Europe had to pay for its imports largely with silver and gold (5).

(2) See B. N. GANGULI, ed., *Readings in Indian Economic History*, Asia Publishing House, Bombay, 1964, p. 55.

(3) See I. H. QURESHI, *The Muslim Community of the Indo-Pakistan Sub-Continent (610-1947)*, Mouton, The Hague, 1962, p. 219 "The courts had been great consumers of the various articles produced by Muslim craftsmen. All the finer qualities of textiles like Dacca muslin and Kashmir shawls were woven by Muslim master weavers. The manufacture of rich carpets was a Muslim monopoly. The rich brocades which had been in fashion both among men and women of means were made by Muslims. The manufacture of the more delicately finished jewellery, inlay work in silver and gold, and the creation of many articles of beauty so highly prized by the wealthy classes were almost entirely in Muslim hands".

(4) See R. C. DUTT, *The Economic History of India 1757-1837*, Government of India, reprint, Delhi 1963, p. XXV, "India in the eighteenth century was a great manufacturing as well as a great agricultural country, and the products of the Indian loom supplied the markets of Asia and Europe".

(5) The same was true in China whose Emperor wrote to George III, "The Celestial Empire possesses all things in prolific abundance and lacks no product within its borders. There is therefore no need to import the manufactures of outside barbarians in exchange for our own products". See E. BACKHOUSE and J. O. P. BLAND, *Annals and Memoirs of the Court of Peking*, 1914, p. 326.

According to the testimony of European travellers, some of the urban centres of Moghul India were bigger than the biggest cities in Europe at the same period (6). The reason was primarily that the climate made it possible to get double and treble cropping in some areas, and hence, for a given transport system, it was possible to support bigger concentrations of urban population than in Europe (7). But the ratio of urban to total population may have been no greater than in Europe (8).

Because of the luxury of court life, the large size and splendour of some Indian cities, and the disdain for European products, Moghul India was generally regarded as a wealthy country by contemporary Europe. Some Indian nationalist historians claim that the Moghul period was a golden age. However, it seems likely that the *average* living standard was somewhat lower than that in sixteenth or seventeenth century Europe, because the mass of the population were poorer than Europeans. In the eighteenth century, when modern economic growth began in Europe and the Moghul Empire was in decline, it seems certain that average Indian standards were lower than those in Europe.

In spite of India's reputation as a cloth producer, the average level of textile consumption was lower than in Europe. Abul Fazl, the sixteenth century chronicler of Akbar makes reference to the lack of clothing. In Bengal "men and women for the most part go naked wearing only a cloth about the loins". In Orissa "the women cover only the lower part of the body and may make themselves coverings of the leaves of trees" (9). Such people also lacked do-

(6) For example, Clive considered that Murshidabad was more prosperous than London, see J. NEHRU, *Glimpses of World History*, Lindsay Drummond, London, 1945, p. 417 "Clive has described the city of Murshidabad in Bengal in 1757, as a city 'as extensive, populous, and rich as the city of London, with this difference, that there are individuals in the first possessing infinitely greater property than in the last'".

(7) See B. H. SLICHER VAN BATH, *The Agrarian History of Western Europe, A.D. 500-1850*, Arnold, London, 1963, pp. 14-15, "As long as transport methods remained primitive, the population of a town could not rise above a certain maximum level dependent on the agricultural production from the rural area surrounding it. It has been calculated that to feed a city of 3,000 inhabitants in the Middle Ages required an arable of 3,000 hectares as well as the necessary pasture for the cattle".

(8) There are no statistics on the size of the urban population before the 1872 census when it was 10 per cent of total population. Prof. Gadgil suggests that the proportion was probably about the same at the beginning of British rule. See D. R. GADGIL, *The Industrial Evolution of India in Modern Times*, Oxford, 1950, p. 6.

(9) See H. S. JARRETT and J. SARKAR, eds., *Ain-I-Akbari of Abul Fazl-I-Allami*, Vol. II, Calcutta, 1949, pp. 134 and 138.

mestic linen, sheets, and blankets, which would probably have been owned by their European counterparts. Their loincloths were often of jute rather than cotton. In terms of housing and furniture the Indian peasantry were worse off than Europeans and their diet was also poorer (10).

The technical level of agriculture was lower than in many other Asian countries, with fairly large areas devoted to production of low-quality grains like bajra or jowar. The unreliable weather was one of the reasons for growing low quality grains for they were more resistant to weather fluctuation than wheat or rice. Farm implements were poor and ploughs were made of wood. The huge cow population was not used for meat. A large number of cows were completely unproductive and competed for food with humans rather than meeting their needs. Religious prejudice also impeded the development of pig production. The brahmins and a large part of the rest of the population were vegetarians, though they did use livestock products such as milk. Cow dung was used as a fuel or building material rather than for manure, and there was little use of human excrement, bone meal and oil seeds for manure as in China or Japan. Crops were damaged by rodent and insect pests which were not checked for religious reasons. Indian agriculture did not benefit as much as Europe and Africa from the new American crops available from the sixteenth century onwards. Potatoes, maize and cassava remained unimportant, and tobacco was the only significant novelty.

Life expectation was lower in India than in Europe, but fertility was higher because there were virtually no bachelors, no celibate priests and virtually all girls were married before puberty. Death rates were higher for several reasons. As a result of poor transport and storage facilities, a near to subsistence standard at the best of times, highly fluctuating monsoon weather conditions, droughts and floods, famines were experienced more frequently than had ever been the case in Europe. War and civil disorders were practically continuous and must have led to more mortality than in Europe. Health conditions were worse than in Europe, partly because of poor diet, partly for other reasons. The climate was more debilitating. There were tropical diseases as well as all the European ones. Hindu tabus against killing rodents and insects led to longer persistence of bubonic

(10) See W. H. MORELAND, *India at the Death of Akbar*, A. Ram, Delhi, 1962, for a description of living conditions at the end of the sixteenth century.

plague. Hindu distaste for touching refuse or excreta led to greater squalor and lack of sanitation. Finally, infanticide of daughters added substantially to mortality in some areas.

The population of Moghul India was probably the same as it had been 2,000 years earlier (about 100-125 million) (11), but the static population is not evidence that India had reached a Malthusian equilibrium. As we have seen, there were factors other than capacity to produce food which limited population growth. But the tax levy on the mass of the peasantry was so high, that most of them were living very close to bare subsistence.

Educational facilities and the content of education were no better than in medieval Europe, and much worse than in Europe after the Renaissance. Muslim education was entirely religious and carried out in madrassas where boys learned the Koran in Arabic. Although the Moghul period was distinguished for its architecture, painting, poetry, and music, these were largely derived from foreign models, particularly those of Safavid Persia. India was never the intellectual centre of the Muslim world. Hindu education was confined to religious instruction for higher caste boys in Sanskrit. Neither religious group provided education for women. It has been suggested that at the time of the British takeover about a quarter of the male population had received a few years of schooling, that most Brahmins could read and write, and that the literacy rate was about 5 per cent (12). There was no Hindu higher education of a secular character. Earlier Indian Buddhist universities (e.g. Nalanda) had been destroyed by the Muslim invaders. Neither the social system nor the theology of

(11) See K. DAVIS, *The Population of India and Pakistan*, Princeton, 1951, p. 24. "During the two thousand years that intervened between the ancient and the modern period India's population could not have grown rapidly. It must have remained virtually stationary. The usual course was surely a gradual growth for a short period followed by an abrupt decline. The population would tend to grow slightly in 'normal' times, because the customs governing fertility would provide a birth rate slightly higher than the usual death rate. This would build up a population surplus as a sort of demographic insurance against catastrophe. Inevitably, however, the catastrophe would come in the form of warfare, famine or epidemic, and the increase of population would suddenly be wiped out. Thus while there would be short-run periods of population growth and decline, the long-run trend would be one of virtual fixity of numbers. No real change could have occurred in this condition until the coming of European control, and then only slowly".

(12) See S. NURULLAH and J. P. NAIR, *A History of Education in India*, Macmillan, Bombay, 1951. Teaching was done largely on a monitorial system, which was copied in England on the first few decades of the nineteenth century where it was known as the Madras system.

Hinduism encouraged the growth of rational analysis or scientific thought.

The Moghul regime concentrated power on the royal court and a bureaucratic aristocracy. The Moghul aristocracy itself was not, in principle, hereditary, and a considerable part of it consisted of foreigners. They were nominated by the Emperor, and did not pass an examination like the Chinese bureaucracy. Moghul practice derived from the traditions of the nomadic societies which had created Islam in Arabia as well as similar Turkic traditions. Under this system, Moghul nobles were paid either in cash, or, more usually, were allocated the revenues from a *jagir*. The *jagir* was a collection of villages, and there were independent Moghul officials who acted as a check on the holder of the *jagir*. The main officials were the *qanungo* (accountant) and *qazi* (judge who settled criminal and revenue cases) (13). *Jagirdars* were regularly posted from one *jagir* to another and their property was liable to forfeit on death. Because of their non-hereditary status there was little incentive to build up property on a long term basis, and in fact the optimum situation was to die in debt to the state. However, as the central Moghul power declined, *jagirs* tended to become hereditary. Waste land which the *jagirdars* developed became their personal property and they often collected much more revenue from the peasantry than they remitted to the central power. There were also some Hindu landlords (*zamindars*) (14) who retained traditional hereditary control over village revenues, and Hindu princes who continued to rule and collect revenue in autonomous states within the Moghul Empire, e.g. in Rajputana.

The income of Moghul officials was high, and they had many dependents to support, both because of the practice of polygamy and the vast retinues of slaves and servants they maintained. The military were also a considerable burden on society because their number was so large, and they were very frequently engaged in wars. Religion was possibly a bigger economic burden than in Europe, but not in such a direct way. Religious property was smaller, with rather

(13) For a description of the system, see M. A. ALI, *The Moghul Nobility under Aurangzeb*, Asia Publishing House, London, 1966.

(14) In Bengal, in the 1720s, under the Muslim subahdar, Murshid Quli, "more than three-fourths of the zamindars, big and small, and most of talukdars were Hindus". N. K. SINHA, *The Economic History of Bengal*, Mukhopadhyay, Calcutta, 1961, p. 4. This was the case in a province where the majority of peasants were Muslims.

modest tax free land grants and no hierarchically organised priesthood. But there was a vast band of religious mendicants to be supported and considerable expense in carrying out weddings and funerals in a way which satisfied religious scruples. The burden of supporting the ruling class, religion, the military and governmental apparatus was almost certainly larger than in Europe, given the greater poverty of the mass of the population.

The main revenues of the Moghul State were derived from the land tax which was about a third of the gross crop production (perhaps a fifth of total agricultural output including livestock products). Other levies, tolls and taxes were of much smaller importance. Land revenue collected by *jagirdars* was handed over to the Empire or used to support troops. Tribute or troops were also demanded from zamindars and native princes. In some areas, revenue was paid in cash, in others in kind, or a mixture of both. The levy was usually fixed over a period of years and did not vary with each year's crop, but the law was administered flexibly with some allowance for vagaries in weather and crops. Peasants were not dispossessed for non-payment, and payments were often delinquent. It is not clear how the revenue assessments of the Moghuls and the preceding Muslim rulers compared with those of previous Hindu rulers. Probably they were rather similar as they varied a good deal from region to region to conform with local custom. The Hindu religious text, the laws of Manu, prescribed a land revenue share of one sixth for the sovereign, which is only half of the Moghul claim, but there is no evidence from Hindu provinces that the laws of Manu were actually practiced (15).

