Industrialisation Under Colonial Regime: Industrial Development in British India, 1900-1946

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1.1 *Introduction:*

The aim of this article is to investigate and analyse the development of modern industry in India from 1900 to 1946. In this context modern Industry means privately owned industries, since state investment in the industrial sector was almost negligible.

India has received far less attention than it deserves in the field of political economy of development. Most of the recent literature is concentrated on South East Asia, Africa and Latin America. Most of the existing literature does not take into account the nature of industrial development, the situation of agriculture sector, domestic markets, the development of the technology, etc. Several economic historians have pointed to the "beneficial" impact of the colonial rule. They maintain that India particularly benefited from the colonial rule, which laid the foundation for modern industries in India.[1]

Liberal economic historians portray India as one of the "leading industrial nations" of the colonial nations. Such a view gives credit to the British colonial government for encouraging the development of modern industries in India, which is far from the truth. It is true that industrial development has taken place in India since the beginning of the 20th century but it cannot be compared with any independent European nation or even British settler colony such as Canada and Australia. Industrial development was lopsided and was particularly concentrated in consumer goods sector. Little capital was invested in the sphere of heavy industry.

Contrary to the above opinion, I shall argue that India did not benefit by the colonial rule but lost whatever potential it had for economic development. India was the first country in Asia which had direct massive contact with the European industrial nations and started the building of modern industries, especially in the period after 1912. Yet it never completed the process and benefited from the over all industrialization. Whereas Japan started industrialization later and with much fewer domestic resources compared to India, but developed industrially far in excess of the level attained by India.

1.2 *Destructive Impact of Colonial Rule:*

In general colonial domination is hostile to indigenous industrialisation, but there are different phases of colonial rule in India. From the beginning of the 20th century, the attitude of the British rulers seems to have changed due to the changing Indian and foreign economic and political situation. I will examine this aspect latter in this article.

However, the economic history of the colonial period can be divided into three phases. The first began with the British occupation of Bengal and lasted till the end of the 18th century. In this period unequal trade and forced plunder had a long declining effect on the fertile regions of central and east India. India was forced to accept unequal trade and artisans and peasants were coerced into producing according to the dictates of the East India Company. There existed no limit to the plundering. During the second phase, in the beginning of the 19th century, British policies towards India changed. In England the rising bourgeoisies class interest began to dominate. There interest lay in turning India into a market for their manufactured goods and a supplier of raw materials for their industries. The third phase began in the second half of the 19th century and coincided with the emergence of the finance capital in Britain. During this period many industries sprang up in India.

During the mid-18th century India's industry were determined by village handicrafts, which were closely linked with agriculture. The system of hereditary handicrafts specialisation in certain areas was highly skilled and ensured high quality products.[2] However, colonial rule adversely affected the handicrafts industries. These industries were ruined by the official policy of discrimination and they even sometimes directly eliminated the local manufacturer; by turning them into the producers and exporters of raw materials. The dismissal of indigenous feudal lords courts and armies was an additional factor which reduced the domestic markets. The consumer habits of British rulers were different, and was mostly met by the imports of luxury goods, and did not create demand for local goods. Another factor which curtailed internal demand was the increased exploitation of the peasantry, which left people with no savings. As a result a little drought or bad weather led to famine and deaths. Poor peasants had to borrow for their survival. In addition a greater challenge existed for the local producer in the form of foreign competition.

During the rule of the East India Company, India was plundered by the purchase of Indian products at lower prices; and by the extraction of "tributes" in treasures, or bullion, or in the forms of commodities. The "tribute" was a direct annual removal of millions pound from India to Britain, under the pretext of "home charges" and by private remitting of funds. The "tribute" continued to rise throughout the 19th century along with the growth of foreign trade. In the mid 19th century, Colonel Sykes, a director of the East India Company, estimated the tribute to be 3.5 million pound annually. According to him, "it is only by the excess of exports over imports that India can bear this "tribute". By 1913-14 it rose to 19.4 million pounds and between 1851 and 1901 the excess of India's exports multiplied three times from 3.3 million pound to 11 millions pound. But in the 20th century the amount began to rise more rapidly, and between 1901 and 1913 it rose from 11 million pound to 14.2 million pounds. The amount of tribute in 1940 reached to 69.7 million pounds of which 26.9 million Pounds represented merchandise and 42.9 million pounds represented treasure.[3]

The aim of the East India Company was to obtain maximum profit by monopolising the trade between India and Europe. Before the occupation of Bengal the Company had to pay in silver and gold because the British industries were undeveloped and thus could not offer much in exchange for Indian goods. Therefore, the Company had to pay in precious metals in exchange for Indian goods. Britain received gold by the sale of slaves in the West Indies and Spanish America.[4] For more than two and a half centuries (1500-1757) the balance of trade was always in favour of India. The Company bought cotton and silk goods in exchange for bullion.

The colonial government in Bengal did every thing to suppress native industries. It even set up parliamentary enquires in 1833 to find out ways to destroy the local production and replace it by the British produced goods. To achieve this aim discriminatory custom duties were imposed. As a consequence, the extent of Indian manufactured products declined drastically, while Indian markets were thrown open to British manufacturers by imposing "free trade". Internal trade in India was also restricted by the imposition of customs and transit duties, which made Indian goods more expensive in their own markets.

In 1813 an enquiry was carried out by the House of Commons to investigate how India could be developed as a market for British manufacturing products.[5] The enquiry pointed out that only by imposing heavy duties on India's export products, and not relying on technical superiority, could India be transformed into a market for British products.

The impact of the destruction of handicrafts on Indian economy as devastating . Prosperous towns and markets began to decline. Great manufacturing towns such as Dacca, Murshidabad, Surat, Malda, Faizabad etc. became desolate.[6] Clive described the city of Murshidabad as more extensive, populous and prosperous than London. M. Matin reported to the Select Committee: "The decay and destruction of Surat, of Dacca, of Murshidabad and of other places where native manufacturers have been carried on, is too painful a fact to dwell upon. I do not consider that it has been in the fair course of trade. I think it has been the power of the stronger exercised over the weaker".[7] Karl Marx described the destruction of the Indian economy as follows: "From 1818 to 1836, the export of twist (cotton products) from Great Britain to Indian rose in the proportion of 1 to 5200. In 1824, the export of British muslins to India hardly amounted to 100,000 yards, while in 1837 it surpassed 64,000,000 yards. But at the same time, the population of Dacca decreased from

150,000 inhabitants to 20,000. This decline of Indian towns, celebrated for their fabrics, was by no means the worst consequence".[8]

Once the bourgeoisie in England consolidated their power the task before the British state became to transform India from being an exporter of cotton goods to the world to being an importer of the same goods. George Tucker noted only ten years after the Parliamentary Enquiry: "The cotton fabrics, which hitherto constituted the staple of India, have not only been displaced in this country but we actually export our cotton manufacturers to supply a part of the consumption of our Asiatic possessions. India is thus reduced from the state of a manufacturing to that of an agricultural country".[9] In India the manufacture of cotton and raw silk declined, but its handicrafts industries were not totally ruined until 1813. Indian textiles and silk products were still superior to British made cloth. But England was determined to promote British industries at the costs of Indian industries. The export of British manufactured products to India became a life and death issue for the British bourgeoisie when Napoleon Bonaparte banned the import of British goods into Europe.

After the Napolinic wars, Indian handicraft industries received a further setback due to growing competition from the British factories. The destruction of industries ruined weavers and many of them fell victim of malnutrition and unemployment. Thus, the destruction of a number of handicraft industries resulting from "free competition", retarded the growth of industries in India and gave rise to a huge overpopulation in the rural areas.[10] This resulted in a sharp rise in the price of land, which was reflected in increased land rent. The high degree of concentration of land in feudal hands led to the emergence of feudal rents, which inevitably retarded the transition of development of capitalism within agriculture. Under such circumstances it is hardly surprising that the over all industrial development did not take place in India. Even Karl Marx's prediction that the railway would bring a growth in engineering and other modern industry remained a dream. The colonial policy between 1857 and 1914 can be characterised as the imposition of free trade policy on India and the use of Indian export surplus for financing the transfer of capital to colonies of white settlement in Australia, New Zealand, South Africa, USA Canada etc.

