

**The Return of the Colonial in Indian Economic History:  
The Last Phase of Colonialism in India**

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## The Return of the Colonial in Indian Economic History: The Last Phase of Colonialism in India

Friends, Ladies and Gentlemen,

I am extremely thankful to the Executive Council of the Indian History Congress for electing me as the President of Modern India section this year. I feel deeply honoured to be so associated with this Congress which has spearheaded the promotion of scientific, secular and anti-imperialist history in this country for over seventy years. This is one reason why Indian historiography is one of the most advanced among the erstwhile colonial countries. However, this is not to say that the communal and colonial trends actively promoted during the colonial period have died out. These trends have periodically resurfaced and acquired some influence even after independence. There is thus the need to constantly contend with these trends so that the civilisational values promoted so painstakingly by our national liberation struggle are preserved and furthered.

I have in this address in a small way tried to contribute to this effort by questioning the resurgence of the colonial trend in the writing of economic history of the colonial period.<sup>1</sup> Paradoxically, it was in the sphere of the economic impact of colonialism that colonialism was first critiqued effectively. Also, the economic critique of colonialism, relative to other critiques of colonialism, was the first to be widely accepted. Yet the colonial point of view in this area has again resurfaced, as for example in the recent work of Tirthankar Roy. I will very briefly go over the broad contours of some of the thinking on colonialism and its economic impact since the mid 19<sup>th</sup> century and then focus on a critique of how colonialism in its last phase has been perceived by historians with a colonial perspective.

I may add that I feel humbled at occupying this position, the sectional president-ship of the Congress, which has been held by my teachers and mentors some of whom are present here today.

### I

The 19<sup>th</sup> century saw a rich debate on the impact of colonialism on the colony. Two journalistic pieces written by Karl Marx in 1853 for the New York Daily Tribune on British rule in India raised some key issues concerned with this debate which are of relevance even today.<sup>2</sup> Marx in these articles wrote about the “destructive” and the “regenerative” role of

<sup>1</sup> I must at the outset acknowledge my debt to the Delhi Historians' Group. I have over the years been a beneficiary of the comradery, academic and otherwise, of this group. I will particularly like to thank Bipan Chandra, Mridula Mukherjee, Sucheta Mahajan, Salil Mishra, Tadd Ferme, Rakesh Batabyal, Mahalakshmi, Vishalakshi Menon, Bhupendra Yadav, Shin Minha, Medha And Gyanesh Kudaisya, Bhuvan Jha, Sanjay Verma and Vagish Jha for comments on this address.

<sup>2</sup> 'The British Rule in India' and 'The Future Results of the British Rule in India' *New York Daily Tribune*, 25 June and 8 August 1853. Marx's writings on India in this newspaper along with articles written by

colonialism. He saw in the very process of destruction by colonialism of the pre-colonial Indian society, the regenerative role of colonialism, as it opened up the possibility of growth of capitalism and industrialisation in the colony. This was because Marx, on the basis of information then available to him, erroneously characterized Indian society as a 'changeless' 'Asiatic society' which needed to be destroyed, even though the process was painful, before any social progress could occur. Further, along with the destruction of the old 'Asiatic' order he expected that new elements introduced by British rule, such as electric telegraph, railways, steam navigation, private property in land, western education, free press, political unification, etc., would create the conditions for the evolution of a modern western type of society. As he put it:<sup>3</sup>

England has to fulfil a double mission in India: one destructive, the other regenerating - the annihilation of old Asiatic society, and the laying of the material foundations of Western society in India.

The hope was that colonialism would lead to the 'mirror image' of capitalism being produced in the colony. This position of Marx led to much controversy and misuse<sup>4</sup> subsequently. This was because Marx's overall position in these articles and especially his position as it emerged shortly after writing these articles in the enormous corpus of work produced by him was not fully appreciated.<sup>5</sup>

Before one looks at the complex position taken by Marx over time it is significant to note that the modern Indian intelligentsia in the first half of the 19<sup>th</sup> century had a perspective similar to that which Marx was to state later in his 1853 articles. For instance, Raja Rammohan Roy, the father of Modern India, described British rule as the gift of divine providence not because he was comprador or a lackey of the British but because he saw British rule as

Frederick Engels as well as relevant extracts from Marx-Engels Correspondence 1853-62 have been compiled in an extremely useful volume edited by Iqbal Hussain, *Karl Marx on India*, Tulika, 2006. The volume also contains contributions by Irfan Habib, "Introduction: Marx's Perception of India" and Prabhat Patnaik, "Appreciation: The Other Marx," which analyse and explain Marx's position and thus increase the value of the volume immensely.

<sup>3</sup> *New York Daily Tribune*, 8 August 1853, in Iqbal Husain, ed., *Karl Marx on India*, p. 46.

<sup>4</sup> Pro-imperialist scholars like Morris D. Morris have sought a defence of colonialism through Marx's remarks. See for example his "Towards a Reinterpretation of Nineteenth Century Indian Economic History" in *Indian Economy in the Nineteenth Century: A Symposium*, Delhi, 1969, p.3. Even within the Left, works such as those of Bill Warren, *Imperialism: Pioneer of Capitalism*, New Left Books, 1980, have made a mockery of Marx's position. Writing decades after the role of Imperialism had been laid bare, Warren critiqued the anti-imperialist position, arguing that imperialism *actually* led to the growth of capitalism. (Marx in the 1853 articles had suggested this only as a possibility. More on this below). Warren is somewhat on stronger ground in his critique of some of the Dependency school's positions which tended to equate imperialism with the world market and which by definition excluded the possibility of any non-dependent capitalist third world progress. *Ibid.* p. 160.

<sup>5</sup> For a detailed discussion and analysis of Marx's position on India, see Bipan Chandra, "Karl Marx, his Theories of Asian Societies and Colonial Rule", Mimeo., CHS, JNU and in *Sociological Theories: Race and Colonialism*, UNESCO, 1980, an abbreviated version in *Review*, 1, Summer 1981. Also see Irfan Habib, "Marx's Perception of India" cited in footnote 1 and also in Irfan Habib, *Essays in Indian History: Towards a Marxist Perception*, Tulika, New Delhi, 1995.

creating the conditions for the modernization of the Indian economy, polity, etc., much in the manner reflected in the position taken by Marx. It appeared to be the wisdom of the time. Indeed, it is for this reason that the Indian modern intelligentsia did not support the 1857 revolt against the British, which they feared would lead to a throwback to the pre-colonial order. Marx, too, had doubts about the progressive potential of the revolt.

However the Indian intelligentsia was to soon (by the late 1860s) abandon this position and over the second half of the 19<sup>th</sup> century began to see colonialism not as the harbinger of or route to capitalist modernization but as the *chief obstacle* to the transition to capitalism in India, an understanding which was to lead them to demand the overthrow of British rule. In fact, the Indian early nationalists were among the first in the world, decades before Hobson, Lenin or Rosa Luxemburg, to evolve a multi-pronged, detailed and sophisticated critique of colonialism. The remarkable achievement of the Indian early nationalists in this respect is perhaps still not adequately appreciated among scholars in India and remains virtually ignored globally despite the definitive and monumental work on the early nationalists produced by Prof. Bipan Chandra as early as the 1960s.<sup>6</sup>

In the context of the change in perception of the Indian intelligentsia regarding British rule it is very important to look at Marx's 1853 position carefully and particularly to note how it evolved over time. (It would be interesting to investigate evidence of one being influenced by the other as their thinking on several aspects moved on similar lines). It must be noted that when Marx talked of the 'regenerative' role of British rule he was conscious that only the conditions of regeneration were being created under British rule and not regeneration itself. He was talking of a potential which had not yet emerged from the ruin brought on by British rule which he often described so graphically.<sup>7</sup> He wrote, in June 1853:<sup>8</sup>

England has broken down the entire framework of Indian society, *without any symptoms of reconstitution yet appearing*. This loss of his old world, *with no gain of a new one* imparts a particular kind of melancholy to the present misery of the Hindoo and separates Hindostan, ruled by Britain, . . . from the whole of its past history.