European traders dominated the export business from the sixteenth century onwards. Before that Indian and Arab merchants had traded in textile products with East Africa, the Persian Gulf, Malaya and Indonesia. The Portuguese opened up new markets in Europe, West Africa and the Philippines, and being organised on a large scale brought more capital into the business. In the seventeenth century the Portuguese monopoly ended and more competition and capital were brought in by the Dutch, British and French and on a

(15) Moreland suggests that the revenue demand in the Hindu Kingdom of Vijayanagar was bigger than in Moghul territories. See W. H. MORELAND, *Op. cit.*, Mrs. Boserup also quotes evidence that revenue demands in pre-Muslim times could be much bigger than prescribed by the laws of Manu. See E. BOSERUP, *The Conditions of Agricultural Growth*, Allen and Unwin, London, 1965, p. 98.

lesser scale by the Danes and Swedes. This further expanded both Asian and European markets and the trading companies built up production centres for textiles, indigo and saltpetre in Gujarat, Coromandel and Bengal. Europeans also introduced factory production and wage labour, as well as a putting out system. Their impact was to increase the productivity of the economy and was not exploitative (16), except in the Portuguese phase, and in the thirty years after the East India Company conquered Bengal, when there was severe monopolistic exploitation which was damaging to the economy, and even more harmful to the interests of Indian merchants, bankers, and weavers, and to the other European trading companies.

Moghul control of India disintegrated after the death of Aurangzeb in 1707. Given the size of the country which was as big as the whole of Europe, its racial and linguistic complexity and the great conflicts of interest which existed within the system, it is not surprising that it fell apart. Aurangzeb is often blamed for the collapse because he was too ambitious. He turned away from Akbar's policy of religious tolerance, destroyed Hindu temples, reimposed the *jizya* (a capitation tax on non-Muslims) and confiscated some non-Muslim princely states when titles lapsed. As a result Aurangzeb was engaged in a constant series of wars to hold his Empire together (17). After his death, it split into several parts. In Western

(16) See T. RAYCHAUDHURI, "European Commercial Activity and the Organisation of India's Commerce and Industrial Production 1500-1750", in B. N. GANGULI, *Op. cit.*, pp. 75-6, "To sum up, the impact of European commerce with India on a competitive basis was in many ways beneficent. New markets were opened for Indian exports and the existing ones further deepened. For the limited areas supplying the staples of export, this meant an increase in production and probably also in productivity, partly through the extension of the putting out system as well as the localization of industries. Thus, in certain parts of the country at least, the possibility of further significant changes in the volume, technique and organization of production had been opened. But the initiative in innovation remained throughout in the hands of certain foreign companies of monopolistic merchant capital whose interest in reorganizing production was necessarily limited"... "Certain new techniques in dyeing and silk-winding were introduced by European experts working for the companies. In short, within the limits already defined, new elements of efficiency were introduced in production, probably resulting in an increased productivity".

(17) It has also been argued that the Moghul Empire declined because it had become too liberal under Akbar and that the Moghul collapse would have occurred earlier if it had not benefited from Aurangzeb's efforts to consolidate in religiously and to extend its area by military conquest. See I. H. QURBANI, *Op. cit.*, p. 168 "Akbar had strengthened his dynasty but made it subservient to interests other than those of Islam to a remarkable degree, so that it took three generations to restore the laws of Islam to their previous position"... "Empires which are established by a numerically inferior community over a larger population always find themselves on the horns of a dilemma. They endure only so long as they can

India, the Mahrattas established an independent Hindu state with their capital at Poona. The *Nizam-ul-Mulk*, a high Moghul official who foresaw the collapse of the Empire, installed himself as the autonomous ruler of Hyderabad in 1724. In 1739, the Persian emperor Nadir Shah invaded India, massacred the population of Delhi and took away so much booty (including Shah Jehan's peacock throne and the Kohinoor diamond) that he was able to remit Persian taxes for three years. He probably damaged the economy as much as Timur had done in 1398. The Sikhs took over Punjab and set up an independent Kingdom in Lahore. In other areas which nominally remained in the Empire, e.g. Bengal, Mysore, and Oudh, the power of the Moghul emperor declined, as did his revenue. Continuous warfare weakened the economy and trade of the country, and put some irrigation canals out of action, e.g. the Jumna canal. Internal trade was further hampered by the imposition of local transit tolls which the Moghuls had kept in check.

British India

Because of the Moghul collapse, the European powers were able to expand their control in India. They did so partly to step into a political vacuum, partly to protect their commercial interests, and partly as an extension of their conflicts in other parts of the world (particularly the rivalry between the British and French). In the event, it was the British who won control by conquering Bengal in 1757 and taking over the government there in 1765. In 1803, they extended their control to Madras and Bombay and became masters of India. In 1849, they completed their territorial acquisitions by taking over the Punjab and Sindh.

Bengal was the biggest province of the old Moghul Empire, and provided lavish spoils for the handful of East India Company servants who had conquered it and, in particular, Robert Clive who took a quarter million pounds for himself as well as a *jagir* worth £27,000 a year. The first two decades of British rule under Clive and Warren Hastings were ones of ruthless exploitation but the

maintain the delicate balance between dominance and surrender. The difficulty with surrender is that it does not succeed unless it is complete. Akbar gave away so much, yet he was not able to reconcile the Hindu sentiment completely "... conciliation, however deep, never takes the sting away from the sense of radical or national humiliation of the subject people. The best that such policies can achieve is the neutrality of large masses of people by looking after their interests".

British did not pillage on the scale of Nadir Shah who probably took as much from India in one year as the East India Company did in the 20 years following the Battle of Plassey (18). The British were also shrewd enough to realise that it was not in their long run interest to devastate the country.

The main reason the British were successful in retaining control of India was through the creation of an efficient bureaucracy and army. The traditional system of the East India Company had been to pay its servants fairly modest salaries, and to let them augment their income from private transactions. This arrangement worked reasonably well before the conquest of Bengal, but was inefficient as a way of remunerating the officials of a substantial territorial Empire (a) because too much of the profit went into private hands rather than the Company's coffers; (b) an over-rapacious short-term policy was damaging to the productive capacity of the economy and likely to drive the local population to revolt, both of which were against the Company's longer-term interests. Clive had operated a "dual" system, i.e. Company power and a puppet Nawab. Warren Hastings displaced the Nawab and took over direct administration, but he retained Indian officials. Finally, in 1785, Cornwallis created a professional cadre of Company servants who were paid on a princely scale, had no private interests, enjoyed the prospect of regular promotions and were entitled to pensions (19). All high level posts were reserved for the British, and Indians were excluded. Cornwallis

(18) There is a tendency amongst Marxist and anti-British historians to exaggerate the size of the Indian plunder. R. P. Dutt argues that "the spoliation of India was the hidden source of accumulation which played an all important role in helping to make possible the Industrial Revolution in England", see R. P. DUTT, *India To-day*, Gollancz, London, 1940. A even more extreme view is taken by P. A. BARAN, *The Political Economy of Growth*, Prometheus, New York, 1957, p. 145. See also B. ADAMS, *The Law of Civilisation and Decay*, New York, 1910 and W. DIGBY, *Prosperous British India*, 1901. In fact a good deal of the Indian revenue was used to finance local wars and did not get to the U.K. The latest scholarly estimates suggest that the transfer to the U.K. was about one tenth of the amounts estimated by Digby.

(19) See *Report of the Pay and Services Commission, 1959-62*, Government of Pakistan, Karachi, 1969, p. 23 "The term 'Civil Service' was used for the first time by the East India Company which maintained military forces side by side with a body of 'merchants, factors and writers' exclusively recruited in England whose functions, with the onward march of the Company's administrative responsibilities, underwent a process of transformation into those of local administrators while the Company's trading activities gradually declined. Thus the civil administration of the country passed by degrees into the hands of those employees of the Company, whose careers were secured by the terms of covenants executed in England, before they left for India, and who were therefore known as Covenanted Servants of the Company".

introduced British law of property and administration, appointed British judges, and established British officials as revenue collectors and magistrates in each district of Bengal.

In 1806 the Company began to train its young recruits in Haileybury College near London. Appointments to the Company were still organised on a system of patronage, but after 1833 the Company selected amongst its nominated candidates by competitive examination. After 1853, the examination was thrown open to any British candidate. The examination system was influenced by the Chinese model, which had worked well for 2,000 years and had a similar emphasis on classical learning and literary competence. The Indian civil service was able to secure high quality people because (a) it was very highly paid; (b) it enjoyed political power which no bureaucrat could have had in England. In 1829 the system was strengthened by establishing districts throughout British India small enough to be effectively controlled by an individual British official who acted as revenue collector, judge and chief of police. This arrangement later became the cornerstone of Imperial administration throughout the British Empire. As the civil service was ultimately subject to the control of the British parliament, and the British community in India was subject to close mutual surveillance, the administration was virtually incorruptible.

The army of the Company was a local mercenary force with 20,000-30,000 British officers and troops. It was by far the most modern and efficient army in Asia. After the Mutiny in 1857, the size of the British contingent was raised to a third of the total strength and all officers were British until the 1920s when a very small contingent of Indians was recruited. Normally the total strength of the army was about 200,000. This army was very much smaller than those of Moghul India, but it had better training and equipment, and the railway network (which was constructed partly for military reasons) gave it greater mobility, better logistics and intelligence.

The army officer corps and the higher ranks of the administration remained almost entirely British until 1928 when the Indian civil service examinations began to be held in India as well as the U.K. (20). In addition, there was a whole hierarchy of separate

(20) The army was more exclusive than the civil service and in 1911 had practically no Indians and only 135 Anglo-Indians as compared with 4,378 British officers, see *Census of India, 1911*, P. WOODRUFF, *The Men who Ruled India*, *The Guardians*, Cape, London,

bureaucracies in which the higher ranks were British, i.e. the revenue, justice, police, education, medical, public works, engineering, postal and railway services. India thus offered highly-paid careers to large numbers of the British middle and upper classes (particularly for its peripheral members from Scotland and Ireland).

British salaries were high, the Viceroy received £25,000 a year, and governors £10,000. The starting salary in the engineering service was £420 a year or about 60 times the average income of the Indian labour force. From 1757 to 1919, India also had to meet administrative expenses in London, first of the East India Company, and then of the India Office, as well as other minor but irritatingly extraneous charges. The cost of British staff was raised by long home leave in the U.K., early retirement, and lavish amenities in the form of subsidised housing, utilities, rest houses, etc.

Like all conquerors of India, the British had to decide what accommodation to make with the local ruling class and prevailing social institutions. In the first phase of British rule there was a fairly strong urge for change. The British stamped out infanticide and ritual suicide of widows (*sati*). They abolished slavery, and eliminated *dacoits* (religious thugs) from the highways. They legalised the remarriage of widows and allowed Hindu converts to Christianity to lay claim to their share of joint family property. They introduced English education and a codified version of British law. In the 1850s, the Governor General, Dalhousie, extended the area of British rule by taking over native states whose kings had left no direct heirs. It seemed to be British policy to take over the whole of India, and, at least partially, to westernise it. There was a strong streak of Benthamite radicalism in the East India Company administration. James Mill became a senior company official in 1819 after writing a monumental and contemptuous history of India without having visited the country. From 1831 to 1836 he was the chief executive officer of the E.I.C. and his even more distinguished son worked for the Company from 1823 to 1858. Haileybury teaching was also strongly influenced by utilitarianism. The utilitarians deliberately used India to try out experiments and ideas (e.g. competitive entry for the civil service) which they would have liked to apply in England. The utilitarians were strong supporters of *laissez faire* and

1963, p. 363 shows the composition of the I.C.S. (the top rank of the civil service) from 1859 to 1939. In 1869 there were 882 Europeans and 1 Indian, in 1909, 1,082 Europeans and 60 Indians, and in 1939 759 Europeans and 540 Indians.

abhorred any kind of state interference to promote economic development. Thus they tended to rely on market forces to deal with famine problems, they did nothing to stimulate agriculture or protect industry. This *laissez faire* tradition was more deeply embedded in the Indian civil service than the U.K., and persisted very strongly until the late 1920s. The administration was efficient and incorruptible, but the state apparatus was of a watchdog character with few development ambitions. Even in 1936, more than half of government spending was for the military, justice, police and jails, and less than 3 per cent for agriculture (21).