The export of raw cotton to England and import of manufactured cloth into India led to industrial devastation in India. The urban population declined as a result of the closure of the handicraft industries.[11] For example, the population of Dacca was reduced to half. The spinning of thread, the occupation of almost every family in the city, was abandoned. "The arts of spinning and weaving which afforded employment to a numerous and industrious population in the course of half a century passed to England which supplied the wants not only of the foreign nations but also of India herself. Between 1815 and 1832, the value of export of Indian cotton goods fell from 1.3 million to below 100,000, while the cotton goods imported rose from 26,000 to 400,000.[12] The destruction of handicrafts had devastating affect on India. As noted by Kuczynski: "Within half a century the backbone of India's production of non-agriculture goods was broken".[13]

Thus India was turned into market for the British manufactured goods. India cotton goods were barred from the British markets by state initiated tariffs duties. In 1833 the colonial government of West Bengal set up Parliamentary Enquiries to discover the ways and means of replacing indigenous produce by British manufactured goods. To achieve this discriminatory custom duties were imposed. Even the internal trade in India was restricted by the imposition of inland custom duties, which discriminated against Indian goods in her own markets. This example clearly shows that the state was used to discourage Indian goods entering Britain, while the same State helped to expand the market for British goods in India. The ideology of "free trade" became the ruling doctrine in Britain only when it had achieved the status of unchallenged leader of the world.

Many Indian financiers and traders found it profitable to work under the British capitalist. In the last quarter of the 19th century, for example, Parsis were the most important collaborator of the British capitalists. Sir Jamsetjee Jejeebhoy (an Indian) was in partnership with Jardine Matheson & company, for the trade of opium with China. Many Parsi contractors were also engaged in the construction of railway lines. However, such collaboration between Indian and British businessmen was not confined to the Parsis community, it spread to other religious communities as well. Premchand Roychand, a Hindu businessmen, was a broker to the Ritchie Stewart and Company, a British firm, in Bombay.

The government followed the policy of free trade till the end of the 19th century. It was quite contrary to development in the rest of the world including the British colonies in Australia and Canada. Even these colonies were allowed to erect tariff walls against manufactured goods from foreign countries. The United States, the other colony of the British Empire was able to develop its manufacturing industry by employing protectionism after its independence in 1776, although in the 18th century it primarily was an agricultural country. By contrast the Indian economy was open and was forced to accept the doctrine of free trade. India imported most of its manufactured products from Britain and exported raw martials and even food grains to Europe and North America. With these countries India had trade surplus, while at the same time Britain had normally a trade deficit with them. The export of these natural resources earned a large amount of foreign currency, which ultimately benefited Britain's trade balance with other countries and India's trade surplus was used to help Britain's trade deficit with the other countries.[14]

Britain was the biggest buyer of India's exports. Upto the beginning of the First World War India exported a large fraction of its cotton crops. This pattern of colonial trade suited the British completely. In Indian markets British goods could enter duty free at the time when most of the European markets were being almost closed for British manufactured products and was increasingly difficult to compete in European markets.

The beginning of the 20th century marked a change in the British colonial policy in India. The change could be seen in terms of rising import duties against foreign goods. The Montague-Chelmsford Report on Indian Constitutional Reforms in 1918, clearly gave reason for this change in economic policies towards India. The report concluded that "On all grounds a forward policy in industrial development is urgently called for, not merely to give India economic stability, but in order to satisfy the aspirations of her people--------. Both on economic and military grounds, imperial interests also, the demand that the natural resources of India should henceforth be better utilised. We cannot measure the access of strength which an industrialised India will bring to the power of the empire".[15]

Imperial global military interests and the necessity of security the political cooperation of Indian bourgeoisie was reflected through economic concessions being given to them. This change served two aims as was summarised by the R.P. Dutt: "In the first place, in so far as the foreign industrialist was replaced by the development of industry within India, the British financial and political domination could secure a more favourable possibility to extract the ultimate profit for British capital than if the market were lost to an independent foreign capitalist power. In the second place, the establishment of a tariff system could prepare the way for imperial preference to assist Britain to win back the Indian Market".[16] Moreover, the colonial markets brought rapid change in the British economy and society. As described by Hobsbawm, "At the very moment when Britain emerged on the victorious side in the first major war since Napoleon, when her chief continental rival Germany was on her knees, when the British empire, sometimes lightly and unconvincingly disguised as 'mandates', 'protectorate' and satellite middle eastern states, covered a great extent of the world map than ever before, the traditional economy of British not only ceased to grow but contracted------------'Economic decline' something that economist argued about before 1914, now became a palpable fact",[17]

British economic control decreased due to war conditions as materials were diverted for war purposes. The import of cotton piece goods from Britain was affected by the war due to shortage of shipping and because British ships were attacked by the German submarines. The export of other products were also affected. During this period many business owned by Indians sprang up besides cotton, in engineering and other fields supplying materials for the war. At the end of the war, a shift had taken place in India's trade relations with the foreign countries, particularly with the Great Britain. India's import, for example, of cotton piece goods declined during the post war period. The other major import items also began to decline such as iron and steel, paper, and cement and India began to produce these goods domestically on increasingly scale.

1.3 *Changes in the Colonial Policy:*

The import duties of cotton piece goods was raised from 7.5% in 1917 to 11% in 1921 and to 15% in 1922. Later on, the iron and steel industry was also granted protection. The First World War marked a major structural break as far as the composition of private investment in modern manufacturing was concerned. Investment in modern industries increased significantly and after 1913 the production of materials like sugar, cement, iron and steel increased. Between 1913 and 1927 iron and steel output increased from 239 tons to 1384 tons. Profit also increased and the average dividend paid by the leading cotton mills of Bombay in 1920 was 120%; Jute mills in Calcutta also profited with the war boom and during the First World War they earned nearly 42 million pound.

The First World War marked a new period in the development of modern industry in India. Government policy was changing slowly in favour of local producers as a result the production of cotton goods, tea, coffee, jute goods etc. went up. At the same time new industries producing for internal markets were build such as paper, sugar, match box, iron and steel, cement, glass etc. The international situation after the First World War had changed, which certainly affected the development of modern industry in India. After the war Britain emerged as a weakened power and Britains position among the western world had changed from the undisputed leader to that of a declining supremacy. Since the middle of the 18th century Britain was leader of the western world and London was the financial centre of the world. During this period most of the world's trade came to be carried by the British ships. But in the early 20th century the rise of other countries economies such as Germany, United States, and Japan started penetrating Indian markets. In India, opposition to British rule increased. All this led colonial authorities to give concessions to Indian businessmen to keep its international rivals out. The government contract to buy steel helped Tata first's Indian steel plant. The Tata company also recruited Sir Fredeick James, former British civil servants, to put forward their case before the British colonial officials.

The Indian war of independence in 1857 forced the British to realise that delivery of military goods takes long time from Britain and it would therefore, be advantageous to develop some of these products in India. In 1870 the government initiated the development of the coal, metallurgical industries and an ordnance factory. The industries built during this period were mostly connected with processing raw materials for exports. Later, the building of a few heavy industries such as railways, coal etc. aided production for export.[18] The footwear and wool industries were also expanded, mainly to supply for the colonial armies.

Later, colonial authorities realised that if they wished to retain India as a colony, they would have to change their policies. "Selective protectionism" was introduced against the non-British rivals in India. The Indian markets in ferrous metals were dominated by the Germans, French and Belgians; textile markets by the Japanese; and sugar markets by the Dutch businessmen from Indonesia. The introduction of import duties restricted the import of goods from these countries. This provided a good opportunity for the local producers to invest in such industries, but at the same time these industries did not compete with the British producers. It meant simply that local producers were encouraged at the cost of Britain's foreign rivals.

The decline in the British competitiveness could be traced from the late 19th century. Between 1874-79, the British share in total Indian imports was 82%. This meant India was only importing 18% from the rest of the world. But by 1899-1904 India's imports from Britain fell to 66% and later by 1909-14 it further declined to 63%. During the war 1914-18, the British share in India's imports fell from two thirds to a little over one third. Japan, German, and United States increasingly challenged Britain in Indian markets. Between 1913 and 1932 Britain share in India's imports fell from 63% to 35%, while Japan's proportion rose from 2.6% in 1913-14 to 16.3% in 1935-36; Germany from 6.9 to 9.2; and the US from 2.6 to 6.7% in the same period.[19] (See table-I).

Table: 1

**Cotton Piece Goods Imported by India.
(in Million Yards)**

Year	Britain	Japan	Other Countries
1911	2379	1	58
1921	955	90	45
1926	1467	244	7
1928	1456	357	123
1930	523	321	67
1931	383	340	49
1932	597	580	n.a.
1933	426	349	n.a.
1934	552	391	n.a.

Source: A.S. Pearse (1930) The cotton industry of India, Manchester, p.205.

Japan was most successful in challenging British cotton goods in Indian markets. In 1913 India imported 97% of its total imports from Britain and only 0.3% from Japan. But by 1933 Japan's share went up to 47.3%, while Britain's share declined. The colonial government imposed preferential duties which made British goods more competitive in Indian markets. In return India enjoyed preferential tariffs for the raw martials exported to Britain. High duties were imposed by colonial government on a number of non-British products. For example, after the challenge by the Japanese competition, the duties on fabrics of non-British origin were raised by 75% in 1934.