In fact a few months later in his August 1853 article where he talked of the “destructive” and “regenerative” role he was still talking of England having to “fulfill” this “double mission” in India (i.e., it was yet to happen) so that certain “new elements” were introduced in Indian society which would enable it to move on the path of social progress. However, Marx with remarkable prescience (much before the modern National liberation

<sup>6</sup> See Bipan Chandra, *Rise and Growth of Economic Nationalism In India*, New Delhi, 1966

<sup>7</sup> Bipan Chandra, “Karl Marx, his Theories of Asian Societies and Colonial Rule”, Mimeo, 1980, pp. 36, 41, has emphasised this aspect of Marx seeing the regeneration as a future potential. .

<sup>8</sup> *New York Daily Tribune*, 25 June, 1853, in Iqbal Husain, ed., *Karl Marx on India*, p.12, emphasis mine.

struggle in India took root) was simultaneously anticipating the need for the overthrow of colonialism if India was to actually reap the benefits of the “new elements” that British colonialism was to engender. As he put it:<sup>9</sup>

The Indians *will not reap the fruits of the new elements of society scattered among them by the British bourgeoisie*, till in Great Britain itself the new ruling classes shall have been supplanted by the industrial proletariat, or *till the Hindus themselves shall have grown strong enough to throw off the English yoke altogether*.

Marx suggests that British rule, or the onslaught of British capitalism on the Indian colony would “neither emancipate nor materially mend the social condition of the mass of the people”, which would depend on “not only the development of productive powers, *but of their appropriation by the people*” presumably possible only with the overthrow of British rule. Yet he says “what they (British rulers) will not fail to do is *lay down the material premises for both*” albeit at the cost of “dragging . . . people through blood and dirt, through misery and degradation”.<sup>10</sup>

The question still remains that while Indians may not have been able to reap the fruits of the “new elements” that would lead to the “development of productive powers” till it achieved national liberation but did British rule create the “the material premises” for both the processes so that one could “safely expect to see, at a more or less *remote* period, the *regeneration* of that great and interesting country”,<sup>11</sup> India? That colonialism would create the conditions for its overthrow is understandable but did it lay the “material foundations” for the development of productive powers?

The answer to this question assumes importance not only to decide what view to take of colonialism as a whole but also in explaining certain *positive developments* in the late colonial period (in India) and particularly after the overthrow of colonialism. As we shall see later it would involve seeing these developments either as the *result* of colonialism, though much restricted or delayed by it, or as a result of the *break* from colonialism. The central theme of this address will be to argue the latter.

It appears to me that Marx began very quickly to distance himself from the position that colonialism, however “swinish”, would introduce elements which would lead to the growth of productive powers and capitalism in the colony.

<sup>9</sup> *New York Daily Tribune*, 8 August 1853, in Iqbal Husain, ed., *Karl Marx on India*, p.49, emphasis mine. In fact a few years later Marx was to see the emancipation of the British working class *following* the emancipation of the colonial people. In 1869, while commenting on the Irish colonial situation, Marx argued that a “national revolution in Ireland was a precondition for a successful revolution in Britain” See Bipan Chandra, “Karl Marx, his Theories of Asian Societies and Colonial Rule”, Mimeo, p.58.

<sup>10</sup> *New York Daily Tribune*, 8 August 1853, in Iqbal Husain, ed., *Karl Marx on India*, p.49, emphasis mine.

<sup>11</sup> *Ibid.*, emphasis mine.

It is significant that Marx never used the characterization of the 'regenerative' effect of colonialism after his August 1853 article, not even in articles written later that year.<sup>12</sup> He clearly was moving towards a different position on colonialism especially after he and Engels studied a concrete colonial situation closely, that of Ireland. In fact, in his later writings, including in *Capital* Vol. 1 (1867), he began to emphasise the destructive role of colonialism and identify some of the key structural features which the capitalism-colonialism interface was leading to which were not conducive to the growth of capitalism in the colony though it helped the growth of capitalism in the metropolis or the colonising country. He clearly saw the unrequited transfer of capital from the colony to the metropolis in various forms, what the early nationalists called the 'drain', as a "bleeding process" ruinous to the colony but critical to the process of primitive accumulation and therefore to the transition to and growth of industrial capitalism in the metropolitan countries. He now saw the Railways as "useless to the Hindus", and therefore counted the dividend paid for the railways, like the military and civilian expenses which involved remittances out of India, as all constituting part of the drain or the "bleeding process".

He notes that an unequal international division of labour was emerging, "a division suited to the requirements of the chief centres of modern industry" converting "one part of the globe into a chiefly agricultural field of production, for supplying the other part which remains a chiefly industrial field". As is well known, the Ricardian theory of comparative advantage was used to perpetuate this division of labour, a division which led to growing productivity differences between the industrialised and non-industrialised societies. Marx was perhaps the first to be able to see that apart from the fact that British industry benefited from the denial of industrial development to India there was a not so obvious surplus appropriation in favour of Britain involved in the trade between the two countries even in this so called free trade as opposed to the monopoly trade or trade involving non-economic coercion typical of the earlier mercantile phase of colonialism. He saw the 'unequal exchange' involved in trade between countries with different productivity levels with the high productivity country exchanging commodities with less labour input for commodities from the low productivity country which had a much higher labour input, though the commodities exchanged had the same monetary/market value.<sup>13</sup> The process of keeping India un-industrialised

<sup>12</sup> This is a point emphasized by Bipan Chandra. For all references to Marx's writing after the August 1853 article, I am basing myself on Bipan Chandra, "Karl Marx, his Theories of Asian Societies and Colonial Rule", Mimeo and Irfan Habib, "Introduction: Marx's Perception of India" in Iqbal Hussain, *Karl Marx on India*, Tulika, 2006.

<sup>13</sup> It is interesting to note that a similar awareness of "unequal exchange" involved in trade between

benefited British industry but simultaneously strengthened the process of surplus appropriation through "unequal exchange". Each process reinforced the other.

British agrarian policies were also no longer seen by Marx as producing private property in land but "caricatures" of it. He no longer saw the potential of capitalism emerging in agriculture in these societies through this intervention.

Here we see seeds of the understanding that the "new elements" that emerged as a result of the impact of colonialism, because they came in a colonial form, they were incapable of having a regenerative effect on the colony. Hence Marx increasingly emphasised the necessity of the overthrow of colonialism, a position taken further within the Marxist tradition by Lenin, Rosa Luxemburg and others.

The critique of colonialism was sophisticated further in many dimensions as the later stages of colonialism unfolded themselves and their impact could be studied. Major advances were made in analyzing the political economy of colonialism after the Second World War with the writings of Paul Baran and Balandier in the 1950s and later, in the late 1960s and 1970s by the Dependency theorists, neo-Marxist world system analysts and others like Gunder Frank, Samir Amin, Nicos Poulantzas, Immanuel Wallerstein, Ernesto Laclau, Hamza Alavi and Bipan Chandra, to name just a few.