Until 1857, it was possible to entertain the view that the British might eventually transform the nature of Indian society. But activist Westernising policies provoked both the Hindu and Moslem communities into rebellion in the Mutiny of 1857, which almost succeeded in defeating the British.

After the Mutiny, British policy towards Indian institutions and society became much more conservative. The Crown took over direct responsibility and the East India Company was disbanded. The Indian civil service attracted fewer people with innovating ideas than had the East India Company and was more closely controlled from London. The British forged an alliance with the remaining native princes and stopped taking over new territory. Until the end of British rule about a quarter of the Indian population remained in quasi-autonomous native states. These had official British residents but were fairly free in internal policy.

Thus nothing was done to break the many traditional obstacles to development which were more severe and persistent in India than anywhere else in the developing world. There were many of these such as the caste system, the fatalistic ascetism, resignation and renunciation of Hindu religion in which people accepted their lot passively, the preference for magic rather than science, the maintenance of enormous numbers of cows with low productivity, debilitating vegetarianism, insanitary habits with regard of washing and sewerage, refusal to kill rats and pests, wasteful ceremony and marriage feasts, the joint family system which reduced incentives to work and save, and the low status of women.

The British gave up the attempt to change Indian society, and established themselves as a separate ruling caste. Like other Indian

(21) See V. ANSTEY, *The Economic Development of India*, Longmans Green, London, 1952, p. 540.

castes they did not normally intermarry or eat with the lower (native) castes. Thanks to the British public school system, their children were shipped off and did not mingle with the natives. At the end of their professional careers they returned home. The small creole class of Anglo-Indians were outcastes unable to integrate into Indian or local British society (22). The British kept to their clubs and bungalows in special suburbs known as cantonments and civil lines. They maintained the Moghul tradition of official pomp, sumptuary residences, and retinues of servants (23). They did not adopt the Moghul custom of polygamy, but remained monogamous and brought in their own women (24). The British ruled India in much the same way as the Roman consuls in Africa 2,000 years earlier, and were very conscious of the Roman paradigm. The elite with its classical education and contempt for business were quite happy establishing law and order, and keeping barbarians at bay on the frontier of the raj with the Imperial army (25). Apart from building railways and canals, they did almost nothing to promote economic development.

The most striking thing about the British raj is that it was operated by such a small number of people. There were only 31,000

(22) The situation was totally different in the Portuguese colony of Goa. The Portuguese intermarried with the natives, broke down caste barriers, brought in Jesuit priests, imposed Catholicism, imported a saint, buried him locally and thus established a centre for pilgrimage. Spanish practice in the Philippines was similar. The British deliberately kept out missionaries until 1813, which is when they brought in their first bishop.

(23) See Lord Beveridge's life of his parents, *India Called Them*, Allen and Unwin, 1947. Beveridge's father did not have a very successful career, but had 21 servants to start married life, 39 when he had three children and cut down to 18 when living on his own. The 18 servants cost him less than 6 per cent of his salary.

(24) The change in British attitudes in the early nineteenth century is noted in M. EDWARDES, *British India 1772-1947*, Sudwick and Jackson, London, 1967, p. 33. "There were other factors which contributed to the growing estrangement between Indians and the British. One of these was the growing number of women in the British settlements. They tended to bring with them the prejudices of their time. Their attitude, generally speaking was Christian, and narrowly so. They brought, too, a new sense of family life, and their arrival resulted in the expulsion of native mistresses who had at least injected something of India into the world of the British. The women had little to occupy their minds. Their life was a tedious social round. But they did have gossip".

(25) The connections with India had a substantial impact on British domestic institutions and attitudes. The British civil service, with its tradition of generalists and brahminical status of the administrative class is derived from the Indian model. The British "public" school system was greatly strengthened by the needs of expatriate families. The domestic status of royalty was enhanced by the Imperial connection. The close contact with Hindu casteism strengthened British snobbery and helped to make the British somewhat more racist towards subject peoples than the French and Dutch who intermarried much more with colonials.

British in India in 1805 (of which 22,000 in the army and 2,000 in civil government) (26). The number increased substantially after the Mutiny, but thereafter remained fairly steady. In 1911, there were 164,000 British (106,000 employed, of which 66,000 in the army and police and 4,000 in civil government) (27). In 1931, there were 168,000 (90,000 employed, 60,000 in the army and police and 4,000 in civil government). They were a thinner layer than the muslim rulers had been (never more than 0.05 per cent of the population) and were a smaller portion of the population than were the Dutch and French in their Asian colonies.

Because of the small size of the British administration and its philosophy of minimum government responsibility outside the field of law and order, India ended the colonial period with a very low level of taxation. In 1936, central and provincial taxes amounted to only 6.6 per cent of G.N.P. (28) and they were not very much different in 1947. In most Western countries, the tax ratio was about three times higher than in India by the 1930s.

The evolution of the tax burden in India under the British was therefore different from that in most other countries. Whilst other countries were increasing the tax ratio and the role of government, they were being reduced in India. The administrative burden declined because the British establishment remained static in an economy which was growing in size. The British inherited the Moghul tax system which provided the state with revenue on a more lavish scale than in Europe and they gradually reduced the tax burden over time. This was particularly true of land tax which had been a third of the crop in Moghul times and was only 5 per cent of the crop in 1936.

It should also be remembered that the British dispossessed an important part of the native ruling class. They made some conces-

(26) See D. A. B. BHATTACHARYA, ed., *Report on the Population Estimates of India (1820-30)*, Census of India 1961, Government of India, Registrar General Delhi, 1963, pp. 4-5.

(27) See *Census of India 1911*, Vol. I, *India*, Part II, *Tables*, Calcutta, 1913, pp. 374-6. The total population of all India (including native states) was 313 million and the total labour force 149 million. It is interesting to note that the European population of India was of relatively much lower importance than in Indonesia, where there were 81,000 Europeans in a population of 38 million in 1905, see J. S. FURNIVALL, *Colonial Policy and Practice*, Cambridge, 1948, p. 255 or in French Indo-China with 42,000 Europeans and a total population of 23 million in 1937, see C. ROBEQUAIN, *The Economic Development of French Indo-China*, Oxford University Press, London, 1944.

(28) For tax receipts see V. ANSTEY, *Op. cit.*, p. 540; G.N.P. derived from S. SIVASUBRAMONIAN, *National Income of India 1900-01 to 1946-47*, Delhi, 1965.

sions to vested interest by maintaining Indian princes in power in a quarter of the country, but they made few other concessions to local economic interests. Therefore the joint burden of supporting a ruling class, a civilian bureaucracy and an army (29) was smaller under the British raj than under the Moghuls.

We may now ask what were the economic results of lowering the tax burden. In Bengal and other areas of zamindar settlement, the chief effect was to increase the income of landlords, in other areas the benefit accrued to peasants. The gains of the peasantry probably went to increase population rather than per capita income. Because they were able to retain a higher proportion of their product, peasants were able to subsist on land of lower productivity. Hence when India became independent, her tax base was very low and there was probably a larger proportion of poor peasants and landless labourers in the population than there had been under the Moghuls. The economy had a much smaller "surplus" mobilisable for development purposes than there had been in Meiji Japan on the eve of her modernisation efforts.

In the nineteenth century, the British were accused by Indian nationalists of overtaxing the country. Both Naraoji and Dutt constantly urged lower taxes and retrenchment. They particularly attacked the land tax. They were both Gladstonian liberals in matters of public finance. In fact, the British government did what Naraoji and Dutt suggested. It would have been better for the economy if they had maintained higher taxes and spent more on development, as happened in Japan.

The Economic Burden of Foreign Rule

The major burden of foreign rule arose from the fact that the British raj was a regime of expatriates. Under an Indian administration income from government service would have accrued to the local inhabitants and not to foreigners. The diversion of this upper class income into the hands of foreigners inhibited the development of local industry because it put purchasing power into the hands of

(29) Moreland suggests that in the time of Akbar the military strength of India was well over a million men, i.e. more than twice the size of the armies maintained in British India and the princely states, and much bigger in relation to population. See W. H. MORELAND, *India at the Death of Akbar*, A. Ram, Delhi, 1962, p. 72.

people with a taste for foreign goods. This increased imports and was particularly damaging to the luxury handicraft industries.

An even more important effect of foreign rule on the long run growth potential of the economy was the fact that a large part of its potential savings were siphoned abroad. The "drain" of funds from India to the U.K. which occurred under British rule has been a point of major controversy between Indian nationalist historians and defenders of the British raj. However, the only real grounds for controversy are statistical. There can be no denial that there was a substantial outflow which lasted for 190 years. If these funds had been invested in India they could have made a major contribution to raising income levels.

Before the British conquered Bengal, they had paid for imports mainly by exporting silver and gold bullion. Only about a quarter of their purchases were covered by commodity exports. The same was true for other European traders with India. The total annual bullion inflow to Bengal was about £780,000 (30). Indian exports were about £1 million a year of which about a third were bought by the East India Company, a third by the Dutch and a third by the French (31).

After the conquest of Bengal, the East India Company acquired a substantial income from its official revenues and its servants had a bigger income because of their increased monopolistic power and participation in local trade. As a result, the Company no longer had to pay in bullion for most of its imports from India (32). In fact, it had a revenue surplus bigger than the Indian surplus on commodity trade with the U.K. In order to effect the transfer of these additional resources, some Indian bullion and diamonds were shipped to the U.K. and Bengal silver was exported to China to finance British purchases of Chinese tea. In addition, Company servants sold their rupee profits to foreign trading companies against European bills of exchange, which supplanted other countries' exports of bullion to India. Bengal had a surplus on trade with other parts of India and these revenues were used by the East India Com-

(30) See K. DATTA, *Survey of India's Social Life and Economic Condition in the Eighteenth Century*, Mukhopadhyay, Calcutta, 1961, p. 138.

(31) See N. K. SINHA, *The Economic History of Bengal*, Vol. I, Mukhopadhyay, Calcutta, 1961.

(32) Bullion exports did not end. In fact, they eventually rose to higher levels than before Plassey (along with the rise in British imports). See C. H. PHILIPS, *The East India Company 1784-1834*, Manchester, 1961, p. 106.

pany to finance military campaigns in Madras and Bombay. Bengal revenues and profits were also used to finance the local costs of a larger contingent of Company servants and private traders. The annual net real transfer of resources to the U.K. amounted to about £1.8 million a year in the 1780s. This was also the size of India's exports (33).

Under the rule of the East India Company, official transfers to the U.K. rose gradually until they reached about £3.5 million in 1856, the year before the mutiny. In addition, there were private remittances. In the 20 years 1835-54, India's average annual balance on trade and bullion was favourable by about £4.3 million a year.

During the period of direct British rule from 1858 to 1947, official transfers of funds to the U.K. by the colonial government were called the "Home Charges". They mainly represented debt service, pensions, India Office expenses in the U.K., purchases of military items and railway equipment. Government procurement of civilian goods, armaments, and shipping was carried out almost exclusively in the U.K. By the 1930s these home charges were in the range of £40 to 50 million a year. Some of these flows would have occurred in a non-colonial economy, e.g. debt service on loans used to finance railway development, but a large part of the debt was incurred as a result of colonial wars. Some government expenditure was on imports which an independent government would have bought from local manufacturers. Of these official payments, we can legitimately consider service charges on non-productive debt, pensions and furlough payments as a balance of payments drain due to colonialism.

There were also substantial private remittances by British officials in India either as savings or to meet educational and other family charges in the U.K. In the interwar period, these amounted to about £10 million a year, and Naoroji estimated that they were running at the same level in 1887 (34). These items were clearly

(33) See N. K. SINHA, *Op. cit.*, p. 236 who cites the estimates of Grant and of Furber. According to Grant £1 million represented E.I.C. exports, £600,000 exports of other European companies and private traders, and £200,000 exports to China.