The Development of Modern Industry:

In 1880 the number of cotton mills in India was 56 and provided employment for 43,000 people. Most of these mills were located in Bombay Presidency and owned by Indian capitalists. Moreover, at the end of the 19th century two severe famines occurred one in 1896-97 and another in 1899-1900. Both famines and the accompanying plague cost many hundred of thousands of lives, which affected the rate of progress of the cotton textile industries.

The situation would had been different in western India which had not been colonised in the beginning by the British and plundered by the East India Company, as was the case with the Bengal. The Marathas had resisted British occupation for a long period and during the resistance, the British needed traders and financiers in the west India as collaborators. Indeed, The Maratha region was not easily accessible before the spread of railways. The region also did not have rich plantations and mineral resources like Bihar. Due to these reason the British relied on local businessmen, who were mostly Parsis, to carry out trade and other business activities in western India. This was the main reason why Parsis in west India faced less competition from the British businessmen, as was seen in Eastern India. This is how the Parsis developed into being the most important section of the Indian business community. They also had some advantage over Hindus, as they had no caste system and thus no occupation was considered shameful to them.

In 1900 the cotton mills were mostly concentrated in western India such as Bombay and Ahmedabad, Bombay being the biggest centre. For example, in 1901, nearly 56% of the looms and 53% of the spindles in the whole of India were located in the Bombay. Later the situation changed and from 1901 to 1914 the number of cotton mills in Ahmedabad grew faster than Bombay. These mills were mainly producing for the domestic markets.[20] There were a few weaving mills in South India, encouraged by the demand for the coarse yarn demanded by the handlooms. However, the handlooms specializing in better quality cloth and requiring more superior varieties of yarn acquired this yarn from the western India.

Besides the protection policy, the other important factor for the development of textile industry was related to the increasing yarn export to Far East Asian countries. The export of cotton and yarn increased ten times between 1878 and 1900. Bombay was the main centre for production of yarn for export and it greatly depended on the export of yarn to Chinese markets. At the end of the 19th century, despite the political instability in China, the cotton yarn export from India to China had increased from 143.2 million lb in 1890 to 242.6 million lb in 1900. But it declined in 1901 because of the plague in Bombay and rose again to 298 million lb in 1906. But the volume of yarn export to China again declined in 1914, due to the increased Chinese domestic production of yarn and the growing number of Japanese goods in the Chinese markets. Contrary to this, the internal demand for cotton goods in India was rising except during the famine in 1896-97. The production of cotton piece goods produced by the Indian cotton mills increased while imports declined. Before the First World War, most mills were chiefly spinning mills. During the war period the number of mills and spindles remained the same, but the number f looms rose by 25%. In 1912 British cotton goods supplied 70% of the total consumption of the Indian markets, with only 28% was met by the Indian producers. But in 1918, Britains share declined to 35%. while India's rose to 61%. (see table-2)

Table: 2

Cotton Piece Goods Production and Import, India 1900-36 (Million Yards and Relative Share)

Year	Mill Production		Handloom Production		Imports	
	Quantity	Share	Quantity	Share	Quantity	Share
1900	420	14.3	646	22.0	1875	63.7
1905	693	17.1	1033	25.4	2335	57.5

1910	1042	25.6	868	21.3	2162	53.1
1915	1496	33.6	943	21.2	2019	45.1
1920	1563	40.1	931	23 9	1405	36.0
1925	1964	44.8	888	20.3	1529	34.9
1930	2480	53.8	1257	27.3	873	18.9
1932	2982	52.3	1519	26.6	1203	21.1
1934	3135	58.9	1255	23.6	933	17.5
1936	3322	62.2	1265	23.7	753	14.1

Source:- G.K. Lieten: Colonialism, Class and Nation, p.3.

In western India, the commercial bourgeoisie began to invest its enormous accumulated wealth into the industrial sector particularly in cotton mills. In fact, the Indian bourgeoisie began to emerge after the First World War. Sorabji Shapurji, one of the leading Indian capitalist, was an engineer who started as a skilled supervisor in a military gun factory in Bombay. Wadia, another emerging capitalist was a contractor for a British company and Tata was a known trader and broker before he set up his own industry. Later Tata owned four cotton mills in Bombay and one in Ahmedabad. In collaboration with the Morgan firm of the United States, Tata successfully monoplised the power generation electric supply and tramway system in Bombay city.[21] In West India investment in the land was less profitable than in Punjab and Madras and therefore the landed gentry invested increasingly in the industrial sector. The royal houses of Baroda, Indore and Gwalior also found it secure and profitable to invest in industries.[22]

The cotton industry was entirely owned by Indian capitalists. In the international market India was only one of the major producer of the raw cotton. India's supply of raw cotton had very little impact on the price, which was dominated by the out put of raw cotton produced by the slaves in the United States. After the war cotton industry catered entirely for the domestic markets.

The textile industry was the only major industry, which had greater chance to develop owing to close access to cheap raw materials and a large home markets. With introduction of free trade, the cotton industry was eliminated and only remreged after the introduction of import duties. In addition the revaluation of the Rupee in 1889 greatly imperilled the Indian cotton industry. The rise in the value of the rupee naturally made exports to East Asia less competitive and as did the fall in price of British cloth and yarn on the Indian market.

It was often argued that India did not produce long staple cotton in large enough quantities, which therefore hindered the production of fine spinning and the fine varieties of cotton piecegoods. Such argument had no truth because a large portion of long staple cotton (from Madras) was exported, In addition India could import finer yarn from the United States. I think that the absence of strong internal or external demand for long staple cotton and also the lack of proper irrigation facilities in cotton growing areas hindered the development of finder varieties of cotton piece goods.

The cotton industry was not the only modern industry to be established between 1921 and 1931 the total number of factories with at least ten workers increased from 926 to 1541. This advance was unevenly divided geographically. The increased in the number of factories of the Bombay Presidency was 65%. After 1918 investment in the cotton industry rose compared to the jute industry. As a result, the industrial development in the Eastern regions was slower compared to the western regions, where most of the cotton mills were located. The other major industries of the Eastern regions, such as tea and coal, were also affected by the depression of the thirties, as they were greatly dependent on the foreign markets. Overall between 1914 and 1945 the investment in industrial sector was increasing rapidly. More and more Indian capitalists began to invest in the industrial sector. Indian enterprenuers played a greater role and controlled many more through directorships (see table 3). According to the Banking Enquiry Commission, 50% of the capital of the mills located in Bombay was contributed by share holders and only 21% was loaned by the managing agents themselves.[23]

Table: 3

Particulars of Ownership and Management of the Most Important Industrial Concerns in Bengal and Bombay

Province and nature of factories, etc.	Number owned by companies of which the di-rectorors are:			Number privately owned by		Number managed by	
	Euro-peans/ Anglo-Indi-ans	Indi-ans	Of both races	Euro-peans/ Anglo-Indi-ans	Indi-ans	Euro-peans/ Anglo-Indi-ans	Indi-ans
BENGAL							
Tea Planations	158	18	--	46	18	193	47
Collieries	53	6	21	7	43	66	63
Jute Presses	50	16	--	7	36	64	45
Jute Mills	49	--	--	1	--	50	--
Machinery & Engineering Workshops	22	--	--	4	7	30	7
Brick and tile facotires	7	3	4	10	136	8	153
Oil Mills	4	4	--	--	118	4	115
Printing Presses	11	4	1	17	65	32	71
BOMBAY							
Cotton, ginning, cleaning and Pressing factories	13	92	13	--	194	10	304
Cotton, etc. Spinning, weaving and other mills	12	92	25	--	18	43	106
Flour and Rice Mills	1	14	3	--	39	6	51
Machinery and Engineer-ing Workshops	5	--	2	4	2	10	3
Printing Presses	8	8	--	5	36	16	45
Railway Workships	13	--	--	--	--	12	1

Source: Census of India, 1911, Vol. 1, Indian, Part 1, Report by E.A. Gait, Calcutta 1913. A.K. Bagchi 1972, p.183.

In India jute industry remained almost completely in the hand of British capital until the second World War. All the directors were British except a single Indian, L.N. Kanoria. India had monopoly in raw jute production, but there was absence of Indian owned jute manufacturing. It is far from the truth that Indians were not interested in enterprise. The growth of the cotton industry demonstrates their enterprise skills. Jute was produced mainly for the export both as raw and manufactured products. Due to export commodity, contact with the foreign market could only be made by those who had already contact and knowledge about the foreign markets. British businessmen certainly possessed this knowledge and contact with the foreign markets.

Before the first world war nearly half of the raw jute was exported, especially to Europe and the United States. Britain imported nearly a third of the total jute exported from India. In these countries the jute industry had been built by imposing import duties on manufactured jute. These countries imported raw jute duty free. The jute industry was almost wholly British owned and had no serious tariff problems. As far as export was concerned, it is obvious that an industry which had protected home markets, cheap raw material and labour and therefore, obtained higher profits, can often afford to accept lower-profit margins in foreign markets. It seems clearly that protection in Indian markets helped the jute industry in foreign markets. During the war jute demand increased tremendously for the war purposes. The jute industry in India received cheap labour due to workers being laid off from the railway construction and other public works due to the war.