[Since the early 1980s however, an alternate motley stream occupied by post modernism, 'post-colonial' culture studies, subaltern studies, etc., has partially (and I hope temporarily) hijacked (fortunately as yet essentially among sections of first world academia) the mainstream debate on the political economy of imperialism. The focus has shifted from the political economy of imperialism to its 'representation'. The nationalist response, including of massive long drawn popular movements, is also characterised (and thus virtually dismissed) as either being part of the 'colonial discourse' or 'elite' or 'official'! This setback to the study of colonialism and nationalism has paradoxically occurred through scholarly intervention in the name of the 'people', the oppressed without a 'voice', by scholars who, largely have, at least in the Indian case, shifted base to the First World or appear to aspire to do so. As Arif Dirlik asks: "When exactly...does the post-colonial begin?" and goes on to answer, "When Third World intellectuals have arrived in First world academe." A critique of this stream,

countries with divergent productivity levels was expressed in India by the early nationalists in the 1880s and by Indian business leaders since the mid 1930s. See Bipan Chandra, "Colonial India: British versus Indian Views of Development", *Review*, A Journal of Fernand Braudel Center, Vol XIV, No.1, Winter 1991, p.106, G.D.Birla, *Annual Report*, Federation of Indian Chambers of Commerce and Industry (FICCI), 1934, p.173 and S.P.Jain and B. M. Birla in *Annual Report*, FICCI, 1943, p.129 and 1946, pp.104-5, respectively.

however, is outside the scope of this address.]<sup>14</sup>

Bipan Chandra in his seminal work “Colonialism and Modernisation”<sup>15</sup> delivered as a presidential address to this very Congress in 1970, thirty seven years ago, argued that colonialism did not lead to capitalist modernization, neither did it create certain conditions in that direction, i.e., it was not as if it led to 'partial' or 'restricted' modernization or that it had some “residual” benefits, despite the overall exploitative character, which could be of some advantage after independence. He, along with Hamza Alavi, made a strong plea for seeing colonialism neither as semi-capitalist or backward capitalist nor as an amalgam of 'traditional' pre-capitalist and 'modern' capitalist features but as a distinct *colonial structure*.<sup>16</sup> As Bipan Chandra put it, colonialism “is a well-structured 'whole', a distinct social formation (system) or sub-formation (sub-system) in which the basic control of the economy and society is in the hands of a foreign capitalist class which functions in the colony (or semi-colony) through a dependent and subservient economic, social, political, and intellectual structure whose forms can vary with the changing conditions of the historical development of capitalism as a world-wide system.” Further he argued that the new colonial social framework that came into being which included “not only the economy but also the patterns of social, political, administrative and cultural life.... was *stagnant and decaying as it was being born*”, i.e., had no 'regenerative' potential.<sup>17</sup>

Many of the features that a colonial economy demonstrated, though they appeared to be capitalist, within the colonial framework, they performed completely different and distinctly colonial roles. For example, a colonial situation could witness, as it did in India, a high degree of

<sup>14</sup> For a useful collection on imperialism see Peter J. Cain and Mark Harrison, ed., *Imperialism: Critical Concepts in Historical Studies*, Routledge, London, 2001, 3 volumes. The Introduction to this series surveys the material from the 19<sup>th</sup> century till the late 20<sup>th</sup> century. Another useful article included in this collection, Patrick Wolfe, “History and Imperialism: A century of Theory from Marx to Postcolonialism”, also critically surveys the literature. The Arif Dirlik quotation is from this article. For an important and detailed critique of the treatment of nationalism and popular resistance to colonialism by the 'subaltern studies' and associated scholarship see Mridula Mukherjee, *Peasants in India's Non-violent Revolution, Practice and Theory*, Sage, New Delhi, 2004, especially Book II in this work titled *Interrogating Peasant Historiography: Peasant Perspectives, Marxist Practice and Subaltern Theory*. Also see Mridula Mukherjee, “Peasant Resistance and Peasant Consciousness in Colonial India: 'Subalterns' and Beyond”, *Economic and Political Weekly*, (hereafter *EPW*), 8 and 15 October, 1988. The 'subalterns', to my knowledge, have not responded to this critique.

<sup>15</sup> Reprinted in Bipan Chandra, *Nationalism and Colonialism in Modern India*, Orient Longman, New Delhi, 1979.

<sup>16</sup> See Bipan Chandra, “Colonialism and Modernisation”, 1970, *Ibid.*, and “Colonialism, Stages of Colonialism and the Colonial State”, *Journal of Contemporary Asia*, Vol. 10, No. 3, 1980 and Hamza Alavi, “India and the Colonial Mode of Production”, *EPW*, Vol.10, Nos. 33-35, Special Number, August 1975, and “Structure of Colonial Formations”, *EPW*, Annual No., Vol. 16, Nos.10-12, 1981 and Hamza Alavi, et.al., *Capitalism and Colonial Production*, London and Canberra, 1982. See also Jairas Banaji, “For a Theory of Colonial Modes of Production”, *EPW*, 23 December 1972.

<sup>17</sup> Bipan Chandra, “Colonialism and Modernisation”, 1970, *op.cit.* emphasis mine.

commercialization (or generalized commodity production), rapid growth in transport and communications, close integration with the world market and a high degree of 'potential investible surplus' raised from within the economy - all features associated with capitalist development. Yet in the colonial context all these development led to capitalist development in the metropolis but further colonial structuring in the colony. It ended up, to use Tilak's expressive phrase, “decorating another's wife”, and one may add, while disfiguring one's own.

In the Indian colonial economy, which was forcibly internally disarticulated and extroverted, the above changes did not stimulate internal inter-sectoral exchanges between Indian agriculture and Indian industry, or between Indian consumer goods industry and capital goods industry.<sup>18</sup> The circuit of commodity circulation was completed via the metropolis where colonial agriculture was linked to metropolitan industry, or colonial consumer goods industry (if and when it was allowed to develop) with metropolitan capital goods industry; the multiplier effects of these exchanges were thus transmitted abroad. Similarly, the surplus generated in the colonial economy did *not* lead to extended reproduction through investment (the key feature which distinguishes capitalism from pre-capitalist modes of production) thus raising the organic composition of capital and productivity to a higher level on a significant scale within the indigenous economy, but facilitated this process in the metropolis.<sup>19</sup> Traditional artisanal industry was destroyed,<sup>20</sup> (i.e., a process of de-industrialization occurred in a country which was the world's largest exporter of textiles in the pre-colonial era) and not replaced with modern capital intensive industry on a significant scale.

<sup>18</sup> The question of exchange between the sector producing capital goods for the capital goods industry and the capital goods industry did not arise.