(34) See A. K. BANERJI, *India's Balance of Payments*, Asia Publishing House, Bombay, 1963, p. 137; D. NAOROJI, *Poverty and Un-British Rule in India*, London, 1901 (Government of India reprint), Delhi, 1962, p. 223. C. LEWIS, *America's Stake in International Investments*, Brookings, Washington, D.C., 1938, p. 462 suggests that the annual remittances, including business profits, from India and China were already £6 million in 1838. The bulk of this would be from India as at that time there were probably less than 250 British residing in China, see C. LEWIS, *Op. cit.*, p. 176.

the result of colonialism. In addition, there were dividend and interest remittances by shipping and banking interests, plantations, and other British investors; to some extent, these were normal commercial transactions, but there was a large element of monopoly profit due to the privileged position of British business in India; and in many cases, the original assets were not acquired by remittance of funds to India but by savings derived from official employment in India, or by purchase of Indian property on favourable terms, e.g. the land acquisitions of plantation companies. About a third of the private profit remittances should therefore be treated as the profits of colonialism (35).

The total "drain" due to government pensions and leave payments, interest on non-railway official debt, private remittances for education and savings, and a third of commercial profits amounted to about 1.7 per cent of the G.N.P. of undivided India from 1921 to 1938 (36) and was probably a little larger before that. Gross investment was about 6 per cent of G.N.P. at the end of British rule, and net investment was probably about half this level. Roughly a third of Indian net savings was therefore transferred out of the economy, and foreign exchange was lost which could have paid for imports of capital goods. As a consequence of this foreign drain the Indian balance on trade and bullion (37) was always positive as can be seen in Table 1. If we take Table 1 as a rough indicator of the *movement* in the colonial burden (though not of the absolute level) it would seem that it was biggest around the 1880s. Since independence the picture has been completely reversed and there is now a substantial inflow of resources because of foreign aid.

In judging the Indian situation in the colonial era, we must not forget that its experience was not unique. There was a drain of this kind from most countries under colonial rule, and it is not clear that India's experience was worse than that of other colonies. Even nominally independent countries, such as Mexico, granted land and

(35) Some writers have treated the whole of these service payments as a drain due to colonialism, e.g. K. T. SHAH and K. J. KHAMBATA in *Wealth and Taxable Capacity of India*, London, 1924, p. 232. This is an exaggeration.

(36) "Drain" estimate derived from A. K. BANERJI, *India's Balance of Payments*, Asia Publishing House, London, 1963, and G.N.P. derived from national income figures (grossed up 12.5 per cent) of S. SIVASUBRAMONIAN, *National Income of India 1900-01 to 1946-47*, Delhi School of Economics, 1965.

(37) India continued to be a massive net importer of bullion under British rule.

INDIA'S BALANCE ON MERCHANDISE AND BULLION

TABLE I

	Balance in current prices	Balance in 1948-49 prices	Per capita balance at 1948-49 prices
	annual average £ million		£
1835-54	4.5	n.a.	n.a.
1855-74	7.3	50.0	0.21
1875-94	13.4	80.0	0.30
1895-1913	16.8	77.6	0.26
1914-34	22.5	59.2	0.19
1935-46	27.9	66.1	0.17
1948-57 (India & Pakistan)	- 99.9	- 97.6	- 0.21
1958-67 (India & Pakistan)	- 472.7	- 384.7	- 0.67

Note: This table understates the Indian surplus (and overstates the deficit) because imports are recorded c.i.f. and exports f.o.b. Constant price figures derived by using national income deflator.

oil concessions to foreigners which were just as favourable as those which private British capital received in India.

In spite of its constant favourable balance of trade, India acquired substantial debts. By 1939 foreign assets in India amounted to \$2.8 billion of which about \$1.5 billion was Government bonded debt and the rest represented direct investment (mainly tea, other plantations and the jute industry). Although the debt was large in absolute terms, foreign investment was modest in relation to the size of the economy. Almost every other developing country except China received proportionately more than India and although in China foreign investment per head was less than that in India a larger part of it represented a genuine inflow of resources. In China there was no large scale foreign administration, and there was, in addition, a considerable remittance of savings from Chinese migrants overseas. As a result China was able to run a substantial trade deficit from the 1870s onwards (38).

During the first world war, India did not reduce its foreign debt as many other developing countries did. Instead, there were

(38) See C. F. REMER, *The Foreign Trade of China*, Commercial Press, Shanghai, 1926.

two "voluntary" war gifts to the U.K. amounting to £150 million (\$730 million). India also contributed one and a quarter million troops, which were financed from the Indian budget. The "drain" of funds to England continued in the interwar years because of home charges and profit remittances. There was also a small outflow of British capital.

During the depression of 1929-33, many developing countries defaulted on foreign debt or froze dividend transfers, but this was not possible for India (39). The currency was kept at par with sterling and devalued in 1931, but the decisions were based on British rather than Indian needs. Furthermore, the salaries of civil servants remained at high levels (40), and the burden of official transfers increased in a period of falling prices.

During the second world war, India's international financial position was transformed. The U.K. had enormous military expenditures for its own troops in India and also financed local costs of allied troops under Lease-Lend arrangements. Indian war finance was much more inflationary than in the U.K. and prices rose three-fold, so these local costs of troop support were extremely high in terms of sterling, as the exchange rate remained unchanged. As a result, India was able to liquidate \$1.2 billion of prewar debt and acquired reserve assets of \$5.1 billion, ending the war a large net creditor (41). These new assets and the disappearance of the colonial drain gave a formidable boost to postwar development policy.

(39) The developing countries which were politically free to do so went into default over the bulk of their bonded indebtedness in this period. Of the \$5.3 billion South American securities outstanding in 1938, \$3 billion were in default compared with \$340 million in 1913 and about \$1.4 billion in 1929. The proportion of defaulted East European, Greek and Yugoslav bonds seems to have been even higher. China and Turkey were also defaulters. See C. LEWIS, *The United States and Foreign Investment Problems*, Brookings, Washington, D.C., 1948, p. 42, and *The Problem of International Investment*, Royal Institute of International Affairs, O.U.P., London, 1937, p. 303. A good deal of this default was ultimately accepted by the creditors (mainly the U.K. and U.S.A.) in war-time and post-war debt settlements. There was also debt default by developed countries. All European governments except Finland defaulted on repayment of war debt to the U.S.A. This position was later legally endorsed by an official U.S. moratorium and eventual cancellation of war debts. Germany stopped paying reparations and set a moratorium on interest payments on other debt.

(40) There was a cut in civil service salaries in 1931, but it applied only to new recruits.

(41) In 1939, India had a foreign debt of 4,485 million rupees and assets of 739 million. In 1945 its official debt was only 175 million and its assets 17,243 million rupees. See K. C. CHACKO, *The Monetary and Fiscal Policy of India*, Vora, Bombay, 1957.

TABLE 2

FOREIGN CAPITAL INVESTED IN DEVELOPING COUNTRIES
PER HEAD OF POPULATION IN 1938

	U.S. Dollars		U.S. Dollars
Chile	268	Indonesia	35
Argentina	228	Turkey	35
Malaya	170	Egypt	32
Uruguay	118	Yugoslavia	21
Venezuela	105	Philippines	20
Mexico	95	Thailand	14
Greece	69	Iran	12
Brazil	51	India	7
Peru	49	China (inc. Manchuria) .	6
Colombia	38		

Source: CHI-MING HOU, *Foreign Investment and Economic Development in China 1840-1937*, Harvard, 1965, p. 98. India from C. LEWIS, *The United States and Foreign Investment Problems*, Brookings, Washington D.C., 1948.

Agriculture

When the British left India three quarters of the population were engaged in agriculture and it produced more than half the national income. It is therefore obvious that aggregate economic welfare depended a great deal on the performance of farmers. We have no reliable agricultural statistics before 1900 but we know that from 1900 to 1947 food consumption per head of the population declined and so did output per man and it seems perfectly feasible that food consumption and productivity levels were lower in 1947 than they had been two centuries earlier.

In setting up their administration in India, the British were strongly influenced by Moghul practice, and the basic source of revenue remained the land tax. But Indian notions of property were not at all like those in England, and the system itself was in flux because of the collapse of the Moghul Empire. Furthermore, the British, like any conquerors, had to displace the property rights of at least part of the existing ruling class in order to provide something for themselves. In the course of defining their revenue system, the British therefore redefined property rights.

In Bengal, they displaced the Nawab and took over the revenues he received from zamindars but their Permanent Settlement of 1793 gave zamindars the right to extract rent from tenants on their own account as landlords. Originally zamindars had kept only a tenth of land revenue for themselves and passed the rest to the State. By the end of British rule, Bengal landlord income from rents was a multiple of the land tax. In Madras and Bombay, the British pushed out the whole of the upper class (nobility and zamindars) and levied land taxes directly on individual peasants who thus became proprietors. The revenue assessment in Bengal was fixed in perpetuity whereas elsewhere it was temporary and could be raised every 30 years (20 years in the Punjab and Central Provinces) (42). In Northern India (United Provinces of Agra and Oudh, and in the Punjab), tax was levied collectively on villages (mahalwari settlement). This system tended to preserve the Indian village community in these areas.

The initial British revenue demands were probably similar to those of the Moghuls, though it is sometimes suggested that they were higher. However, prices were rising in the troubled period of British takeover, and immediately preceding this, the Moghul revenue system was in a state of collapse, so comparison is difficult. A further complication is that British land assessment was made as a percentage of net rental value (50 per cent) rather than gross product. At first, British land assessments seem to have been about a third of the crop, but the proportion fell over time as other sources of revenue emerged. In Bengal, revenues were unchanged in absolute terms from 1793 until independence in 1947 and although they were changed periodically elsewhere they also fell substantially as a share of the crop. By 1936, land tax represented only 5 per cent of the gross value of crop output in British India and about 3.5 per cent of total primary production. During the second world war, the three-fold rise in the agricultural price level and the static level of land taxes reduced the incidence of land taxation to that of a very minor levy.

(42) Just before the second world war, 122 million acres of land were subject to permanent settlement in British India (in Bengal, Bihar, parts of Madras, Orissa, U.P., Anam and Ajmer). The other 389 million assessed acres were under various kinds of temporary settlement, see R. C. DESAI, *Standard of Living in India and Pakistan*, Popular Book Depot, Bombay, 1953, p. 6. At that time the actual cultivated area seems to have been somewhat over 300 million acres in British India, see DESAI, *Op. cit.*, p. 27.

The introduction of a clearer, more legalistic, view of tax obligations and delinquencies, the collection of taxes in cash not kind, the conversion of zamindar rights into landlord rights, the insistence in ryotwari areas of individual responsibility for taxes, weakened the power of the village community and strengthened individual property rights. It increased the possibility for sale or distraint of peasant property and led to land transfers on a much larger scale. There was also a substantial growth in moneylending and peasant indebtedness. Previously the State had been more willing to make allowances for bad harvests, to take payment in kind, to tolerate delay or even default in payments. Muslim antipathy to usury, the strength of the village community in allocating land and the fuzziness of the law about debt had also acted as impediments to moneylending which were now removed (43). As a result many peasants lost their land and became landless labourers or very insecure tenants, in spite of later government efforts to restrict the rights of moneylenders and increase security of tenure. The weakening of community ties and growing competition from manufactured goods also weakened the position of village artisans who no longer had a guaranteed source of income, and some of them became landless labourers. During the period of British rule the proportion of landless labourers and tenants therefore grew considerably, and by the end of it many provinces had a very complex structure of sub-tenants. There was also a decline in the average size of plots (44), and an increase in land values due to population pressure. The basic cultivation unit remained small except in the limited areas where the British operated plantations. Most Indian landlords leased their land to peasants and were not capitalist farmers. There was very little private investment in agriculture.