Between 1896 and 1900 nine new jute mills were added. There was a slight slow down in the growth of mills and export demand from 1910 to 1912, but in 1914 it increased again. The number of looms and spindles rose rapidly mainly due to increase in exports. The new growth mostly benefited British businessmen as they owned most of the jute mills.

Indian jute production held a monopoly on production of raw jute. India being the only supplier of jute, therefore played a major factor in determining the jute prices. Jute production in India was highly dependent on foreign markets and more than 92% of the output of jute was exported. The European jute mill owners had no direct control over the jute production. They were interested to expand the cultivation of jute and therefore they urged the government to encourage this. The government was not interested, as it did not find it profitable to invest on irrigation works for the expansion of jute cultivation. The peasants did not have any interest because they were paid very little and thus had no incentive. Jute cultivators were not organised and the prices they obtained were beyond their control. Often they were indebted and had no capital to invest for the expansion of the jute crops.

Capital investment in jute industry between 1905-6 and 1913-14 was up and down and had no clear rising trends in real terms. Three mills were added between 1909 and 1914, one of which was an American owned. Capital invested in the jute mills mainly came from British residents in India. In 1909, out of estimated capital of 10 million pound invested in jute industry in Calcutta, 2.8 million pound was invested in eight companies registered in Britain.[24]

The demand for manufactured jute by the foreign countries was expanding in the early 20th century. It seems that the war provided great opportunity for Indian jute industry to grow over its competitors in other countries (see table-4). It was calculated that the ratio of net profits to paid-up capital was 10 in 1914, rose to 58 in 1915, and to 75 in 1916.[25] But production capacity did not increase, and as a whole the engineering sector was engaged in war works and there was a shortage of shipping. The absolute control of the jute industry by the Europeans was also constantly declining.

Table: 4

The Percentage of Raw Jute Manufactured in India

Year	% of Raw Jute Consumed by Indian Mills
1913	49
1914	59
1915	61
1916	63
1917	71
1918	65
1919	57
1920	66

Source: Indian Jute Mills Association (IJMA): Report of the Committee for the Year Ended December 31, 1921, (Calcutta 1922) p.163.

The jute mills were concerned about the rising speculation in raw jute by the Indian traders, mainly Marwaris. After the war Indian businessmen began to invest into the jute mills such as Birla jute manufacture and Hukamchand jute mills Ltd. After the First World War Australia, New Zealand, USA etc. began to import larger quantities of jute products from India. This export was increasing until the depression of 1930's, when the demand for raw and manufactured jute declined. The depression aggravated the relations between the mill owners and jute growers. Peasants were competing against each other and were not organised enough to influence the price of the raw jute. On the other hand, mill owners were organised into highly effective cartels. Furthermore, the prices of raw jute varied very much between the pre-harvest and post-harvest periods. In such a situation, mills could maximise their profits by buying in stocks during the post-harvest period, when the prices were lowest. During the depression, the area under jute cultivation fell by 50% from 1930 to 1932, but rose by 25% in 1933-34, despite the fall in prices of raw jute.[26]

During the depression the jute growers indebtedness to the landlords increased. Money lenders were the local big landowners or traders, and operated a powerful control over the cultivators. In addition the rising land revenue demand of the state forced the cultivators to sell their crops before the harvest, as the crops provided the security on loans they had taken.

The railways was another sector where large amounts of capital was invested during the British rule in India. In 1853 the government proposed a large scale railway construction in India, with a view to increasing the supply of raw materials and to expand the market for the British manufactured goods. According to Lord Dalhousie himself, "The commercial and social advantages which India would derive from their establishment are, I truely believe, beyond all present calculations.------------ England is calling a loud for the cotton which India does already produce in some degree, and would produce sufficient in quality, and plenty in quantity,if there were provided the fitting means of conveyance for it from distant plains to the several ports adopted for its shipment. Every increase of facilities for trade has been attended, as we have seen, with an increased demand for articles of Europeans produce in the most distant markets of India.-------------------New markets are opening to us on this side of the globe under circumstances which defy the foresight of the wisest to estimate their probable value or calculate their future extent".[27]

British capitalists demanded the government to spend more money on railways than was being spended as vast tracts of land was not covered by the railways. The railways as a whole had been making a loss upto the end of 19th century, because under the old guarantee system the government had to bear the entire losses and also partly because a sizeable proportion of the railways were constructed for military purposes.

Moreover, until the end of the 19th century railways remained unprofitable producing a net financial loss on the account of state railways. This was mainly due to the government policy of attracting the British investors into Indian railways by providing guaranteed interest payments. The railways in colonial India did not bring any economic benefits to the local people or generated new incomes to the Indian people since a large part of the total expenditure was sent abroad. The development of railways in India also failed to act as a stimulant for heavy machine building industries as they did in the European countries. It was summarized by Jenk as such: "More than one-third of the capital invested in Indian railways down to the early eighty's was spent England for the railway iron and the cost of its importation to the East. The importation of coal from England and the building and operation of railways with staffs which were English and who had to be paid according to English standard, diminished further the benefits which could accrue to Indian from railways".[28]

The construction of railways and fighting colonial war increased the public debt of India tremendously. By 1900 the public debt reached 224 million pounds and by the 1913 it rose to 274 million pound. Nearly 70 million Pounds were spent on the Afghan war and the suppression of the revolt of 1857, and the rest was due to the railways and the irrigation system. The railways construction the state did not the guarantees to the private investors and later direct state construction, enormously increased the amount of debt. The government provided a guarantee of 5% interest rates for investors for this uneconomic investment in the railways in India.

Besides military purposes, the railway was constructed primarily to link the ports to inland regions. It is also clear that the railway charged much lower rates on freight for transport of martials from inland regions to the ports than between different inland centers.[29] External trade was very important for the government. The British had full control of the foreign trade at most of India's major ports, except Bombay. British capital fully controlled Calcutta's port from where opium, jute, tea etc. were shipped and also through which Manchester piecegoods were imported. The monopoly over shipping provided British a loins share of profits from the commerce of India.

The railways spent only a little fraction of their total expenditure in India. The Indian firms which benefited from the purchase of materials by the railways were mostly located in

Calcutta, Bombay, Cawnpore, and Madras, and were fully controlled by the Europeans. Prior to the famines of 1899-1900, the government was opposed to investment which could not bring maximum profits. On such criteria, the investment on irrigation seemed to be more attractive. For example, major irrigation works on an average yielded a net revenue of 7% and in this period the government could raise loans in London at lower costs between 3% and 4%.[30]

The government expenditure on railway was supposed to raise the marginal propensity to consume but such affects were not evident due to absence of modern industries in India. Thus the development of railways gave a disappointing result in India compared to other countries.[31]

Colonial officials gave preference to British products. Governments share of imports of iron and steel products for non-railways consumption was small. Therefore, the railways still were the main consumer of iron and steel products and certainly railways purchase of Indian steel would have influenced the domestic steel plant.

Table: 5

Imports of Railway Materials Made of Iron and Steel into India. (Figures in Tons)

Year	Including Construction Material	
	From All Countries	From the U.K.
1894-95	150,713	150,155
1898-99	241,300	235,100
1900-1	133,150	123,150
1903-4	222,150	218,000
1905-6	307,550	293,600

1907-8	210,850	203,500
1909-10	254,950	243,750
1911-12	237,300	229,250
1914-15	286,950	283,900
1916-17	31,449	28,059
1918-19	511	509
1920-21	91,842	89,624
1922-23	200,533	187,858
1924-25	80,764	65,634

Source: Govt. India, CISD: Accounts of the seaborne trade of British India, Calcutta, annual.

The Tata iron and steel company began producing steel in 1912 with a bigger plant and with a larger amount of iron ore. The Tatas also constructed a hydro-electric power station on the west coast to supply the electricity to Bombay city. Both these enterprises were owned by the Indian capital and were dependent largely on the government guarantee to buy a part of the output from the Tata iron and steel plant. The government also provided land at low prices and extended railway lines.

War order increased profit for the steel industry. Besides Tatas elements of the steel industry were owned by the British, including the Indian iron and steel corporations and steel corporation of Bengal. Steel production increased from 19,000 tons in 1913 to 124,000 tons in 1918 and two-third of the total steel production in India was carried out by the Tata Plant alone. The Tata iron and steel mill was constructed and financed by the Indian capital but was patronised by the colonial government in terms of providing an infrastructure and for marketing its products.