<sup>19</sup> See Hamza Alavi, “Structure of Colonial Formations,” *op.cit.*, Samir Amin, *Accumulation on a World Scale*, New York, 1974 and “Accumulation and Development: a Theoretical Model”, *Review of African Political Economy*, 1974 for a brilliant enumeration of what constitutes a colonial / peripheral structure as opposed to a metropolitan / central one. Also it has been calculated by Irfan Habib that in 1801, at a crucial stage of Britain's industrial revolution, Drain or unrequited transfers to Britain from India represented about 9 per cent of the GNP of British India which was equal to about 30 per cent of British domestic savings available for capital formation in Britain. The unrequited transfers from Asia and West Indies put together was calculated by Sayera Habib to be 70 per cent of British capital formation out of domestic savings in the same year. Utsa Patnaik calculated it to be 84.06 per cent. This shows how critical transfers from the colony were to the process of capital accumulation for Britain and how debilitating it was for the colony. See Irfan Habib, “Colonisation of the Indian Economy”, in *Essays in Indian History: Towards a Marxist Perception*, Tulika, New Delhi, 1995, pp. 304-6, Sayera Habib, “Colonial Exploitation and Capital Formation in England in the Early Stages of Industrial Revolution”, *Proceedings of the Indian History Congress*, Aligarh, 1975, Utsa Patnaik, “New Estimates of Eighteenth-Century British Trade and Their Relation to Transfers from Tropical Colonies,” and Shireen Moosvi, “The Indian Economic Experience, 1600-1900: A Quantitative Study” in *The Making of History: Essays Presented to Irfan Habib*, Tulika, New Delhi, 2000, pp. 386-390.

<sup>20</sup> In some cases even existing modern industry was destroyed, witness the destruction of the textile,

Capitalism did not grow in agriculture either. Commodity production in agriculture was in response to a “forced commercialization” to primarily meet the colonial state's revenue demands and not with a capitalist rationality, i.e., to earn profit for investment. Typically, agriculture witnessed a high degree of differentiation but it did not lead to capitalist farming through extended reproduction. The petty mode of production was perpetuated in agriculture with the large estates being let out to tenants with small holdings who continued to cultivate at more or less the same traditional levels of technology.<sup>21</sup> Moreover, agricultural output and exports, even when they grew,<sup>22</sup> they remained articulated with metropolitan industrial and other needs.

The basic point was that colonialism had to be viewed and evaluated as an overall structure. Growth in one or the other sector of the economy or society could not be evaluated as 'partial' development (to be offset against the lack of such growth in another sector) if that sectoral growth was instrumental in creating the colonial structuring which led to overall stagnation and even decline. This was an understanding arrived at by Marx and Engels in their study of the Irish colonial situation as it was by the early nationalists in the case of India.<sup>23</sup> The development of railways, foreign trade, telegraph, agrarian transformation, a colonial civil service, etc., occurred in a manner that they became critical instruments in converting the pre-capitalist and sometimes emerging capitalist societies<sup>24</sup> into a stillborn colonial structure. The very *instruments* of the subversion of modern capitalist development in favour of colonial structuring cannot be treated as the 'residual' or 'partial' benefits of colonialism, a fallacy which unfortunately creeps into the thought of otherwise staunch liberal

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shipbuilding and armament industry, started by Mohd. Ali in Egypt in the 1830s, through colonial intervention. See for example V. Lutsky, *Modern History of the Arab Countries*, Progress Publishers, Moscow, 1969.

<sup>21</sup> This tendency has been shown to be true even in areas like Punjab in India, which it has been wrongly claimed was moving in the direction of capitalist agriculture, by Mridula Mukherjee, *Colonialising Agriculture: The Myth of Punjab Exceptionalism*, Sage, New Delhi, 2006. See also Aditya Mukherjee, "Agrarian Conditions in Assam 1880-1890: A Case Study of Five Districts of the Brahmaputra Valley", *The Indian Economic and Social History Review*, XVI, 2, Apr-June, 1979, pp.207-232 for a discussion on how colonial structuring of Indian agriculture occurs in a vastly different situation (from Punjab).

<sup>22</sup> In some instances, such as the sugar plantations of Indonesia in the late 19<sup>th</sup> century, they were operated by foreign capital at high levels of investment and technology but yet they remained totally articulated to colonial needs and had no positive effect towards growth of capitalist agriculture in Indonesia. See for example Clifford Geertz, *Agricultural Involvement: The Process of Ecological Change in Indonesia*, Berkeley, 1963 and J. S. Furnivall, *Netherlands India*, New York, 1944 and *Colonial Policy and Practice*, New York, 1956.

<sup>23</sup> See Bipan Chandra, "Karl Marx, his Theories of Asian Societies and Colonial Rule", Mimeo, p.62, "British and Indian Ideas on Indian Economic Development, 1858-1905" in his *Nationalism and Colonialism...*, *op.cit* and "Colonial India: British versus Indian Views of Development", *Review*, A Journal of Fernand Braudel Center, Vol XIV, No.1, Winter 1991, p. 87.

<sup>24</sup> Mohammad Ali's Egypt for example.

nationalists at the highest level and even some Marxists. The opportunity cost of failing to use the same resources, (which created the instruments for colonial purposes) alternatively, often over centuries of colonial domination and of having to *undo* the colonial structuring after freedom was won, is mind boggling.

If colonialism was not leading to 'partial' modernization, if it was not 'transitional' to modernization, but was structuring-in backwardness, then moving temporally further on the colonial path would not bring the colony closer to modernization. Only a break from it would.<sup>25</sup> The colonial path and the capitalist path are not even like parallel paths which do not ever meet, they are actually *divergent* paths.<sup>26</sup> The more a society moved on the colonial path the more the colonial distortions would be structured-in and the more difficult it would be to make the transition to independent capitalist or for that matter socialist development. The 'built-in depressors', to use an apt term attributed to Daniel Thorner, that colonialism created would get heavier and the task of independent development that much more challenging.

It was not only the task of un-structuring the colonial economic structure which was the challenge before the countries politically liberated from colonialism. The task of 'de-colonizing' the non-economic institutions spawned by colonialism like the colonial bureaucracy, judiciary, police, education system, etc., were to prove equally daunting. Sixty years after independence, India is still struggling to decolonize these institutions. As we will see later we still have textbooks taught in our schools and major universities such as the recent Oxford Economic History of India by Tirthankar Roy,<sup>27</sup> which argues a blatant colonial position which would have embarrassed many British Governor-Generals and Viceroys. While it is understandable that Niall Ferguson, the no-holds-barred open defender of British imperialism, should find Roy's work praiseworthy; what is surprising is that scholars such as Ramachandra Guha and Sanjay Subrahmanyam, whom one would not suspect of harbouring colonial sentiments, echo that view.<sup>28</sup> Decolonization of the mind is indeed a long and tortuous process.

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<sup>25</sup> Bipan Chandra was the first to empirically demonstrate for India (as Gunder Frank had shown for Latin America) that the spurts of industrial growth that India witnessed during the last phase of colonialism from 1914 to 1947 was a result of the “loosening of the links” or breaks with colonialism rather than because of it. See his “Colonialism and Modernization”, *op.cit*. More on this later.

<sup>26</sup> Those who argue that colonialism was leading to partial modernization or that it was transitional to modernization would have to accept that moving further on the colonial path would in fact bring the country closer to capitalist development, a position even the die hard imperialists would find difficult to argue.

<sup>27</sup> Tirthankar Roy, *The Economic History of India: 1857-1947*, Oxford University Press, New Delhi, 2000, Second edition, 2006. All references in this address are to the first edition.

<sup>28</sup> See Niall Ferguson, *Empire: How Britain Made the Modern World*, Penguin, London, 2003, for an unabashed defence of the empire. Praise of Tirthankar Roy's work by Ferguson, Guha and

## II

The colonial argument has a long ancestry. Being the argument emanating from the more 'successful'/rich and powerful part of the globe, even though it was the argument of the ruling elite, it found takers among the oppressed as well. Its influence varied depending on the intellectual and political strength of the anti-imperialist movement at different points of time.