The main contribution of British policy towards increased agricultural output was through irrigation. During the period of British

(43) For a description of the changed status of the moneylender in the Punjab under British rule, see M. L. DARLING, *The Punjab Peasant in Prosperity and Debt*, p. 178 "For centuries he was nothing but a servile adjunct to the Muhammadan cultivator, who despised him as much for his trade as for his religion. Forbidden to wear a turban and allowed to ride only on a donkey, and often the object of 'unmentionable indignities' sufferance was the badge of all his tribe; but when British rule freed him from restraint and armed him with the power of the law, he became as oppressive as he had hitherto been submissive".

(44) See H. H. MANN, *Land and Labour in A Deccan Village*, who traces the history of a village near Poona where the average landholding fell from 40 acres in 1771 to 7 acres in 1914-15.

rule the irrigated area was increased more than threefold, and when they left a quarter of the land was irrigated. Before the British came, irrigation was provided by storage tanks in the South, canals and dams in the North and wells to exploit subsurface water in various parts of the country. Most of the well irrigation was private, but the canals and tanks were operated by government, and the water was sold to private users. The tanks were of ancient origin in Southern India, but the Northern canals were mostly built by Muslim rulers. During the eighteenth century disturbances, the Northern canals fell into disrepair.

The East India Company repaired the Ganges and the Jumna canals and the Grand Anicut on the Cauvery early in the nineteenth century. Later the British extended irrigation considerably, particularly in the North, both as a source of revenue and as a measure against famine. British irrigation activity was greatest in the 1890s and the beginning of this century, when the Punjab canal colonies were created. The motive here was to provide land for retired Indian army personnel, a large part of which came from the Punjab, and to build up population in an area which bordered on the disputed frontier with Afghanistan. There were also large-scale irrigation works in Sind. These areas, which formerly had been desert, became the biggest irrigated area in the world, and a major producer of wheat and cotton, both for export and for sale in other parts of India. Most of it is now in West Pakistan.

Improvements in transport facilities (particularly railways) enabled agriculture to specialise to some degree on cash crops in which each area had a comparative advantage. This probably helped increase yields somewhat, but the bulk of the country stuck to subsistence farming. The British added to agricultural output by developing specialist plantation agriculture for export crops. These included indigo, sugar, and jute. In the 1850s came tea, the biggest of the plantation crops. These items made a significant contribution to Indian exports, but in the context of Indian agriculture as a whole, they were very much less important than in Ceylon or Malaya (45).

(45) In 1946, the two primary staples, tea and jute, were only 3.9 per cent of the gross value of crop output, see S. SIVASUBRAMONIAN, *National Income of India 1900-01 to 1946-47*, Delhi School of Economics, Delhi, 1965, whereas in Ceylon tea, rubber, coconuts and other estate crops were threequarters of agricultural output in 1950, see D. R. SNODGRASS, *Ceylon: An Export Economy in Transition*, Irwin, Illinois, 1966, p. 128.

They were, however, more significant than in China which had no plantation agriculture and whose tea exports suffered as a result of Indian competition.

Many developing countries, particularly in Latin America or Africa, and some Asian countries, such as Burma, Ceylon, Malaya, and Thailand had large areas of uncultivated fertile land which could be mobilised to produce export crops when the transport revolution gave a major boost to international trade in the second half of the nineteenth century. In some Asian countries there was also a good deal of idle labour which could be mobilized. By exploiting this "vent for surplus", international trade made possible a once-for-all rise in their standard of living (46). There was a rapid rise in cultivated area and agricultural output bigger than the increase in population (47).

In India, agricultural settlement was too ancient and population too dense to have left as big an excess of land or surplus labour. There was substantial waste land available for development, but the expansion of cultivated area did not keep pace with population.

The new land in India was less fertile on average than the old. There was only minor improvement in seeds during British rule, little increase in manuring or fertiliser use, or improvement in live-stock, and increased fragmentation of holdings, so yields of individual crops are unlikely to have risen in spite of increased specialisation and irrigation (48). Per acre yields were amongst the lowest in the

(46) See the theoretical analysis of the process by Professor H. Myint, "The Classical Theory of International Trade and the Underdeveloped Countries", *Economic Journal*, June 1958, and R. E. CAVES, "Vent for Surplus' Models of Trade and Growth", in R. E. CAVES, H. G. JOHNSON and P. B. KENEN, *Trade Growth and the Balance of Payments*, North Holland, Amsterdam, 1965.

(47) In Thailand there was surplus land in the main paddy area of the country where the crop area doubled from 1850 to 1913. This was done with no investment in irrigation or change in technology. The paddy area doubled again from 1913 to 1938 but this required some investment in railways and brought areas under cultivation with lower yields. 95 per cent of the agricultural area was devoted to rice and exports rose from 5 per cent of production in 1850 to 50 per cent in 1907. See J. C. INGRAM, *Economic Change in Thailand since 1850*, Stanford, 1955.

(48) M. D. MORRIS suggests that there was an increase in both yield and area cultivated in the nineteenth century because of improvements in public order and transport, but gives no real evidence, see "Towards a Reinterpretation of Nineteenth Century Indian Economic History", *Journal of Economic History*, December 1963, p. 612. W. C. NEALE, *Economic Change in Rural India*, Yale, 1962, pp. 143-4 gives evidence of rise in area and yields in Uttar Pradesh.

world at the end of British rule (49). Agricultural output per head of total population was lower than almost anywhere else in the world.

The British did very little to promote technical improvements. The first agricultural research institute was started only in 1905 and this was initially financed by a private American donation. At about the same time a veterinary service was created and experimental stations set up. There was consequently very little improvement in seeds, no extension service (50), no improvement in livestock and no official encouragement to use fertiliser. Lord Mayo, the Governor General, said in 1870 "I do not know what is precisely meant by ammoniac manure. If it means guano, superphosphate or any other artificial product of that kind, we might as well ask the people of India to manure their ground with champagne" (51).

The contrast between experience in India and that in Japan and the Japanese colony of Taiwan was very striking indeed. Japanese farm practice, seeds and yields were already much superior to those in India in the Tokugawa period, but from the 1870s onward, Meiji policy produced major improvements in yields and from 1895 improved those in Taiwan. Government sponsored research and extension, improved seeds and fertiliser made the major contribution. The Japanese, like the Indians, had been vegetarians before 1867 because of Buddhist religious beliefs. However, the Japanese government imported foreign strains of cattle, horses, sheep, pigs and poultry in order to diversify the diet, to provide traction power and manure. The government sponsored literature on livestock farming and trained veterinarians. In India there was no progress at all with livestock breeding.

British rule reduced some of the old checks on Indian population growth. The main contribution was the ending of internal warfare and local banditry. Better transport and more reliable water supply through irrigation reduced the incidence of famine. Famines did not disappear, but it is noteworthy that the decades in which they

(49) See V. D. WICKIZER and M. K. BENNETT, *The Rice Economy of Monsoon Asia*, Stanford, 1940, p. 318-9 who show average 1935-9 rice yields in India as 8.8 quintals of cleaned rice per hectare compared with 27.1 in Japan, 19.0 in Taiwan, 17.6 in Korea, 10.0 in Java and Madura, and 9.6 in Burma. Yields were lower in three countries, Indo-China 6.9, Philippines 7.3, and Thailand 7.9.

(50) "In the sphere of agricultural education India has, no doubt, been held back by the fact that until the last decade of the nineteenth century England herself was very deficient in that respect". See V. ANSTEY, *The Economic Development of India*, London, 1929, p. 178.

(51) See M. EDWARDS, *Op. cit.*, p. 219.

occurred were ones in which population was static rather than falling (52). The death rate was also reduced to some degree by making infanticide illegal, and the British made a marginal contribution to public health by some smallpox vaccination, killing rats, and better quarantine procedures. As a result, the death rate fell (53) and the population of India grew. By 1913 it was a little over 300 million, and, by 1946, 425 million, whereas at the time of the conquest of Bengal it was in the range of 100-125 million.

There was a very substantial increase in agricultural production in the period of British rule but it is not possible to determine whether farm output grew as fast as population in the nineteenth century (54). But it is quite possible that farm productivity may have declined somewhat even if peasant living standards remained unchanged. Firstly, the peasant was probably getting a larger share of what he produced at the end of British rule than two centuries earlier, because the combined burden of taxes, rent, and usury charges was proportionately lower. Secondly, better transport reduced wastage, by enabling surplus areas to sell their grains (55). This means that more of the crop was actually consumed. Thirdly, it is conceivable that peasants worked harder. Fourthly, the huge cow population may have been getting less to eat (56).

In the last half century of British rule for which agricultural statistics are available, there is evidence of a substantial drop in farm output per head of population. Per capita output of crops, livestock, and fisheries fell 15 per cent from 1900-3 to 1944-6 (57). There was also a drop in wheat exports and a rise in rice imports, so that at

(52) See K. DAVIS, *Op. cit.*, p. 28. In the 1870s Indian population was static, in the 1880s it rose 9 per cent, in the 1890s 1 per cent, the first decade of the twentieth century 6 per cent, and the second less than 1 per cent.

(53) The fall in death rates was not spectacular. In 1931 life expectation was 27 years, i.e. about the same level as in Europe up to the eighteenth century. Surveys of ancient Greek cemeteries and those of Restoration England show average life expectation at birth of less than 30 years. See L. I. DUBLIN, A. J. LOTKA and M. SPIEGELMAN, *Length of Life*, Ronald, New York, 1949, p. 42.

(54) Moreland argues quite convincingly that there was a rise in living standards of the masses between the time of Akbar and 1920, but the rise mainly affected non-food items and there was certainly a fall in per capita food consumption from 1920 to independence. See W. H. MORELAND, *Op. cit.*

(55) See M. L. DARLING, *Op. cit.*, p. 172.

(56) On the two latter points see E. BOSERUP, *The Conditions of Agricultural Growth*, Allen and Unwin, London, 1965, p. 37 and 53.

(57) See S. SIVASUBRAMONIAN, *Op. cit.* Similar results can be seen in G. BLYN, *Agricultural Trends in India, 1891-1947*, Philadelphia, 1966, p. 251.

the time of independence, India was a net importer of grain. This stagnation in farm output was unique to India, and did not occur elsewhere in Asia.

TABLE 3
RICE PRODUCTION IN MONSOON ASIA
million metric tons of cleaned rice

	Burma	India	Indo-China	Japan	Java and Madura	Korea	Philippines	Thailand	Thailand
Average 1910-14	3.74	25.10	3.66	6.78	2.77	1.56	0.54	0.60	1.92
Average 1935-39	4.94	25.77	3.94	8.64	4.00	2.73	1.44	1.24	2.71

Source: V. D. WICKIZER and M. K. BENNETT, *Op. cit.*, pp. 316-7.

The Indian population continued to have a living standard very close to subsistence and remained subject to famines and epidemic diseases whose impact was greatly accentuated by malnutrition. In 1876-8 and 1899-1900 famine killed millions of people. In the 1890s there was a widespread outbreak of bubonic plague and in 1919 a great influenza epidemic. In the 1920s and 1930s there were no famines, and the 1944 famine in Bengal was due to war conditions and transport difficulties rather than crop failure. However, the experience after 1920 was probably due as much to a break in the weather cycle rather than to a new stability of agriculture (58).

It is sometimes asserted by Indian nationalist historians that British policy increased the incidence of famine in India (59), particularly in the nineteenth century. Unfortunately we do not have any figures on agricultural production for the nineteenth century. It is difficult to base a judgement merely on catalogues of famine years whose intensity we cannot measure. Furthermore, there seem

(58) See S. R. SEN, *Growth and Stability in Indian Agriculture*, Waktair, January 1967.