The Tata Iron and Steel Company (TISCO) was certainly was an important industry of Indian private capital in the 1920s. During its initial stage the plant was without tariff protection but received protection soon after the world war mainly as a reward for its services during the war. TISCO enjoyed the benefits in terms of location of the plant and cheap availability of labour, coal, iron ore etc. The cheapness of iron ore provided great advantage to TISCO. As was expressed by J. Kennedy, consulting engineer of TISCO: "To make the ore for a ton of pig iron costs (in 1915) 75 cents here, as against 8 dollars in Pittsburgh".[32] The quality of the coal was not good. Before the war Tata owned very few coal mines. The overall coal production went up from 16.2 to 22.6 million tons. There was also a sharp increase in the output of maganesite, iron ores, lead, Zinc and silver. However, the plant did face several bottlenecks, since the colonial bureaucracy which was reluctant to provide technical expert and raise loans in London money markets. The colonial view point that India cannot make good quality of steel dominated. The other major problem was market. The railway was the largest single customer of steel products whose authorities were sceptical about Indian made steel products. Most of the engineering firms were owned by the British and engineers and the technical experts were also British.

During the war imports of steel were reduced because of the war demand for steel and the shortage in shipping. In the 1918 the government bought nearly 90% of the Tatas total output. The demand was increased rapidly by the British armies fighting in the Middle East. TISCO increased its production much more than it was earlier scheduled. For example, the plant was suppose to produce 175 tons of pig iron a day but it raised its production to 250 tons a day.[33]

TISCO's management was aware that after the war the situation would not be easy. It was expected that European and American steel producers would penetrate Indian markets. TISCO imported machines and tools at much higher prices after the war, which came down in 1923. These factor posed difficulties to selling steel at world prices. TISCO aware of the world situation drew up a contact with the Railway Board for the supply of iron and steel materials at very low prices, below those of imported steel.

The Steel Industry Protection Act in 1924 granted protection for a period of three years. In 1926 the government asked the Tariff Board to report on the conditions of the steel industry. Tariff Board suggested that the period of protection should be extended to seven years, which was required in order to access the effects of the extension of capacity of the TISCO from 420000 tons to 600000 tons of steel. In 1926, TISCO and Bird and Co., representing the United Steel Corporation of Asia, demanded that protection guarantee should be extended for a period of ten years. The steel industry still considered that new capital will be forthcoming for the investment in the industry if the government declared that protection would be continued for as long as the circumstances needed it. The government refused to provide tariff protection for a period of ten years.

Table: 6

Consumption of Steel in India

Year	Total Consumption of Steel ('000 tons)	% of TISCO in total Consumption
1923-24	839.6	17.6
1924-25	839.4	28.5
1925-26	1038.0	31.3
1926-27	1004.6	37.3
1927-28	1402.6	30.1
1928-29	1145.9	23.7
1929-30	1078.7	35.4
1930-31	811.4	51.2
1931-32	627.2	65.4
1932-33	574.1	72.3

Source: ITB: Statutory enquiry 1933, Steel Vol. 1, Delhi, 1934, pp.57-58.

There were other major producers .of pig iron such as Bengal Iron Company and Maysore Iron and steel works. Maysore Iron and Steel works was set up by the Maysore state government. It was closely linked with the TISCO, whose consultant C.P. Perin was also the chief engineer of the TISCO. The plant started production in 1923 of about 28,000 tons a year. The Steel Corporation of Bengal (SCOB) was registered in 1937 and initially it planned to produce 200,000 tons of finished steel. SCOB supplied a large amount of steel during the second world war. The plant was small in size and was aimed at supplying the uncovered markets of the TISCO.

Despite the low price, the railways did not accept TISCO's tender in 1926. The Madras railways, for example, bought nearly 87% of their total requirements of rails from the Britain. Of course, railway officials expressed doubts regarding Tatas materials, despite the Report by the 'Great Indian Peninsula' which made a comparison between Tata and British rails and found no big difference between Tata and British rails and found no big difference between the British and Indian produced rails.[34] In the 1930s depression TISCO prices were lower than those predicted by the Tariff Boards. The sale of the Tata products also slumped, mainly due to sudden cuts in the railways expenditure and a drop in the over all government expenditure, TISCO was selling substantial amount of pig iron abroad as in India the demand for pig iron had greatly decline. Meanwhile, the price of coal feel sharply, which enabled the steel industry to raise profits.

In the beginning of the 20th century the rapid growth of the jute and cotton industry encouraged the development of engineering firms. The future of engineering firm was dependent on public works such as roads, and bridges. Railways built their own workshops and also began to produce few a locomotives, but most locomotives were imported from Britain. Engineering firms received infrequent orders from the government up until the First World war. During the war situation changed and they received increasingly large number of orders from the military.

The Industrial census shows that the number of workers engaged in engineering workshops between 1911 and 1921 increased from 23,147 to 82,182 and the number engaged in the metal industry rose from 71,045 to 169,693. Engineering firms located in Bombay and were more concentrated on producing machines for the cotton mills, while the firms in Calcutta were more dependent on government orders especially from the railways. The government did not provide any protection to the ship building industry in India. Mere imposition of duties on imported vessels would have not helped the industry very much.

Moreover, most of the inland ships were in British control in terms of ownership and management. In 1921 nearly 90% of the coastal trade and 98% of India's foreign trade were carried out in foreign owned ships.[35]

The Cement industry developed rather late in India. Despite the low domestic consumption of cement in India it would have been sufficient to support several cement plants. At the end of the 19th century, India had only three major cement companies located in Bombay, namely Indian Cement Co.Limited, Kanti Cement Ltd., and Bundi Portland Cement Co. Ltd. They were run by miscellaneous companies and most of the directors were Indians. In 1904 a cement company, South India Industrial Limited, was built in Madras with the capacity of 10,000 tons per year. In Southern India the demand for cement was small. In North and West India the consumption of Cement increased rapidly, after the first world war. North and Central India was well suited to cement industry as raw materials were available on a vast scale in these regions. Many investors began to invest in the cement industry, which led to an excess of supply. A government report noted that the capacity of Indian cement mills were already 550,000 tons, the total Indian demand was about 390,000 tons,in 1924.[36] It seems that the problem was not only the lack of demand but excess capacity. It was due to private investor misjudging the market. Tariff protection was not extended to the Indian cement industry because the Tariff Board considered excessive internal competition rather than foreign competition a problem for the cement industry. Despite the low costs and availability of raw materials on vast scale India imported cement from other countries. As the figures indicate, cement consumption rose from 229,951 tons in 1920 to 691,000 tons in 1930, while the value of imported machinery for cement fell during the same period. Between 1992 and 1925 the demand for cement increased mainly due to a decline in the price of Indian cement. Internal competition and the existence of excess capacity was responsible for this decline.

Table: 7

Production, Imports and Consumption of Cement in India from 1914 to 1938. (Figures in Tons)

Year	Indian Production	Total Imports into India	Total Indian Consumption
1914	945	165,723	166,668
1915	17,912	142,469	160,381
1916	38,672	97,543	136,215
1918	84,344	27,177	111,521
1920	91,253	138,698	229,951
1922	151,336	136,920	288,256
1924	263,746	117,950	381,696
1926	388,000	106,916	495,000
1928	558,000	137,428	695,000
1930-1	570,000	120,575	691,000
1932-3	592,531	85,485	678,016
1934-5	780,794	69,111	849,905
1937-8	1169,894	31,916	1201,810

Source: The history of cement industry in India, Associated cement company, 1937.
A.K. Bagchi: Private investment in India, 1972, p.354.

Moreover, the fall in the price ousted three cement companies and produced a tendency to monopoly formation of Concrete Association of India and Cement Marketing Company of India Limited. The latter was responsible for the sale of almost all output. This stabilized the price to certain extent and even during the depression some cement companies did well. In 1936 another attempt was made to merge the cement companies. The newly formed Associated Cement Companies Limited had a majority of directors from the western India. In 1934-35 the dividends of the cement companies ranged between 10% and 20%.[37] But in 1938 with the emergence of Dalmia Jain the cement monopolies faced a growing challenge and the price dropped sharply. During the second world war nearly 90% of the total output of the cement industry was purchased by the government, as a consequence of which the investment in the cement industry was profitable in this period compared to other areas.

India was producing and exporting unrefined sugar until the 1860s. India supplied about one-quarter of Britain's total requirements of sugar from 1839 to 1847, the average annual exports to Britain being 59,373 tons. But exports was threatened by the introduction of import duties on Indian sugar by Britain and later with the introduction of free trade which further undermined the development of the sugar industry in India. As a result India begin to import sugar. This was due to the low price of sugar exported from the West Indies sugar slave plantation, despite the nominal abolition of slavery in the 1850, and the rapid progress in technologies of beet sugar and cane sugar industries in other countries. Furthermore, most of the countries production sugar from beet provided subsidies to their sugar industries. In those countries the government took an interest in the advancement of the technologies in their sugar industry, while in India the government did not show any interest in the advancement of the sugar industry. Despite the increase in import of sugar, the domestic demand of unrefiend sugar (gur) did not decline very much in India. Unrefined sugar was preferred by the Indian people as it was supposed to be more nutritious than sugar. Another important factor why the peasants grew sugar and produced unrefined sugar was because it was cheaper for them, as they used their own family labour.