Since the 19<sup>th</sup> century British colonial officials as well as some intellectuals put up a spirited defense of colonialism. They argued that British colonialism brought law and order and modern transport and communications, led to growth of foreign trade and integrated the colony with the global market, brought in resources to India through British investments (drain was persistently denied), made major changes in property rights in agriculture and improved irrigation, all factors leading to unprecedented economic development in India.<sup>29</sup> The “white man's burden” or the “civilizing mission” did not end there. Indians had to be retrieved from their 'barbaric' and 'hideous' conditions through gradually training them for self government as well! Further, the inhibiting factors in Indian development were, it was argued, over-population, shortage of capital, Indian social customs, social institutions, values and habits like lack of ambition, apathy, thriftlessness, spending extravagantly on marriages, and also India's geographical weaknesses and climatic conditions. The negatives, in other words, involved looking within and not at colonialism.

The early Indian nationalists, consisting of some of the best minds of that era, over nearly half a century of intense intellectual activity, questioned each one of the colonial claims and, as I pointed out earlier, created a sophisticated critique of imperialism. Through books based on years of research, articles, newspapers, legislative assemblies, the British parliament, public meetings and numerous such forums they argued their position. Their success was that the essential elements of their thought became the *common sense* wisdom of the time and provided the basic structure of the economic understanding of colonialism not only to the Indian national movement but to the planners and academics after independence.

A major resurgence of the colonial position regarding the Indian experience of colonialism occurred in academia with the writings of Morris

Subrahmanyam are quoted in the second edition of Roy's book, *ibid.*, as an advertisement for the book.

<sup>29</sup> Bipan Chandra has in considerable detail given the British and Indian ideas on colonialism and the issue of development in India in, “Colonial India: British versus Indian Views of Development”, *Review*, A Journal of Fernand Braudel Center, Vol XIV, No.1, Winter 1991 and “British and Indian Ideas on Indian Economic Development, 1858-1905” in his *Nationalism and Colonialism...., op.cit.*

D. Morris in the early 1960s,<sup>30</sup> and the publication of the voluminous Cambridge Economic History Vol. 2 in the early 1980s.<sup>31</sup> A robust challenge emerged with Bipan Chandra, Toru Matsui, Tapan Raychaudhuri,<sup>32</sup> Irfan Habib,<sup>33</sup> and others writing detailed critiques and by a number of research works such as that of A. K. Bannerji, Basudev Chatterji, Sunanda Sen, Michael Kidron, George Blyn, Utsa Patnaik, S. Sivasubramonian, R.W. Goldsmith, A.I. Levkovsky, V.B. Singh, Debdas Bannerjee<sup>34</sup> (to name just a few) and the seminal work of A. K. Bagchi.<sup>35</sup> The colonial position on the economic front however continued, particularly regarding an interpretation of the 18<sup>th</sup> century, leading to an interesting debate.<sup>36</sup>

However, while most of the pro-colonial works since independence reiterated the colonial position regarding only some aspects of the economy the recent work of Tirthankar Roy, *The Economic History of India*, mentioned above, tries to present, somewhat in a 'made easy' style, the

<sup>30</sup> See Morris D. Morris, “Towards a Reinterpretation of Nineteenth Century Indian Economic History,” *Journal of Economic History*, Vol. XXIII, No. 4, 1963.

<sup>31</sup> Dharma Kumar, ed., *Cambridge Economic History of India, Vol. II*, Cambridge, 1982.

<sup>32</sup> Morris D. Morris's 1963 article in *Journal of Economic History* and responses to it by Bipan Chandra, Toru Matsui, Tapan Raychaudhuri and Morris's rejoinder all in *Indian Economic and Social History Review (IESHR)* were compiled and published as *Indian Economy in the nineteenth Century: A Symposium*, IESHR, Delhi, 1969.

<sup>33</sup> See Irfan Habib, “Colonization of the Indian Economy 1757-1900”, *Social Scientist*, Vol. 3, No. 8, March 1975 and “Studying a Colonial Economy Without Perceiving Colonialism”, *Modern Asian Studies*, Vol. 19, No. 3, 1985, both reproduced in Irfan Habib, *Essays in Indian History: Towards a Marxist Perspective*, Tulika, New Delhi, 1995.

<sup>34</sup> Bannerji, A.K., *India's Balance of Payments: Estimates of Current and Capital Accounts from 1921-22 to 1938-39*, Bombay, 1963 and *Aspects of Indo-British Economic Relations, 1858-1898*, OUP, Bombay, 1982; Basudev Chatterji, *Trade, Tariffs and Empire: Lancashire and British Policy in India 1919-1939*, OUP, Delhi, 1992; Sunanda Sen, *Colonies and the Empire: India 1890-1914*, Orient Longman, Calcutta, 1992; Michael Kidron, *Foreign Investment in India*, London, 1965; George Blyn, *Agricultural Trends in India, 1891-1947: Output, Availability, and Productivity*, Philadelphia, 1966; Utsa Patnaik, *Essays on Political Economy: The Long Transition*, Tulika, New Delhi, 1999.; S. Sivasubramonian, *The National Income of India in the Twentieth Century*, OUP, New Delhi, 2000; R.W. Goldsmith, *The Financial Development of India, 1860-1977*, Yale University Press, New Haven, 1983; A.I. Levkovsky, *Capitalism in India, Delhi, 1966*; V.B. Singh, ed., *The Economic History of India*, Bombay, 1965 contains a series of articles questioning the colonial view; Debdas Bannerjee, *Colonialism in Action: Trade, Development and Dependence in Late Colonial India*, New Delhi, 1999.

<sup>35</sup> See *Private Investment in India, 1900-1939*, Cambridge, 1972 and *Perilous Passage: Mankind and the Global Ascendancy of Capital*, OUP, New Delhi, 2006. See also his *The Political Economy of Underdevelopment*, Cambridge, 1982. I have some serious differences however with Bagchi's treatment of some aspects of the last phase of colonialism and especially of his characterization of post colonial India as “neo-colonial” in this work. See, for example, Aditya Mukherjee and Mridula Mukherjee, “Imperialism and the Growth of Indian Capitalism in the Twentieth Century”, *Economic and Political Weekly*, 12 March 1988 and Aditya Mukherjee, *Imperialism Nationalism and the Making of the Indian Capitalist Class: 1920-1947*, Sage, New Delhi, 2002. See also f.n. 45 below.

<sup>36</sup> See Irfan Habib, “The Eighteenth Century in Indian Economic History”, in Leonard Blussé and Femme Gastra, ed., *On the Eighteenth Century as a Category of Asian History Van Leur in Retrospect*, Ashgate, Hampshire, 1998 for a critique of positions taken by people like Chris Bailey and others on 18<sup>th</sup> Century India.

colonial position in its entirety covering all aspects of the colonial economy. Roy laments that in the “average Indian's sense of history”, “colonialism” was seen as “responsible ... for ... underdevelopment”. (The 'guilt' of the early nationalists in creating this 'sense' is evident). He wants us to “take leave of (such) generalizations” and “step into history”<sup>37</sup>, a history which then he proceeds to outline, doing little better than sketch the average colonialist's sense of history. It is not possible to do here a detailed critique of Roy's work as it would involve going over the entire colonial position. He has reiterated almost all the arguments of the British civil servants and Viceroys about the benefits of British rule and the causes of lack of growth in India that are summarized above and has ignored or summarily dismissed the rich anti-colonial discourse that evolved over more than a century. (Given below in the footnote are some examples of Roy's position.)<sup>38</sup> I shall in this address limit myself to a more modest and limited task.