(59) This is the argument of Romesh Dutt and also of the British author William Digby, (*Prosperous British India*, London, 1901). More recently their assertion that the incidence of famine increased under British rule has been repeated in B. M. BHATTI, *Famines in India*, Asia Publishing House, Bombay, 1963, pp. 7-8. "The frequency of famine showed a disconcerting increase in the nineteenth century". However, there is no evidence to support this statement. In the period of British rule, the population started to increase which must have been due to some degree to a reduction in the impact of crop failure on mortality.

to be long cycles in Indian weather conditions which make output unstable over a period of decades. As agriculture was extended to more marginal land one would have expected output to become more volatile. However, this was offset to a considerable extent by the major improvement in transport brought by railways, and the greater security of water supply brought by irrigation.

Industry

British rule dispossessed a large part of the Muslim aristocracy, destroyed court life in many places and substituted a bureaucracy with European tastes. As a result, there was a decline in domestic demand for fine muslins, traditional shoes, decorative swords and weapons, and other luxury handicrafts. In some cases, the previous rulers had run State manufactories which had guaranteed employment to artisans, and except in the remaining princely states, these disappeared. This change in tastes applied not only to the ruling class but also to the male members of the new Indian middle class which arose to act as their clerks and intermediaries. Domestic demand and production capacity were further affected by the drop in population following the famine of 1770, which is reputed to have reduced the population of Bengal by a third (and of India by 10 per cent).

The area worst hit by the decline in the market for high class textiles was Dacca, which had been the production centre for fine muslins. The population of Dacca declined from about 300,000 in the eighteenth century to 50,000 in the mid-nineteenth. This change in Dacca is not a representative indicator of the effects of British de-industrialisation, because the decline of Dacca's population also had another cause. Its production had already been hit before the British came by the removal of the Nawab's court from Dacca to Murshidabad. Later it was affected by the rise of Calcutta as the major urban centre of Bengal (60).

The second major blow to Indian cotton textiles came from British cloth which began to enter India round 1815, and which

(60) The decline in the Indian textile industry before the industrial revolution is noted by C. J. HAMILTON, *The Trade Relations between England and India 1600-1896*, Calcutta, 1919, p. 198, who suggests that the value of textile output in Dacca fell from £300,000 in 1766 to £200,000 in 1776.

had hit Indian exports a little earlier. Indian exports to Europe fell during the Napoleonic wars, partly because of the drastic reduction in British domestic production costs in the textile industry, partly because of higher wartime tariffs in the U.K. and the British blockade of continental Europe. The new British competitiveness was the result of a vastly improved technology which provided better quality goods at much lower prices than before (61). In fact the Napoleonic wars helped the Indian textile industry by delaying the arrival of cheap British textiles on the Indian market. Indian economic historians often emphasise the impact of these imports in displacing handloom spinners and weavers who usually had no alternative employment but to become agricultural labourers, but we must not forget that these cheap and superior cotton textiles enabled a large section of the Indian population to increase its textile consumption and to switch from jute to cotton clothing. The cost situation was such that manufactured goods would have ousted handloom products in any case. There is no doubt that large numbers of Indians lost employment in cotton spinning and weaving, particularly in high class textiles, but the British certainly did not wipe out textile handicrafts. Handloom weaving still persists in India and the availability of cheap yarn may even have given a boost to handloom weaving for crude textiles.

The change in the pattern of Indian textile trade and production was not determined wholly by changes in demand and technology but was also affected by commercial policy.

It is sometimes suggested that commercial policy in the U.K. dealt a major blow to Indian textiles. It is true that British protectionist interests were very powerful throughout the eighteenth century in restricting imports of Indian goods. Imports of silk manufactures were actually prohibited between 1700 and 1825, and there were protective duties on cotton textiles which were raised for revenue purposes in 1797 during the Napoleonic wars. These high duties lasted till 1824. But between 1825 and 1842 British import duties on textiles were gradually reduced to 10 per cent as the U.K.

(61) See H. HEATON, *Economic History of Europe*, Harper and Row, New York, 1965, p. 491, "Between 1779 and 1812 the cost of making cotton yarn dropped nine tenths. The mule's fine cheap yarn 'brought to the masses of the people better goods than even the rich had been able to afford in the earlier period' ». There was almost equal cost reduction in the weaving process. British textile exports rose 30 fold in volume between the 1780s and the end of the Napoleonic wars, see P. DEANE, *The First Industrial Revolution*, Cambridge, 1965, p. 89.

moved steadily towards free trade. The prohibition on manufactured silk imports was removed in 1825. Thus British policy on textile imports became less protectionist after India became a colony than it had been before.

We may however ask why India did not react quickly to the new technical possibilities and start factory production of textiles herself. She had, after all, been exposed to these new industrial products much earlier than China or Japan. Why could India not have copied Lancashire technology as quickly as France which had 3.5 million spindles by 1847? (62). Indian historians attribute the delay primarily to the lack of protective tariffs, and British imposition of a policy of free trade. British imports entered India duty free and when a small tariff was required for revenue purposes, Lancashire pressure led to the imposition of a corresponding excise duty on Indian products to prevent them gaining a competitive advantage. This undoubtedly handicapped industrial development. If India had been politically independent, her tax structure could have been completely different. In the 1880s, Indian customs revenues were only 2.2 per cent of the trade turnover, i.e. the lowest ratio in any country. In Brazil import duties at that period were 21 per cent of trade turnover. In the 1870s only 4 per cent of Indian government revenues were derived from customs duties whereas in Brazil the proportion was 72 per cent (63). As a result of this tax structure, Brazilian industrialisation got a much bigger push than that of India.

Another major reason why textile mills were not started earlier in India is that there was no Indian capitalist class, and no opportunity to attain the necessary technical knowledge quickly. By the 1850s, a new Indian middle class had begun to emerge which had made its money trading with the British and had acquired some education in English, and it was they who launched the Bombay textile industry with financial and managerial help from British trading companies which became managing agencies. These first Indian entrepreneurs tended to come from minority groups like the Parsees who did not have the same disdain for productive activity as upper class Hindus and Muslims.

(62) See J. H. CLAPHAM, *Economic Development of France and Germany 1815-1914*, Cambridge, 1963, p. 65.

(63) See M. G. MULHALL, *The Dictionary of Statistics*, Routledge, London, 1899, p. 172 and 258.

In fact, India was the first country in Asia to have a modern cotton textile industry, preceding Japan by 20 years and China by 40 years. It started in Bombay in 1851, and concentrated on coarse yarns which were sold domestically and to China and Japan. Yarn exports were about half of output. At that time, all Asian countries practised free trade which had been forced upon them by colonial treaties, and India enjoyed open access to the Chinese and Japanese markets. Japan did not have protective tariffs until 1911 and China until 1931.

Modern jute manufacturing started about the same time as textiles. The first jute mill was built in 1854 and the industry expanded rapidly in the vicinity of Calcutta. The industry was largely in the hands of foreigners (mainly Scottish), and most of the product was exported. India also continued to export raw jute which was used by the industry in Dundee. Between 1879 and 1913 the number of jute spindles rose tenfold — much faster than the cotton textile industry.

Coal mining was another industry which achieved significance. Its output largely met the demand of the Indian railways. By 1914 output reached 15.7 million tons. Most of it was in Bengal.

In 1911, the first Indian steel mill was built by the Tata Company at Jamshedpur in Bihar. However, production did not take place on a significant scale before the first world war. The Indian steel industry started 15 years later than in China, where the first steel mill was built at Hangyang in 1896. The first Japanese mill was built in 1898. In both China and Japan the first steel mills (and the first textile mills) were government enterprises.

Indian industrialisation was given a boost in 1905 by the *swadeshi* movement, which was the result of nationalist pressure, and involved a boycott of British goods in favour of Indian enterprise. Its results were not spectacular as British enterprise was too well entrenched to be pushed aside but it did help some industries and gave a fillip to Indian insurance and banking.

During the first world war the Indian textile industry managed to build up its home market for piece goods at the expense of British imports, and in the interwar period this process of import substitution for British cloth continued. Total imports of cloth fell from 3.2 billion yards in 1913-14 to 1.9 billion in 1929-30. However, Japanese products entered the market for cheaper textiles on a large scale during the first world war. In the 1930's, Japan supplied half

of Indian cloth imports whereas the U.K. had provided virtually all imports in 1913.

Under nationalist pressure, there were some changes in British policy in India in the 1920s. During the first world war, tariffs had been raised for revenue purposes. In 1921, the government agreed to create a tariff commission and although it worked slowly, it did start raising tariffs for protective reasons. By 1925, the average tariff level was 14 per cent (64) compared with 5 per cent pre-war. The procedure for fixing tariffs was lengthy and tariff protection was granted more readily to foreign-owned than to Indian firms (65). As a result of these measures, there was a considerable substitution of Indian textile production for imports. At the end of the nineteenth century Indian mills supplied 10 per cent of total cloth consumption, hand-looms 27 per cent and imports 63 per cent. In 1931-2 the percentages were 56 for local mills, 30 for hand-looms and 14 for imports (66).

The government was more willing to protect the textile industry when the threat came from Japan and not the U.K. At the beginning of 1930, the tariff on cotton cloth was raised from 11 to 15 per cent for British imports and 20 per cent for others, with a minimum specific rate to discriminate against cheaper grades. In March 1931 the tariff on Japanese goods was raised to 25 per cent, in September 1931 to 31¼ per cent. As the Japanese devalued the yen from 2.1 rupees to an eventual rate of 0.8, they were able to break through these tariffs which were raised to 50 per cent in August 1932 and to 75 per cent in 1933. The Japanese responded by boycotting imports of Indian raw cotton, and this forced the Indian government into a quota agreement in January 1934 by which Japan's export markets for cloth were geared to her purchases of raw cotton, and the duty was reduced to 50 per cent. In all of these tariff arrangements, British imports were accorded a margin of preference.

Japanese competitiveness was due in part to an overvalued Indian currency, to government support and protection, greater access to finance and technical training, aggressive export marketing, bulk purchase of raw materials and skilful mixing procedures for

(64) See W. A. LAWIS, *Economic Survey, 1919-39*, Allen & Unwin, London, 1949, p. 48.

(65) See M. KIDRON, *Foreign Investments in India*, London, 1965, p. 13.

(66) See D. H. BUCHANAN, *The Development of Capitalistic Enterprise in India*, Cass, London, 1966, p. 222.

different types of raw cotton. It was also helped by the fact that 80 per cent of the Japanese labour force were girls, whereas in India 80 per cent were men, whose wages had to support families and who were much more active in trade unions which went in for strikes and restrictive practices, particularly during the deflationary years 1928-34 when the millowners were trying to reduce wages. Most Japanese mills had their workers living in dormitories and found it easier to use equipment intensively by shift working. Japanese workers had better health and education, whereas Indian workers were debilitated by disease and malnutrition. Japanese wages were higher than those in India, but by the later 1930s, each Japanese operative worked three times as many spindles as an Indian. Indian efficiency was greatly hindered by the managing agency system under which the management was foreign, expensive and inefficient (67); the exclusive use of jobbers for hiring workers and maintaining discipline, and a completely unskilled group of workers who had to bribe the jobbers to get and retain their jobs. There were also problems of race, language and caste distinctions between management, supervisors and workers. The small size and very diversified output of the enterprises hindered efficiency.

Indian yarn exports to Japan dropped sharply from 8,400 tons in 1890 to practically nothing in 1898, and India also suffered from Japanese competition in China. The Japanese set up factories in China after the Sino-Japanese War of 1894-5. Before this, India had supplied 96 per cent of Chinese yarn imports, the U.K. 4 per cent, and Japan none. Within three years the Japanese had a quarter of Chinese imports and by 1914 India was exporting less yarn to China than was Japan. During the first world war Japan made further progress in the Chinese market and by 1924 supplied three-quarters of Chinese imports. By 1928 India was exporting only 3 per cent of her yarn output.