During the depression the government was pressed hard for more revenue demand which led to the introduction of import duties. This resulted in the drastic reduction of imports of sugar. The imports of sugar fell from 933,000 tons in 1929-30 to 510,000 tons in 1931-32 and 366,000 tons in 1932-33.[38] In India the increase demand of domestic sugar led to a rise in the acreage cultivation land under sugar cane. The price of most of other crops also fell drastically, which prompted cultivators to change to sugar, increasing the area under sugar cane in India. The area under sugar cane cultivation rose from 2.7 million acres in 1928-29 to 4.6 million acres in 1936-37.

The first machine made paper factory in India was Bally Paper Mills, built in 1870 under British control. Soon after in 1882 a paper mill was started by Indian businessmen in Lucknow. It managed to pay an annual dividend ranging between 4% and 10% up until 1912. The local markets in India for machine made paper were expected to grow due to replacement of hand made paper and the increase in the literacy rate. But the mill failed to expand its capacity by not changing to more efficient production and not using advertisements to promote its products. This was due to old methods of production which utilised grass, jute, rags, waste paper etc., as raw materialso. The mill faced severe competition at the end of the century. The mill concentrated on higher grade paper for domestic markets. Low grade paper was supplied by imports from Europe. Other important mills were also beginning to be built namely Titaghur Paper Mills and Bengal Paper mills in 1890s. Before the First World War Indian mills were supplying simple quality papers, not the best quality paper.

In 1925 protection was extended to the paper industry on the suggestion of Indian Tariff Board. After protection, the output of the paper rose from 1693 tons in 1924 to 2600 tons in 1932. This expansion was due to better utilization of capacity rather than entrance of more mills in the paper industry. With the introduction of modern steam and power plant the productivity and the quality of paper was improved. The new mills such as Orient Paper Mills were set up by the Birla and Rothas paper mills were by the Dalmia. They were primarily manufacturing kraft paper. The Mysore Paper Mills received government aid and later government bought some shares also. Indian timber resources were of poor quality and the paper industry was relatively capital intensive. Before the First World War the rapid progress of wood-pulping process in Europe undermined Indian paper industry. But after the introduction of the tariff protection, the bamboo-pulping process, although the precess was known for very long time, was increasingly used in the paper industry. Indian paper mills began to supply the domestic markets on greater scale but this growth was not very great due to the existence of mass illiteracy and low incomes amongst the Indian people.

In the 1920s many Indian businessmen started glass and match factories. There was no lack of entrepreneurial skills among Indian businessmen and they were willing to take risks. N. Chettiars, a businessman from Madras, had a highly developed trading agency and money lending business all over the state. He had made millions in hoarding but did not invest in modern industry before tariff protection was introduced. Their enterprenuerial skills were easily observed when after the introduction of tariff duties as many Indians began to invest in modern industries.

India was the only British colony, which was prevented from adopting the polices of state supported industrial growth. The policy of tariff protection against imported goods helped to industrialise Canada, Australia, and South Africa. Due to this policy Australia, and Canada usually had an import surplus with Britain, while India had export surplus with Britain, while India had export surplus with Britain. Moreover, as more factories began to develop in white settler colonies, they attracted more capital from Europe. Such was not the case in India, except in the railways. Foreign investment in India consisted mostly the reinvestment of the earlier profits or salaries earned by the British in India.[39] The weaknesses of the industrialization of India is illustrated by the fact that in every other West European country, engaged in building modern industries, the proportion of people in industry had been increasing at the cost of agriculture, while India was experiencing totally the opposite (see table 8).

Table: 8

The Percentage Distribution of Workers Between 1931 and 1951.

	1931	1951
Agriculture and mining	71.2	73.0
Industry	16.3	13.0
Commerce	6.0	6.1
Transport	1.7	2.0
Public force and administration	1.2	2.6
Professions	1.6	1.9
Domestic services	2.0	1.4

Source: V.K.R.V. Rao (1962) Papers on national incomes and allied topics, Vol. 2, Bombay, p.8.

Before the First World War, most of the industries were confined to Calcutta, Bombay and Ahmedabad. But after the war with the emergence of the Cement industry it spread to other regions as well. The later development of the sugar industry in the United Provinces and Bihar spread the industries to central India. After the war cotton mills also spread to other regions in India particularly to Madras, Coimbatore, Cawnpore etc. In South India the availability of cheap labour and hydroelectric power encouraged investment in the cotton industry. In North India the sugar industry emerged as an important industry, while in North-West India there was little industrial spread despite the availability of cheap raw cotton and other agriculture products. Some small industries began to develop related to peasants need.

Although tariff protection was extended to certain Indian industries such as iron and steel, sugar, cement, paper etc., it was not extended to all consumer industries. During the war India's economic relations with the Britain were changing, but India was still serving the British imperial interest. For example, in 1929 India had a positive trade of 19 million Pounds with the United States, which was being used by Britain to balance her trade deficit with the United States.

I have devoted my emphasis to large scale industries because they constitute the modern sector of the economies.

Modern industries grew under the Tariff protection and were increasingly controlled by Indian capitalists, who had enough capital, but were entirely dependent on Europe for new technology. However, there were some firms who were investing in research and new technology independently, but their number was few. For example, the Bengal Chemical and Pharmaceutical works was set up on very modest scale in the end of the 19th century by P.C.Roy. The firm had its own research laboratory and invested a considerable amount of money in research. The company developed many important drugs, which were produced mainly with the help of domestic resources. Indeed on the eve of independence, the India economy remained backward. In most parts of rural India the land tenure system had many intermediates rights between the government and the producers. Local businessmen controlled more industries after 1914 but many important industries were still controlled by foreign capital such as, Dunlop, General Motor, Unilever, ICI and many other foreign monopolies which opened their branches in India.

During the whole period of 19th century and until the 1940s India had an export surplus over her imports. Even after India was reduced to the status of an agriculture nation, a large amount of capital continued to be transferred from her stagnant and declining agriculture. Table 9 indicates the nature of India's trade from 1901 to 1940. After the first world war, India's trade surplus declined because of the growing impoverishment of her economy, but still the colonial government maintained a positive balance of trade. This favourable balance of trade did not mean growing prosperity. The excess exports were continuously siphoned off to Britain to enrich the British economy. Nearly 80% of the India's exports consisted of raw materials and agriculture commodities. This transfer of surplus from the agriculture sector brought misery and famine to the peasants rather than any relief from the export of agricultural commodities. Moreover, about 70% of India's exports went to countries outside the British Empire, while 75% of India's imports came from Britain.

Table: 9

Foreign Trade in Commodities, from 1901 to 1940 (in Million of Rupees)

Year	Imports	Exports	Excess Export
1901-5	836.2	1,310.1	473.9
1911-14	1,530.5	2,283.0	752.5
1920-24	2,540.4	2,863.4	323.0
1936-40	1,502.2	1,808.5	306.3

Source: H. Venkatasubbiah, The Foreign Trade of India, 1940, New Delhi, pp.28-29.

The actual net inflow of foreign capital into India was very little. It was particularly insignificant in the area of capital goods industries. Most of the foreign capital in the early 20th century came in the forms of loans to meet the balance of payments deficit caused by the unilateral transfer made to the Britain in the form of "home charges". In fact, if one pitted the outflows on the current account due to interest, against dividends and home charges against the net inflow due to foreign borrowing on the capital account, one would find that there was an outflow of capital from India virtually throughout the entire colonial period.

In the financial sphere before 1920 European capital controlled most of the institutions, but later Indian businessmen entered as well. In 1914, for instance, foreign owned banks held 70% of the deposits in India, but by 1937 it decreased to 57%.[40] The first modern credit institution owned by Indians appeared only in the 20th century. For example, the Bank of Baroda was set up in 1908, the Bank of India in 1906, and the Central Bank of India in 1911. By 1914, eighteen Indian banks were into operation, with each had more than half million Rupees. The total capital and reserve of these banks amounted to more than five million Rupees and deposits to 15.1 million Rupees. But these banks were smaller than British banks and they were mostly financing trade and commerce. Thus no Indian bank was still in position to lend long term loans for industrial enterprises.

Indeed in 1925 Indian capital in the industrial sector had increased but still foreign capital dominated in many spheres of the national economy. For instance, foreign capital had a monopoly in foreign trade, transport, finance and credit system. In 1925-26 there were 819 foreign firms, mostly British, operating in India with a total paid up capital of 7.4 billion Rupees and Indian firms with a capital of 2.7 billion Rupees.[41] These figures clearly shows the predominance of foreign capital, but the situation was changing and in the 1930s depression and the Second World War strengthened the hand of Indian capitalists into the sphere of modern industries.