### III

This address will focus on the last phase of colonialism in India particularly since the First World War.<sup>39</sup> The period saw some growth of

<sup>37</sup> *The Economic History of India, op. cit., Introduction, p.18.*

<sup>38</sup> Here are just a few samples of Roy's position selected from various parts of the book which he himself calls “no more than an updated and shorter version of the *Cambridge Economic History of India, Vol.II.*” He argues: (i) “...Colonial India experienced *positive economic growth*.... In the nineteenth century ...it was driven by India's integration in a rapidly growing world market .... Other key factors encouraging economic growth ...were a strong state and modern transport and communication.” “Real income in industry and services grew *rapidly throughout* the colonial rule.” (ii) “The notion that commercialization was forced upon the peasants by taxes or debt, and not driven by profit motive, is seriously disputable.” (iii) The proverbial “indebtedness” of the peasantry could be “a sign of *prosperity* and not poverty of the peasants” (iv) “Drain of resources from India can neither be precisely defined nor correctly measured”. In any case “economic gains from colonies were neither as large as was imagined nor as crucial to the origins of industrialization.” (v) The 'de-industrialization' thesis is unsatisfactory and needs to be replaced by an “alternative story” that of “commercialization” (vi) “The most important legacy of British rule was modern infrastructure and public goods that it created... assets India *could not* believably have acquired in such extent and quality had it not developed close political links with Britain,” i.e., British rule was *necessary* for India's transition to modernity. (vii) The modernity, if not benevolence, of the colonial state was also seen from the fact that “it spent less on luxuries and more on the *genuine* duties of the state such as *defence*, welfare, infrastructure and institutions.” (viii) “Any explanation of slow growth rates must *focus on* the role of *local characteristics* and peculiarities...” Rather than hold colonialism responsible for stagnation one had to look at “conditions within India” such as: (a) “scarcity of water” despite investments made by the British which “go to the credit of this (British) regime”; (b) “scarcity of capital was always present and always acute”; (c) accelerated population growth rates; (d) social institutions like “caste...introduced market imperfections”; (e) the Indians' “hunger for gold and silver” and inclination “to spend the extra income on sumptuous marriage feasts and jewelry rather than on irrigation or road building”; (f) “agriculture...was subject to high climatic risks”; (g) “poorly developed institutions... such as banks and insurance,” etc. *The Economic History of India...op.cit., Pp.vi,14-18, 91, 130, 217, 240-43, 257, 273, 310-11*, emphasis mine.

<sup>39</sup> In this section I have drawn heavily from Aditya Mukherjee, “The Indian Capitalist Class: Aspects of its Economic, Political and Ideological Development in the Colonial Period, 1927-47”, paper read at Indian History Congress, Kurukshetra, 1982 and reprinted in S. Bhattacharya and Romila Thapar, eds., *Situating Indian History*, OUP, Delhi, 1986 and Aditya Mukherjee, *Imperialism Nationalism and the*

indigenous industry and a substantial growth of the indigenous capitalist class. Apart from this the period witnessed several other 'positive' developments which diverge from the classical colonial pattern that had got established in India. This has led to one group of colonial writers seeing these as the result of colonialism and its policies,<sup>40</sup> which created conditions for rapid economic advance later.<sup>41</sup> Morris D. Morris too sees the period after 1914 as one during which “rather substantial structural modifications occurred” when “the *base was laid* for a renewed upward surge after independence”; unfortunately, despite all the “growth benefits of nineteenth century” the “nineteenth century as a period was *too brief* to achieve all the structural changes needed to provide the preconditions for an industrial revolution.”<sup>42</sup> The implication in their writings is that the impetus of the changes during 1914-1947 remained colonial and post Independence India could just build on them, without involving any fundamental break from colonialism. Other colonial scholars see this period as one of 'decolonization' where colonialism was gradually pulling out, handing over to Indian interests.<sup>43</sup> Some even see this period as one where England was being exploited by India!<sup>44</sup> I shall question this range of colonial views.<sup>45</sup>

*Making of the Indian Capitalist Class: 1920-1947*, Sage, New Delhi, 2002.

<sup>40</sup> Tirthankar Roy, *op.cit.*, particularly Ch. 4 and 5.

<sup>41</sup> A.D.D. Gordon, *Businessmen and Politics: Rising Nationalism and a Modernising Economy in Bombay, 1918-1933*, Manohar, New Delhi, Vera Anstey, *The Economic Development of India, London, 1957* and Tirthankar Roy, *op.cit.*, see for example, pp. 51, 116-17, 136-7, 152-3, etc.

<sup>42</sup> See *Indian Economy in the Nineteenth Century: A Symposium*, Delhi, 1969, pp. 13-15, emphasis mine. Shockingly, Morris is writing about the 19<sup>th</sup> century being too brief, in 1963, when independent India, making genuine structural changes was already beginning to change the industrial landscape of the country in less than 15 years of planning. See for example Aditya Mukherjee, “Indian Economy, 1947-65: The Nehruvian Legacy”, in Bipan Chandra, Mridula Mukherjee and Aditya Mukherjee, *India After Independence- 1947-2000*, Penguin, 2000, revised and enlarged edition called *India Since Independence*, (in press).

<sup>43</sup> See, Clive Dewey, “The End of Imperialism of Free Trade: The Eclipse of the Lancashire Lobby and the Commission of Fiscal Autonomy to India”, in Clive Dewey and A.G. Hopkins, eds., *Imperial Impact: Studies in the Economic History of Africa and India*, London, 1978 and “The Government of India's New Industrial Policy 1900-1925”, in Clive Dewey and K.N. Chaudhuri, eds., *Economy and Society, Essays in Indian Economic and Social History*, Delhi, 1979; and A.D.D. Gordon, *op.cit.*

<sup>44</sup> Drummond, I. M., *British Economic Policy and the Empire, 1919-1939*, London, 1972.

<sup>45</sup> I shall not discuss here the “Left” variant of the decolonization thesis which was argued initially in the late 1920s to explain this period seeing it as one where imperialism continued in an altered form encouraging industrialization and therefore the colonial bourgeoisie had no basic contradictions with it. See Aditya Mukherjee, “The Workers' and Peasant s' Parties, 1926-30: An Aspect of Communism in India”, *Studies in History*, III, 1&2, 1981, reprinted in Bipan Chandra, ed., *The Indian Left: Critical Appraisals*, New Delhi, 1983, for a brief summary of the communist view. See, also, Sobhanlal Datta Gupta, *Comintern, India and the Colonial Question, 1920-1937*, Calcutta, 1980. A. K. Bagchi has continued to argue a similar position, which has persisted in a section of the Indian Left, adding that this period only “exchanged a state of unilateral dependence on Britain for that of multilateral dependence on the advanced capitalist countries” setting the stage for a “neocolonial, retarded society” *after 1947. The Political Economy of Underdevelopment*, Cambridge, 1982, pp. 90-94. See also, A.K. Bagchi, “Foreign Capital and Economic Development in India; A Schematic View”, in K. Gough and H.P. Sharma, eds., *Imperialism and Revolution in South Asia*, New York, 1973. I have critiqued this view extensively elsewhere (see f.n. 35 above).