(67) This raised the cost of management. In 1925, 28 per cent of the managerial and supervisory staff in the Bombay textile mills were English, even though the plants were owned by Indians. In 1895 the proportion was 42 per cent. Very few Indians got technical training in the U.K. This was totally different from the situation in Japan. See D. H. BUCHANAN, *Op. cit.*, p. 211. Elsewhere (p. 321) Buchanan gives figures of the cost of European managerial personnel. In the Tata steel works in 1921-2 the average salary of foreign supervisory staff was 13,527 rupees a year, whereas Indian workers got 240 rupees. These foreigners cost twice as much as in the U.S.A. and were usually less efficient. Use of foreign staff often led to inappropriate design, e.g. multi-story mills in a hot climate or use of mule instead of ring spindles.

By the end of the 1930s, Indian exports of yarn to China and Japan had disappeared, piece goods exports had fallen off, and India imported both yarn and piece goods from China and Japan. She had made progress in substituting for British imports, but the net result was that the Indian textile industry was less dynamic than it had been in the second half of the nineteenth century.

Other Indian industries did better than textiles in the interwar period. There was some stimulus to import substitution during the first world war and in the 1920s certain steel products got tariff protection and bounties as well as government orders. It would appear that the Indian iron and steel industry grew faster than that of China. In the 1930s the industry produced over a million tons of pig iron and half a million tons of steel (68). Indian enterprises also started to grow rapidly in electricity, cement and sugar. British enterprises remained dominant in transport, coal, plantation crops and jute. In 1928, under nationalist pressure, the government started to favour Indian enterprises in its purchase of stores, and departments of industry were set up at the centre and in each province. The second world war gave a fillip to Indian industrial output, but there was not much increase in capacity because of the difficulty of importing capital goods and the lack of a domestic capital goods industry.

The British policy of segregating Indians from positions of responsibility and power greatly weakened the entrepreneurial dynamism which Western influence and foreign trade might have introduced. The early monopolistic position of the East India Company meant that a good deal of the most lucrative commercial, financial, business, and plantation opportunities were absorbed by foreigners. British monopoly of high level jobs and neglect of technical education effectively prevented the diffusion of skills to an Indian elite and perpetuated the privileged British position. British influence was further increased through the system of "managing agencies". These agencies were used to manage industrial enterprises, and handled most of India's international trade.

(68) In China, pig iron output rose more slowly from 354,000 tons in 1915-18 to 735,000 in 1935-7, see CHI-MING HOU, *Op. cit.*, pp. 230-1. But in coal, the pace of growth was faster in China where production rose from 18 million tons in 1918 to 39 million in 1936. Indian production rose from 19 million in 1916-18 to 23 million in 1936.

They were closely linked with British banks (69), insurance and shipping companies. Usually they were shareholders in the companies they managed, but they were paid commissions based on gross profits or total sales and were often agents for the raw materials used by the companies they managed. The origins of the system go back to the agency houses founded by ex-Company servants in the eighteenth century in Bengal, who controlled internal trade, the indigo and sugar industry, ran banks and insurance companies and tendered for government contracts. They also dominated the trade of China, Burma and Malaya, and until 1900, that of Japan. In 1913 the managing agencies of Calcutta "managed 116 coal mines, 43 jute mills, 19 railways and steam navigation companies, 6 cotton mills and 42 miscellaneous joint stock companies" (70).

These agencies were in many ways able to take decisions favourable to their own interests rather than those of shareholders. The government of British India did nothing to check their powers. Indian shipping was entirely in the hands of British companies, and of course, the British administration would never have dreamt of subsidising a local shipping line in the way which was done so successfully in Japan. Even less would they have thought of building up big Indian companies to rival the managing agencies in export promotion, or of creating a bank for export credit as the Japanese government did. The foreign firms and the government were not active in promoting training for Indians or in upgrading them to managerial positions. Even in the Bombay textile industry, where most of the capital was Indian, there was usually a heavy British component of management. The managing agencies were so powerful because they had a quasi-monopoly in access to capital (71), and

(69) As Keynes said "Indian exchange banking is no business for speculative or enterprising outsiders, and the large profits which it earns are protected by established and not easily assailable advantages". See J. M. KEYNES, *Indian Currency and Finance*, London, 1913, p. 208.

(70) See S. K. SEN, *Studies in Industrial Policy and Development of India, (1858-1914)*, Progressive Publishers, Calcutta, 1964, p. 145. See also D. H. BUCHANAN, *The Development of Capitalistic Enterprise in India*, New York, 1934.

(71) In 1913, foreign banks held over threequarters of total deposits, Indian Joint Stock Banks less than one fourth. In the eighteenth century there had been very powerful Indian banking houses (dominated by the Jagath Seths) which handled revenue remittances and advances for the Moghul Empire, the Nawab of Bengal, the East India Company, other foreign companies, and Indian traders, and which also carried out arbitrage between Indian currency of different areas and vintages. These indigenous banking houses were largely pushed out by the British.

they had interlocking directorships which gave them control over supplies and markets. They dominated the foreign markets in Asia. They had better access to government officials than did Indians.

The major act of British policy to promote Indian development was the construction of railways which were started in the 1850s. They made an enormous difference to Indian transport, for goods had previously moved by bullock cart or pack animal (i.e. usually less than walking pace). However, the degree of railway development was not very large. In relation to the size of the country and its population India remained worse off than most developing countries except China, Thailand and Indonesia. At first, railways were developed by private companies with British capital and a government guarantee of interest on the bonds. They were later taken over by government. Railway development was criticised in India because of these large government subsidies, because there were not enough feeder lines, and because their location was not optimum in terms of industrial development. It was also argued that too much was spent on railway development and not enough on irrigation. However, the economics of Indian railway development were no worse than in most countries, except that foreign investors did much better than in the U.S.A. or South America where there were major losses from default on bonds.

One major effect of railway development in India was to reduce the impact of famines by enabling grain to be shipped from surplus to deficit areas.

The basic limitations on the growth of industrial output in India were the extreme poverty of the local population, the fact that a large proportion of the elite had a taste for imported goods or exported their purchasing power, the fact that there was no tariff protection, or government preference for local products. The government itself did not create industrial plants or sponsor development banks which could have helped. The banking system gave little help to industry and technical education was poor. This contrasted sharply with the situation in Japan. In Japan the government promoted industrialisation by setting up State industry on an experimental basis and then selling off the plants to private enterprise (72).

(72) Lord Curzon had had the idea of doing the same in India, but these policies were vetoed by Lord Morley, as Secretary of State for India.

DENSITY OF RAILWAY DEVELOPMENT IN 1913
Kilometres of Railways per Million Inhabitant-Kilometres

TABLE 4

Belgium	355.8	Mexico	22.8
U.S.A.	186.1	Chile	15.4
Switzerland	160.3	Greece	15.3
France	123.5	Russia (European)	5.8
Germany	112.1	Egypt	3.2
U.K.	99.6	Brazil	3.0
Argentina	81.5	Japan	2.9
Netherlands	54.9	India	2.0
Italy	31.1	Indonesia	0.5
Malaya	30.7	Thailand	0.2
Canada	30.4	China	0.03
Spain	25.4		

Source: *Statistisches Jahrbuch für das deutsche Reich, 1915.*

It favoured domestic firms in State contracts, e.g. for railway equipment. It manufactured its own military equipment, built its own naval vessels and subsidised private shipbuilding. It created a Japanese banking system which favoured local industry and it also set up State development banks and a bank to promote exports. It developed technical education on a large scale. The government also supported the growth of Japanese business trusts (zaibatsu) which were able to drive out the foreign trading companies and build up close subcontracting relations with local small-scale industry. An independent India could have done many of these things.

By the time of independence, large scale factory industry in India employed less than 3 million people as compared with twelve and quarter million in small scale industry and handicrafts, and a labour force of 160 million (73).

If we compare Indian industrialisation with that of Japan the record of British rule looks very poor. If we compare India with other countries in Asia which were colonies, the record is much more favourable, because India's per capita industrial output at independence was higher than elsewhere in Asia outside Japan, and more than half of India's exports were manufactures. British policy was less repressive to local industry than that of other colonial powers.

(73) See S. SIVASUBRAMONIAN, *Op. cit.*

The comparison with China is also interesting, because China was never colonised to the same degree as India. Chinese development is perhaps similar to what would have occurred in India, if the eighteenth century political pattern had prevailed for another two centuries, i.e. limited foreign enclaves, with most of the country under weak and xenophobic indigenous rulers. China had a smaller degree of industrial development than India at independence, poorer transport facilities and a smaller elite with knowledge of English and access to foreign technology, but from the 1890s onwards, the rate of industrial expansion was probably faster because government policy in the late Manchu period (74) and under the Nationalists was more active than in India. China also benefited substantially from massive Japanese investment in Manchuria, and if it had not been for civil war and the war with Japan, the degree of industrialisation might have been higher than in India in the early 1940s.

Foreign Trade

Until the end of the Napoleonic wars, cotton manufactures had been India's main export. They reached their peak in 1798, and in 1813 they still amounted to £2 million (75), but thereafter they fell rapidly. Thirty years later, half of Indian imports were cotton textiles from Manchester. This collapse in India's main export caused a problem for the Company which had to find ways to convert its rupee revenue into resources transferable to the U.K. The Company therefore promoted exports of raw materials on a larger scale including sugar, silk, saltpetre, and indigo, and greatly increased exports of opium which were traded against Chinese tea. These dope-peddling efforts provoked the Anglo-Chinese war of 1842 after which access to the Chinese market was greatly widened. By the middle of the nineteenth century opium was by far the biggest export of India, and remained in this position until the 1880s when

(74) The Manchu government built its own armament factories and created a number of industrial enterprises. Although they were run in a very bureaucratic way and were financial failures in some cases, they helped familiarise the Chinese with modern industry, and probably helped provoke foreign interest in direct investment in China from the 1890s onwards. For a description of Chinese policy, see A. FEUERWERKER, *China's Early Industrialisation: Sheng - Hsuan - huai and Mandarin Enterprise*, Harvard, 1958.

(75) See R. DUTT, *Economic History of India*, Vol. I, Government of India reprint, Delhi, 1963, p. 202.

its relative and absolute importance began to decline. Another new export was raw cotton, which could not compete very well in European markets against higher quality American and Egyptian cottons (except during the U.S. Civil War), but found a market in Japan and China. Sugar exports were built up after 1833 when the abolition of slavery raised West Indian production costs, but India had no long-run comparative advantage in sugar exports. Indigo (used to dye textiles) was an important export until the 1890s when it was hit by competition from German synthetic dyes. The jute industry boomed from the time of the Crimean War onwards, when the U.K. stopped importing flax from Russia. In addition to raw jute (shipped for manufacture in Dundee) India exported jute manufactures. Grain exports were also built up on a sizeable scale, mainly from the newly irrigated area of the Punjab. The tea industry was introduced to India from China and built up on a plantation basis. Tea exports became important from the 1860s onwards. Hides and skins and oil cake (used as animal feed and fertiliser) were also important raw material exports.

Manufactured textile exports from India began to increase in the 1850s when the first modern mills were established. The bulk of exports were yarn and crude piece goods which were sold in China and Japan. Indian jute manufactures were exported mainly to Europe and the U.S.A.

LEVEL OF ASIAN EXPORTS F.O.B. 1850-1950
Dollars million

TABLE 5

	1850	1913	1937	1950
Ceylon	5	76	124	328
China	24	294	516	(700)
India	89	786	717	1,178
Indonesia	24	270	550	800
Japan	1	354	1,207	820
Malaya	24	193	522	1,312
Philippines	n.a.	48	153	331
Thailand	3	43	76	304

N. B. - Trade figures refer to customs area of the year concerned. In 1850 and 1913 the Indian area included Burma. The comparability of 1937 and 1950 figures is affected by the separation of Pakistan.