However, British capitalists created Anglo-Indian companies in India. This was done in the wake of the intensification of the independence struggle. In 1927 the Rupees rate of exchange was raised in relation to foreign currencies, which greatly reduced the competitiveness of Indian goods and strengthened the position of foreign goods imported by India. This led to the bankruptcies of many industries in India and a slow down in the industrial growth in the 1929. The industrial upswing of mid 20s did not last very long. During the depression the Indian economy was also hit hard. The price of agriculture exports, main foreign earnings of India feel much deeper compared to the industrial goods imported by India.

As industries grew in Canada and Australia, they attracted more capital from abroad, while in India most of the reinvestment was made from the profits or the salaries earned by the British working in India. Even after the First World War, Indian entreprenuership was discouraged by the administration and by the lack of financial facilities. British investors were interested to invest in India, but the British manufacturers were interested to preserve India as a market for their finished products. Since British manufacturers still had therefore a strong influence over the state, the Indian government was forced to adopt a non-interventionist policy regarding the development of modern industry in India. As a result, foreign investment found avenues such as government loans, mining foreign trade, banking, railways etc. Investment in these sectors did not compete or threaten British manufacturers. On the contrary, they facilitated their penetration into the Indian markets. According to estimates, out of a total British investment of 365 million pound in India in 1909, only 2.5 million pounds were invested in commercial and industrial undertakings. Of course, the share of modern industry in particular, was even more smaller.[42]

Barriers Against the Expansion of Domestic Markets:

The other important factor responsible for the lack of development of modern industry in India was the low productivity in the agriculture sector. Despite the growth of a few modern industries, the agriculture sector was stagnant and the food crop production declined between 1900 and 1945. This meant that the economic conditions of the people who were dependent on agriculture for their livelihood were not improved. Meanwhile the population rose, while agricultural production declined resulting in a drop in the availability of food per capita. The share of the manufacturing sector in the national income in 1920-21 was only 8%, before that it varied between 4% and 7%.

Table: 10

Productivity per Acre of Different Crops in India. (Rs. per Acre in 1938-39 Prices)

Annual average over the Period	Rice	Cotton	Sugar cane	Wheat	Fowar	Jute
1900-1 to 1904-5	42.49	15.04	137.33	22.92	11.97	83.26
1905-6 to 1909-10	37.64	14.64	132.30	22.45	16.61	68.30
1910-11 to 1914-15	40.48	14.62	152.65	23.98	17.05	81.84
1915-16 to 1919-20	39.76	15.79	163.81	23.22	27.83	84.10
1920-1 to 1924-5	37.44	18.42	162.64	23.18	22.20	76.76
1925-6 to 1929-30	36.91	18.18	166.01	21.56	13.89	84.47
1930-1 to 1934-5	37.65	17.03	207.03	21.11	13.37	87.34
1935-6 to 1939-40	35.08	19.28	202.69	24.45	13.53	81.41

Source: A.K. Bagchi (1972) Private investment in India, p.96.

The concentration of land in the hand of landlords and merchants cum money lenders increased, while peasants land tenure diminished. The slow lopsided growth of industry which continued after the war did not provide any substantial number of industrial employment opportunities, which led to an increasing dependence on agriculture (see table 11). The table 11 based on various Census Reports, presents a comparative view of changing nature of occupational structure in India between 1901 to 1931. It is important to note that the number of people employed in various sectors changed little within three decades.

Table: 11

Distribution of Labour Force.

	Population (in millions)							
	1901	%	1911	%	1921	%	1931	%
Agriculture, forestry and fishing	64.1	68	70.2	72	69.6	73	72.1	72
General labour	5.3	6	2.6	3	2.8	3	3.7	4
Manufacture, mining and construction	9.9	11	9.6	10	8.9	9	9.1	9
Trade	5.0	5	5.4	5	5.5	6	5.6	6
Transportation and other services	9.0	10	9.3	10	8.7	9	9.5	9

Source: Census of India: 1901, Vol. I, part 2, table XV; 1911, Vol. I, part 2, table XV; 1921, Vol. I, table XVII; 1931, Vol. I, part 2, table X.

Table: 12

The Growth of the Relative Rural Over Population

Year	Total Population, millions	Rural Population, millions	% increase in total population	% increase in Rural Population	% of able bodied population living of agriculture
1891	287	175	—	—	61
1901	284	195	5	7	66
1911	315	224	7.1	9	71
1921	319	233	1.2	3	73
1931	352	314	10.6	9.6	66

Source: Census of India 1931, Vol. 1, Calcutta, 1932-33.

European planters in Bihar and Bengal treated the peasants not as the other partner in a commercial transaction but as a conquered people for whom the general principle of a transaction could not be applied. Even the Indigo Commission in 1861 accepted that the cultivation of Indigo was not profitable for the peasants. The Indigo plantation brought nothing but poverty and starvation to the majority of the peasants. That is why government compulsion and force was necessary in order to get the peasants to use their labour and land to cultivate Indigo. The planters enjoyed the full support of the government, while the peasants were starved to death.[43] Under such production conditions Indigo became one of the major export items and a principal means of remitting the tribute and earnings to Britain. The planters not only needed the peasants land but wanted their labour for the cultivation of Indigo. Indigo factories did not even pay enough wages and workers were forced by all means to work for the planters.[44] Indigo plantations clearly show that the European enterprise in India were not based on "free competition", but on coercion. Thus, the commercialisation in agriculture in India did not promote a free market in land and labour, but turned the peasants to be increasingly dependent on the planters and money lenders.

Later on, government investment in irrigation (which was limited to Punjab and Madras only) expanded the exportable surplus of food grains and commercial crops. This new development in agriculture severely affected peasants and made them more dependent on money lenders and big land owners. The payments for the use of canals was made in cash and rents went up as the expectations of higher average yields led to shifts in cultivation. The cultivation of poor peasants food crops such as millet, jawar, and pulses declined, while commercial crops such as indigo, cotton, sugar cane, wheat etc. increased. The construction of canals without adequate drainage facilities led to waterlogging and salinity, which turned hundred-thousands acres of land unfertile.

Class differentiation increased in the villages. In 1921, there were nearly 3.7 million money lenders in India. Most of the time these parasitic money lenders were not directly engaged in cultivation or the setting up of landed estates of any substantial size. The money lenders used their accumulation for further money lending i.e. through the operation of semi-feudal and commercial-usurious to exploit the poor peasantry. The poverty among the large number of peasants was not due to a shortage of land in general, as many economists believe, but was due to colonial and feudal exploitation. Money lending existed in India even before British rule, but it did not dominate to such a large scale in the rural areas. Such a large scale operation of usury was only created after the colonial enslavement of India.

The absolute sum of peasant indebtedness to money lenders increased tremendously during the great depression and reached the 22 billion rupee mark by 1932. Nearly 80% of the peasants were in debt to money lenders. The number of landless labourers in the rural areas rose rapidly. For example, in 1842, Sir Thomas Munro, a Census Commissioner, reported that there were no landless peasants in India. It may not be totally true but it certainly indicates that the number of the landless in India was not so big that it needed to be registered. But a few years after India became a colony the number of landless in 1882 was estimated 7 1/2. million. The 1921 Census estimated a total of 21 millions or one-fifth of those engaged in agriculture. The number of landless agriculture labourers rose further and according to 1931 Census their number reached to 33 millions or one-third of those engaged in agriculture. In certain regions their number was higher. For example, an enquiry into the conditions of the village of Khirhar in North Bihar in 1939 found that "the most numerous class is that of the landless labourers, consisting of 760 families, numbering 5023 people, forming 72% of the population of the village".[45]

Indeed, the situation of most of the small peasants cultivating on small plots of uneconomic holdings, of sub-tenants were not far from the agriculture labourers. The line of division between the two was very hard to draw. As the Report of the Madras Banking Enquiry Committee in 1930 noted: "We find it is difficult to draw a clear line between the cultivation by farm servants and sub-letting. Sub-letting is rarely on a money rental. It is commonly on a sharing system, the landlord getting 40 to 60% or even 80% of the yield and the tenant the rest. The tenant commonly goes on from year to year eking out a precarious living on such terms, borrowing from the landlord, being supplied by him with seeds, cattle and implements. The farm servant, on the other hand, uses the landlord's seeds, cattle and implements gets advances in cash from time to time for petty requirements, and is paid from the harvest either a lump sum of grain or proportion of yield. The farm servant may in some cases be paid a little cash as well as a fixed amount of grain. The tenant may cultivate with his own stock and implements, but there is in practice no very clear line between the two; and when the landlord is an absentee, it is not always obvious whether the actual cultivator is a farm labourer or a sub-tenant".[46]

The reason behind such enormous expansion of money lending activities in the rural areas and the flourishing of usuary operation was due to unbearable rents, and capital and land concentration in few hands. The colonial policy against industrialisation in India forced the Indian businessmen into the sphere of commercial and usurious exploitation of the toiling peasantry. Being deprived of the land and capital by the feudal and merchants, the peasants became tenant share croppers without any rights in the land they cultivated.