Before I do a critique of the colonial view of this period I shall, however, first take a detour and in some detail enumerate what the positive developments that occurred in this period were and then go on to show how these developments were not a result of colonialism or of a process of decolonization.

First, it is generally undisputed that a major development in the Indian colonial economy in the twentieth century was the initiation of a rapid phase of import substitution in most of the major consumer goods industries and certain intermediate and capital goods industries like textiles, sugar, matches, soap, cement, paper, glass, sulphuric acid and other basic chemicals, magnesium chloride, tinsplate, and iron and steel.<sup>46</sup> (See table 1). This process, a reversal of the general nineteenth century colonial trend began in the early twentieth century, picked up by the First World War and

**Table I**

Sea-Borne Imports Into British India, 1900-1945

	I 1900-1 2003	II 1920-21 1510	III 1936-37 764	IV 1944-45 5
Cotton Piece-goods (million yards)				
Sugar (thousand tons)	-	344	23 (net imports-17) <sup>a</sup>	nil
Soap (thousand cwt.)	-	313	48	3
Matches (thousand gross boxes)	-	12399	55 (By 1938-39, 95% of total consumption met indigenously)	During war imports imports rise due to shortages. No figures available for 1944-45.
Cement (thousand tons)	165 [1914]	131	51	5 [1940-41] Insignificant in 1944-45, being 1/5 of 1940-41 in value terms at current prices.
Paper & Pasteboard (Rs. Lakhs)		7,30	3,94	26.1
Iron and Steel (thousand tons)	286	712	363	87

Source: Columns II, III and IV from S. Subramanian and P.W.R. Homfray, *Recent Social and Economic Trends in India*, Government of India, New Delhi, 1946, pp.48-49 and 6-8. Column I from A.K. Bagchi, *Private Investment...* op.cit., pp.238, 295 and 354.

<sup>a</sup> See Rajat Ray, *Industrialization in India*, Delhi, 1979, p.138. By 1937 India had started exporting sugar.

Note: Up to 1936-37, figures included Burma.

<sup>46</sup> See A. K. Bagchi, *Private Investment...*, Chs. 3, 7 and 9-14; Rajat Ray, *Industrialization in India*, Delhi, 1979, pp.145 ff., 161 ff. And 196 ff.; B.R. Tomlinson, *The Political Economy of the Raj, 1914-47*, London, 1979, pp. 31-32 and Subramanian and Homfray, *Recent Social and Economic Trends in India*, New Delhi, 1946, pp.48-49 and 6-8.

the twenties, got a major push in the thirties and during the Second World War, and took a *quantum* leap at a qualitatively different level in the years following independence. In any case, by 1939, India was more or less self-sufficient in her major consumer goods requirements.<sup>47</sup> Most important, the bulk of this process was occurring under the aegis of independent indigenous capital.

Second, apart from import substitution, there was a growing tendency towards inward orientation, with indigenous producers, who were earlier producing for export, shifting towards the home market. Also, the link between agriculture and indigenous industry began to grow, reversing the earlier trend where the former was increasingly linked to metropolitan industry. A good example of this process was the cotton textile industry, the most important industry in India at that time. In the early decades of the twentieth century the cotton mill industry in Bombay was beginning to shift from export of yarn to the far-east (particularly China) to production of yarn and cloth for the domestic market. Also other textile centres in the interior areas, such as Ahmedabd, Cawnpore and Coimbatore, which grew faster than Bombay in this period, produced yarn and cloth mainly for the domestic market.<sup>48</sup> Further, as the textile industry in India grew due to rapid import substitution, it began to pick up an increasing proportion of the domestic raw cotton production. The growing inward orientation was also a result of the traditional export oriented industries like jute stagnating in this period, while the domestic market oriented industries like cotton textiles, sugar and iron and steel registering relatively quicker growth rates.<sup>49</sup>

Third, reflecting the changes discussed above, India's total volume of international trade, which had grown stupendously in the 19<sup>th</sup> century, when India became a typical outward oriented colonial economy, began to decline after World War I. Simultaneously, her internal trade began to grow, in some areas quite dramatically. For example, between 1920 and 1939, the volume of internal trade in sugar increased by three times, in cotton piece goods, iron and steel, raw hide and skins and cement (1933 to 1939) it nearly doubled and in tanned hides and skins and leather it increased by eight times.<sup>50</sup> It may be noted that the spurt in Indian industrial growth in this period was not linked to growth in international trade (one of the so called benefits of colonial rule, see f.n. 38) but to growth in internal trade.

Fourth, there occurred in this period a rapid shift of traditional 'pre-capitalist' accumulations in trade, usury and landlordism to industry, again

<sup>47</sup> A.K. Bagchi, *Private Investment...*, Pp.440-41.

<sup>48</sup> A.K. Bagchi, *Private Investment...*, Chs. 3 and 7.

<sup>49</sup> *Ibid.*, pp.83ff. and 433 ff.

<sup>50</sup> Subramanian and Homfray, *op. cit.*, P.51.

reversing the earlier pattern of such accumulations being diverted to landlordism a process of 're-feudalisation'. While many of the princes financed big industry, a lot of trading-usury capital went into small enterprises.<sup>51</sup> This shift occurred partially because the two world wars and the Depression (as well as the fall in world demand for Indian primary products) reduced the traditional opportunities for investment in trade, indigenous banking, usury and landlordism. The same factors combined with the fact that the colonial state was forced to raise tariff duties on imports created opportunities for indigenous industrial investment (more on this later).

Fifth, as compared to the pre-World War I period, in the post-war period upto 1945 there was a gradual but consistent shift in the pattern of foreign trade with the proportion of manufactured goods in total exports showing a significant increase and in total imports showing an even more significant decrease. Conversely, the proportion of raw materials in total exports showed a definite decrease and the proportion of raw materials and capital goods (as opposed to consumer goods) in total imports showed a comparative increase.<sup>52</sup> There was here a *tendency*, however hesitant, towards the reversal of India's traditional colonial pattern of foreign trade, though the pattern *still remained largely colonial* till independence. The example of sugar illustrates aspects of the new tendency. The import of sugar (a manufactured consumer good) fell dramatically in the inter-war period leading to the commencement of exports by 1937 (see table 1). On the other hand, the value of imports of sugar *machinery* shot up from Rs. 1.75 m. in 1920-21 to Rs. 87 m. in 1932-33, at constant prices.<sup>53</sup>

Sixth, contrary to traditional belief,<sup>54</sup> the actual net inflow of foreign capital to India was never very large and virtually insignificant in the form of industrial investments. Most foreign capital in the twentieth century came in the form of loans to meet the balance of payment deficits caused in no small measure by unilateral transfers made to the metropolis in the form of home-charges and debt servicing or interest charges and dividends accruing due to earlier foreign loans and investments. In fact, if one pitted outflows on current account due to interest, dividends and home charges against net inflow due to foreign borrowing on the capital accounts, one would find that there was an outflow of capital from India virtually throughout the colonial period and certainly since World War I.<sup>55</sup> However,

<sup>51</sup> See, e.g., A.I. Levkovsky, *Capitalism in India*, Delhi, 1966, pp.233 ff. and 319.