Indian exports grew fairly rapidly in the period up to 1913, but their growth was slower than that of most other Asian countries which had a natural resource endowment offering greater opportunities for trade. As a consequence, in 1913, India had a smaller trade per head than most countries except China. Nevertheless exports were 11.7 per cent of G.N.P., probably a higher ratio than has been reached before or since.

Until 1898, India, like most Asian countries, was on the silver standard. In the 1870s, the price of silver began to fall and the rupee depreciated against sterling. This led to some rise in the internal price level, but it helped to make Indian exports more competitive with those of the U.K., e.g. in the Chinese textile market. In 1898, India adopted a gold exchange standard which tied the rupee to sterling at a fixed value of 15 to 1. This weakened her competitiveness vis-à-vis China which remained on a depreciating silver standard, but its potential adverse effects were mitigated because Japan went on to the gold exchange standard at the same time.

During the first world war, when the sterling exchange rate was allowed to float, the rupee appreciated. Unfortunately, when sterling resumed a fixed (and overvalued) parity in 1925, the rupee exchange rate was fixed above the pre-war level. This overvaluation eased the fiscal problems of government in making transfers to the U.K. and enabled British residents in India or those on Indian pensions in the U.K. to get more sterling for their rupees, but it made it necessary for domestic economic policy to be deflationary (in cutting wages) and greatly hindered Indian exports particularly those to or competing with China and Japan.

As a result, Indian exports fell from 1913 to 1937, a poorer performance than that of almost any other country. By 1937 exports were only 7.6 per cent of G.N.P. and at independence they were only 4.4 per cent. If we look at Indian export performance from 1850 to 1950 it was worse than that of any other country in Asia (see Table 5).

Education

When the Company's commercial activities ended in 1833 and the first Viceroy was installed, he brought Macaulay as his legal advisor to codify the law, and to decide on the educational system. Macaulay's Minute on Education had a decisive impact on British

educational policy in India and is a classic example of a Western rationalist approach to Indian civilisation. Before the British took over, the Court Language of the Moghuls was Persian and the Muslim population used Urdu, a mixture of Persian, Arabic and Sanskrit. Higher education was largely religious and stressed knowledge of Arabic and Sanskrit. The Company had given some financial support to a Calcutta Madrasa (1781), and a Sanskrit college at Benares (1792). Warren Hastings, as governor general from 1782 to 1795 had himself learned Sanskrit and Persian, and several other Company officials were oriental scholars. One of them, Sir William Jones, had translated a great mass of Sanskrit literature and had founded the Asiatic Society of Bengal in 1785. But Macaulay was strongly opposed to this orientalism:

"I believe that the present system tends, not to accelerate the progress of truth, but to delay the natural death of expiring errors. We are a Board for wasting public money, for printing books which are less value than the paper on which they are printed was while it was blank; for giving artificial encouragement to absurd history, absurd metaphysics, absurd physics, absurd theology."... "I have no knowledge of either Sanskrit or Arabic... But I have done what I could to form a correct estimate of their value"... "who could deny that a single shelf of a good European library was worth the whole native literature of India and Arabia." ... "all the historical information which has been collected from all the books written in the Sanskrit language is less valuable than what may be found in the most paltry abridgements used at preparatory schools in England."

For these reasons Macaulay had no hesitation in deciding in favour of English education, but it was not to be for the masses:

"it is impossible for us, with our limited means to attempt to educate the body of the people. We must at present do our best to form a class who may be interpreters between us and the millions whom we govern; a class of persons, Indian in blood and colour, but English in taste, in opinions, in morals, and in intellect. To that class we may leave it to refine the vernacular dialects of the country, to enrich those dialects with terms of science borrowed from the Western nomenclature, and to render them by degrees fit vehicles for conveying knowledge to the great mass of the population." (76).

(76) Quoted from the text as given in M. EDWARDS, *British India 1772-1947*, Sidgwick and Jackson, London, 1967.

In fact, the education system which developed in British India was a very pale reflection of that in the U.K. Three universities were set up in 1857 in Calcutta, Madras and Bombay, but they were merely examining bodies and did no teaching. Higher education was carried out in affiliated colleges which gave a two year B.A. course and gave heavy emphasis to rote learning and examinations. Drop-out ratios were always very high. They did little to promote analytic capacity or independent thinking and produced a group of graduates with a halfbaked knowledge of English, but sufficiently westernised to be alienated from their own culture (77). The Indian Educational Service was created in 1896 to strengthen college teaching, but it never attracted very high quality people and was not very large. It was not until the 1920s that Indian universities provided teaching facilities and then only for M.A. students. The only way in which an Indian could acquire a high quality Western education was to attend a British public school and university. This possibility was, of course, open only to an infinitely small fraction of the population. Furthermore, Indian education was of a predominantly literary character and the provision for technical training was much less than in any European country. Very little was done to provide education for girls who were almost totally ignored throughout the nineteenth century. Because higher education was in English there was no official effort to translate Western literature into the vernacular. Nor was there any attempt to standardise and simplify Indian scripts whose variety is a major barrier to multilingualism amongst educated Indians.

Primary education was not taken very seriously as a government obligation and was financed largely by the weak local authorities. As a result, the great mass of the population had no access to education and at independence in 1947, 88 per cent was illiterate. In other Asian countries education was more highly developed than in India. This is particularly true of Japan, Formosa and the Philippines. Progress was accelerated from the 1930s onwards, but at independence only a fifth of children were receiving any primary schooling.

Education could have played a major role in promoting democracy, encouraging social mobility, developing aesthetic sensitivity, eliminating religious superstition, unifying different linguistic and

(77) See the Kothari Report, *Report of the Education Commission 1964-66*, Government of India, Delhi, 1966.

racial groups, increasing productivity and uplifting the status of women. Instead it was used mainly to train clerical labour to work in a stilted and obsequious version of the English language.

Conclusions

There has been a good deal of controversy amongst statisticians about the rate of growth of income in India in the colonial period. The argument is politically coloured and the statistics are poor (78). The latest estimates suggest that per capita income rose by about a quarter between the 1870s and 1947 (79). There are no estimates for the movement in Indian income from Clive's conquest to the 1870s, but there could not have been much net progress in real income per head before the development of railways, modern industry, irrigation and the big expansion in international trade. From the beginning of British conquest in 1757 to independence, it therefore seems unlikely that per capita income increased by more than a third. In other developing countries for which records exist there seems to have been a substantially bigger increase than in India (80). In the U.K. itself there was a tenfold increase (81).

The main increase in the standard of living in the British period was in textile consumption, transport and some service industries. The mass of the labour force remained in agriculture and the urban population was relatively small — about 12 per cent of the total at independence. The total product of the economy was probably more than four times as big in 1947 as it had been in 1757, but most of the increase had been absorbed by the rise in population from 125 to about 425 million. The degree of development varied a good deal from one part of India to another. In Rajasthan, Mysore, Orissa and Bihar per capita income was only a half to two-thirds of that

(78) For a survey of the literature, see D. & A. THORNER, *Land and Labour in India*, Chapter vii, and S. J. PATEL, "Long-term Changes in Output and Income in India: 1896-1960", *Indian Economic Journal*, January 1958.

(79) Estimates provided by M. Mukherjee of the Indian Statistical Institute. S. SIVASUBRAMONIAN, *Op. cit.*, shows a rise of a little less than a quarter from 1900 to 1946.

(80) See A. MADDISON, *Economic Progress and Policy in Developing Countries*, Allen and Unwin, London, 1970.

(81) See P. DEANE and W. A. COLE, *British Economic Growth 1688-1959*, Cambridge, 1964, pp. 78, 282, 329-30, and A. MADDISON, *Economic Growth in Japan and the U.S.S.R.*, Allen and Unwin, London, 1969, p. 159.

in West Bengal and the Punjab, but even the advanced areas of India were not particularly prosperous by Asian standards.

The reasons for India's poverty and slow growth can be summarised as follows:

(a) India was not a rich country when conquered by the British. It had a wealthy ruling class whose sumptuary standards may have surpassed those in eighteenth century Europe, and it had a relatively small industrial sector providing them with luxury handi-crafts. But the mass of the population was subjected to a greater degree of exploitation than in Europe. This "oriental despotism" was possible because of the passivity induced by the caste structure of village society. Agricultural productivity was lowered by religious tabus which inhibited animal husbandry, and by a social system which provided little incentive to agricultural investment;

(b) the ratio of population to natural resources was less favourable than in Latin America or Africa, so that there were fewer benefits to be reaped from large scale international trade which the transport revolution made possible in the second half of the nineteenth century;

(c) the British dispossessed a substantial part of the old ruling class and revamped the state apparatus. They substituted an efficient Benthamite bureaucracy and a modern army which absorbed a smaller fraction of national income than the *ancien regime*. The benefits of a reduced degree of exploitation, improved law and order and better communications were largely absorbed by increases in population rather than per capita income. A significant fraction of the income of the new ruling class was siphoned out of the country, not formally as Imperial tribute (such as the Spaniards had levied in Mexico) but in more respectable guise as pensions, school fees, savings, and profits on enterprises which enjoyed monopolistic privileges. After independence, therefore, India had only a very small economic "surplus" which could be mobilised for development either through taxation of upper income groups, or by incentives to a wealthy class to use their wealth for productive investment;

(d) agricultural productivity showed no progress under British rule and may even have declined. Removal of some of the non-nutritional checks on population growth pushed the economy closer to a Malthusian equilibrium;

(e) industry got very little help from government. Managerial and technical competence were severely inhibited by British monopoly power in managing agencies, banking, shipping and insurance. Industrial efficiency was damaged by the poverty of human resources in terms of education and health, and by caste and religious prejudices which restricted entrepreneurial activity to a limited group. The poverty of the agricultural population (extreme even for Asia), and the thinness of the upper class stratum were a major handicap to growth in demand for industrial products. Nevertheless, industry developed further than in other Asian countries except Japan, and British policy was less repressive to industrial development than that of other colonial powers;

(f) English education created a small elite which was more westernised than in any other Asian country, but also more alienated from the mass of the population. Their standards and aspirations were largely British, and after independence they took over the special caste attributes which the British had created for themselves in India (except expatriate status). Independence brought a take-over, not a revolution, and preserved many of the static elements in the society and economy. This had some shortrun advantages as it led to greater political stability than elsewhere in Asia, but the preservation of caste, social immobility, and excessive respect for bureaucracy were probably harmful to long run economic growth.

It is interesting to speculate on India's potential economic fate if it had not been subjected to British rule. There are three major alternatives which can be seriously considered. One would have been the maintenance of indigenous rule with a few foreign enclaves, as in China. Given the fissiparous forces in Indian society, it is likely that there would have been major civil wars as in China in the second half of the nineteenth century and the first half of the twentieth century. Without direct foreign interference with its educational system, it is less likely that India would have developed a modernising intelligentsia than China, because Indian society was less rational and more conservative, and the Chinese had a much more homogeneous civilisation around which to build their reactive nationalism. If this situation had prevailed, population would certainly have grown less but the average standard of living might possibly have been a little higher because of the bigger upper class, and the smaller drain of resources abroad. Another alternative to

British rule would have been conquest and maintenance of power by some other West European country such as France or Holland. This probably would not have produced results very different in economic terms from British rule. The third hypothesis is perhaps the most intriguing, i.e. early conquest by the evangelising Portuguese. If they had succeeded in India as they did in Brazil they would have transformed social attitudes, language and religion, and created a new creole ruling class which would probably have rebelled and thrown off metropolitan domination. Thus the country would have been westernised more thoroughly and have been independent longer. This may have been the optimum solution, but would probably not have been feasible even if the Moghul Empire had been in a state of collapse when the Portuguese came. Indian society and religion were too strong for Aurangzeb to change, and it is unlikely that the Portuguese could have succeeded where he failed.

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