The growth of the agriculture sector was negative, particularly with respect to food crops. During the same period population in India increased from 279.4 millions in 1891 to 388 million in 1941, while according to Blyn's calculations food production declined from 73.9 million tons in 1893-4 to 69.3 million tons in 1945-6. However, during the same period non-food crop production increased. For example, the production of non-food crop almost doubled between 1893 and 1946. These non-food crops were commercial crops and raw materials, which were exported to earn foreign currency and to help Britain's trade deficit with the other countries. The export of raw cotton rose from 178,000 tons in 1901-2 to 762,133 tons in 1936-37. As the table 13 shows, despite the increase in non-food crops production, the output of per capita of all crops declined considerably. Even the Royal Commission on Agriculture noted the miserable condition of the Indian peasants: "The overcrowding of the people on the land, the lack of alternative means to secure a living, the difficulty of finding any avenue of escape........combine to force the cultivator to grow food whenever he can and on whatever terms he can".[47]

Table: 13

Estimates of Average Annual per Capital Output of Food and non-Food Crops, 1893-4 to 1945-6.

	Output in indix units per capita		*Output of food crops, pounds per capita*
	Food crops	All crops	
1893-94 to 1895-96	100	100	587
1896-97 to 1905-06	95	97	560
1906-07 to 1915-16	91	97	547
1916-17 to 1925-26	90	98	538
1926-27 to 1935-36	78	90	461
1936-37 to 1945-46	68	80	399

Source: George Blyn, Agriculture trends in India, 1891-1947, p.117.

Conclusion:

The tariff duties were intended to close markets not for British goods so much as other foreign goods. As was stated by Geoffrey Corbett at the Imperial Economic Conference in 1930: "I have already explained that it is foreign goods that are replacing British goods in Indian markets. It follows that it is frequently against foreign goods that Indian industries requires protection. In some lines there is really no competition at all between British goods and Indian goods. In other lines the measures of protection required is far less.......In our scheme for protecting the steel industry and the cotton textile industry......We have recognised this difference and we have fixed differential duties for British and foreign goods".[48]

In fact, the development of capitalism in India took place under colonial domination, which affected the process of its formation. The rising Indian bourgeoisie accumulated money from the exploitation of peasants, workers and by appropriating a certain portion f colonial tribute. Later, the growing British industries needed more agricultural raw materials, which made British industrialists more dependent, and they looked for the collaboration with the Indian businessmen. In this operation Indian businessmen acted as middlemen and earned huge profits.

I have already discussed the rise of the industrial sector in India which began with the building of the cotton mills. Industries in India were being built at a time when Britain and the other European countries had already developed their industries and technology and so India was forcibly drawn into the world capitalist market.

The circumstances in which the modern industry in India came into being were essentially different from the way industries were developed in Britain. The important difference was India's colonial position, where after the colonization the handicrafts industries were ruined and then led to the complete dependence of craftsmen on money lenders and merchants who became later the owner of the modern industries in India. These new industries were set up with the help of technology imported from the metropolitan country. India was not allowed to create her own engineering industries and Indians were also discouraged from becoming engineers, which forced Indian industrialists to buy discarded technology and import technical personal from Europe. The main occupation for most Indians was agriculutre, where technology was extremely primitive. Under such conditions the production of a relative surplus was extremely difficult. In order to raise surplus vâlue, which was only possible through the lengthening the working day, the Indian worker were forced to sell their labour power at a very low price, below the physical needs of minimum survival.

The introduction of tariff protection to Indian textile was also due to the rise in revenue demand both during and after the war; the protection policy also helped the British to oust their other main competitor in Indian markets namely Japanese. In addition, the growing discontent among the Indian people, which was being reflected with the civil disobedience movement, also led to an increase in the tariff duties. The import of cotton piecegoods declined by 57% between 1929 and 1931, while domestic production increased.

Indian capitalists by taking the advantage of two world wars and the 1930s depression, were able to significantly increased their hold over the Indian economy. This was achieved due to entering in to new areas such as sugar, cement, cotton, paper, chemicals, steel etc. Indian capital controlled more and more large industries, but British capital had still a significant share in these though the Indian capitalist class strengthened their position colonial exploitation did not cease. It was subjected to a greater and more direct appropriation of surplus value through currency manipulations forced loans, military expenditures etc. The emergence of modern industries brought no change in the general character of Indian economy and India remained an agrarian economy and a raw material exporters to the west. Indian economy on the eve of independence was essentially backward and structurally colonial. If one takes into account declining agriculture production, which persisted and even grew worse colonial domination was responsible for the undermining of the productive forces in India and not only continued in the first period but persisted until the very last phase.

Despite varying conclusions regarding the development of the modern industries in India, the best available historical data leads us to believe that colonial rule shifted the focus of industry away from domestic to foreign markets. This drastic change was somewhat corrected in the beginning of the 20th century, but was not still completely eliminated. The government offered protection to a few industries. The Iron and steel industry, for example, was given protection in 1924, cotton textile in 1927 and sugar in 1932.It is true that the government protection policy initiated the growth of the industrial sector in India. D.R. Gadgil, an imminent Indian economist writes: "Many modern industries in the country have become established behind tariff walls. The iron and steel and sugar industries owe their development entirely to protection granted for long period. Old established industries like cotton manufactures have had to seek and have obtained protection against Japanese Competition",[49] but it lacked overall government planning for industrial development and also the existence of a low income in the majority of the population hindered the growth of domestic markets. As a result the protection policy did not help very much.

Moreover, the colonial government's policy of protectionism did not cover all branches of industries. During the period of protectionism, the development of modern industry was restricted by discriminatory credits, financial and other measures. The colonial bureaucracy clearly preferred British capitalist over Indian capitalists.

Apart from the iron and steel industry no tariff protection was provided to other capital goods industries and the government did not had any clear policy for the development of capital goods industries in India. Over all government policy did not change except the introduction of protection policy towards certain industries. For example the colonial government did not adopt deficit financing to boost the economy. Even during the thirties depression, the balance of trade on current account was in India's favour.

The discriminating protection policy adopted by the government in the 1920s for the industries in India was half hearted. Along with it the government did not adopt any general policy to encourage industrial development. The government did not show any enthusiasm to assist industrial development. It still had a great amount of faith in self-help and small industries. To take for example the tariff protection extended to the textile industry which was due to the rise in the government revenue demand immediately after the war and the need to protect Indian markets from the Japanese invasion. Also the civil disobedience movement had effect of bringing down the volume of imports into India. The low productivity in agriculture and the low income of the rural population prevented the expansion of home markets.

Overall the impact of colonial rule in India was the retardation of the forces of production by undermining the scientific research and technical change. To sustain colonial rule required a regular waste of considerable amount of human and non-human resources. It also created a greater social distance between the rulers and the people. The colonial rulers extracted surplus, which was used to extend the territorial frontier and to subsidise British firms. Britain not only sold its cotton products after they had ceased to be competitive with other countries, but also dumped outdated technology to India such as mule spindles.

Moreover,Indian industrialists in the thirties realised that protection alone would not help them very much and they began to demand state investment in infrastructure and heavy industries. They formed the "Federation of Indian Chambers of Commerce and Industry" in 1927 to fight for their class interest. They also demanded agrarian reform, which they expected would raise purchasing power and thus ultimately expand domestic markets. Later, a National Planning Committee was formed by the Indian National Congress and one of its member was known businessman Purushotamdas Takurdas. Some doubts were raised about the benefits of the state intervention in the economy and was considered it might undermine private initiative. But such fear were voiced by a minority and most businessmen and Congress Party leaders clearly favoured the important role played by the state in the economy.

Foreign capital in India was more in the sphere of circulation in comparison to the less in sphere of production. The penetration of foreign capital was not accompanied by an increase in industrial capital in production, as happened in the USA in the mid 19th century.

Racial discrimination against Indians was also encouraged by the colonial administration. As noted by Habakkuk, "The contrast of Japan with India is certainly one which requires explanation, since India had many of the basic conditions of industrialization — a merchant class, banking and transport facilities, considerable production for the market — and perhaps this case difference in character and quality of the native enterprenuers was the decisive factors".[50] Indian entreprenuership was somehow discouraged by the colonial officials. Capital was not lacking, as India was the main source of the supply of capital to Britain, and capital was even sent from India to other British colonies. Of course, when the profitability of capital investment in the modern industry was low capital was forthcoming on low scale.

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