<sup>52</sup> See R.L. Varshney, "Foreign Trade", in V.B. Singh, ed., *Economic History of India, 1857-1856*, Bombay, 1965; Subramanian and Homfray, *op. cit.*, p.47; B.R. Tomlinson, *op. cit.*, p.31

<sup>53</sup> A.K. Bagchi, *Private Investment...*, table 12.2, p.367.

<sup>54</sup> It was assumed that imperialism of the third stage necessarily meant massive foreign investment in the colonies. See, e.g., R.P. Dutt, *India Today*, (second Indian edition), Calcutta, 1970, ch.6.

<sup>55</sup> See A.K. Bagchi, *Private Investment...*, p.160 and A.K. Bannerji, *India's Balance of Payments: Estimates of Current and Capital Accounts from 1921-22 to 1938-39*, Bombay, 1963, pp.195 and 200.

even if one considers only the flows in the capital account, then also it is evident that foreign capital inflow fell off after the spurt of the early 1920s, and, by the early 1930s, Indian repayments and repatriation of foreign debt and earlier foreign investments exceeded fresh investments, i.e., there was a net outflow of foreign capital.<sup>56</sup> The process of repatriation which began in the early '30s picked up after 1935, and, with the onset of World War II, both repatriation of sterling public debt and retirement of private foreign loans and investment increased rapidly.<sup>57</sup>

In fact, during World War II, when Britain made large war purchases in India, India ceased to be a debtor country and by 1946 had accumulated as *credit* against Britain a whopping sterling balance of nearly Rs. 17,000 million. Further, the dependence on the London money market for Indian government borrowing was also reduced dramatically after having peaked in the mid-1930s. While in 1934 sterling debt (or external debt) represented nearly 43 per cent of India's total public debt, by 1945 sterling debt accounted for only 4 per cent, i.e., 96 per cent of the public debt was raised internally.<sup>58</sup>

Further, for a variety of reasons, areas where traditional foreign capital (European controlled business in India where a large part of the investments were internally raised) dominated, e.g., plantations, jute and foreign trade, underwent a relative stagnation after the First World War. Also, a dual process of repatriation of foreign capital from these sectors and of Indianisation of ownership (and gradually control) in them set in.<sup>59</sup> On the other hand, the intrusion of the new type of foreign capital in the form of direct investments by multinational corporations during the twenties and thirties, remained very small till independence,<sup>60</sup> especially when compared to the rapid growth of indigenous enterprise in this period. For example, between 1921 and 1938 the net foreign industrial investment was worth £ 17 m., while the new investment in Indian industry was estimated to be £ 144 m.<sup>61</sup> Also, between 1914-1947 the paid up capital of rupee companies (or companies registered in India) grew more than twice as fast as the increase in the paid up capital of sterling companies. In fact between 1929 and 1947 the paid up capital of rupee companies doubled while that of

<sup>56</sup> A.K. Bannerji, *Ibid.*

<sup>57</sup> *Ibid.* and Michael Kidron, *Foreign Investment in India*, London, 1965, pp.53 ff.

<sup>58</sup> See B.R. Tomlinson, *op. cit.*, p.155 and Subramanian and Homfray, *op. cit.*, Table XX, p.75.

<sup>59</sup> Kidron, *op. cit.*, pp. 10-11 and 40 ff.

<sup>60</sup> Some scholars sometimes greatly exaggerate their role, seeing in them the ushering in of 'dependent capitalism'. See, A.K. Bagchi, "Foreign Capital..." *op. cit.* However the balance of payment figures of this period do not suggest any massive inflow of foreign direct investment. See, e.g., A.K. Bannerji, *op. cit.*, pp. 195, 200 etc. As Rajat Ray put it, "As a matter of fact the entry of multi-nationals did not bring any appreciable addition to the level of investment". *op. cit.*, p.274

<sup>61</sup> B.R. Tomlinson, *op. cit.*, pp.48-49.

sterling companies stagnated showing an actual decline after the peak reached in 1932-33.<sup>62</sup> Foreign direct investments, however, did increase considerably after independence but they were kept under strict control and were not allowed to acquire a dominant position either in the overall economy or in most of the critical sectors of the economy.<sup>63</sup>

Last, between 1914 and 1947, the Indian capitalist class, *through a process of economic and political struggle*, and taking advantage of the two wars and the Great Depression<sup>64</sup> as well as the specific crisis faced by British imperialism during these years, was able to significantly increase its hold over the Indian economy vis-à-vis foreign capital. This was achieved chiefly through the following three processes: (a) by entering new areas almost exclusively and accounting for the overwhelming proportion of the new investments made after the 1920s, e.g., in sugar, cement, paper, heavy chemicals, iron and steel, etc.,<sup>65</sup> (b) by edging out or encroaching upon in greater or smaller degree the various traditional areas of European influence and dominance, e.g., banking, life-insurance, jute, textiles, partially shipping, foreign trade, coal, and tea,<sup>66</sup> (c) through a faster growth, in terms of investment and output, in economic sectors and geographical regions where Indian capital dominated, as opposed to those where European interests were dominant, e.g., cotton vs. jute, Bombay and other interior regions vs. Bengal and the metropolitan centres, home market-oriented industries vs. export-oriented industries like jute, plantations, etc., internal trade vs. foreign trade, and so on.<sup>67</sup>

Thus before independence itself Indian capital had acquired considerable control over the domestic market. Rough estimates suggest that about 72-73 per cent of the domestic market was controlled by indigenous enterprise at the eve of independence. In the financial sphere also, where, earlier, European capital was supreme, the Indian capitalists made massive inroads. While in 1914 foreign banks held 70 per cent of the deposits, by 1937 they held 57 per cent, and by 1947 a mere 17 per cent, i.e.,

<sup>62</sup> See Rajat Ray, *op. cit.*, table 10, p.42; Subramanian and Homfray, *op. cit.*, table XVII, A and B, pp. 63-5 and Arun Bose, *Indo-British Big Business Deals*, Delhi, 1947, p. 9-10

<sup>63</sup> See Aditya Mukherjee and Mridula Mukherjee, "Imperialism and Growth of Indian Capitalism in Twentieth Century", *op. cit.*, And Arun Bose, "Foreign Capital", in V.B. Singh, ed., *op. cit.* It is only after the economic reforms since 1991 that the position regarding foreign direct investments changed to a considerable extent.

<sup>64</sup> See Bipan Chandra, "Colonialism and Modernization", in *Nationalism and Colonialism in Modern India*, New Delhi, 1979, for a demonstration of how the Indian economy experienced spurts of growth when the links with imperialism were loosened during periods of crisis faced by the advanced metropolitan countries.

<sup>65</sup> A.K. Bagchi, *Private Investment...*, Chs.3 and 6, particularly, pp.83 ff, 192ff. Rajat Ray, *op. cit.*, Ch.3.

<sup>66</sup> M. Kidron, *op. cit.*, Ch.2 and A.K. Bagchi, *Private Investment...*

<sup>67</sup> A.K. Bagchi, *ibid.*, pp. 83ff., 433 ff.

83 per cent of the deposits were in Indian banks.<sup>68</sup>

The various factors listed above suggest that what are considered to be some of the typical disarticulating features of an extroverted colonial economy were, to an extent, however hesitatingly, getting reversed, even within the overarching colonial structure. First, there was a growing tendency towards surplus value being appropriated through extended reproduction in the colony, and it was being accumulated and invested by an independent indigenous bourgeoisie, albeit within the constraints of a colonial economy. Second, there was a growing tendency towards indigenous industry being articulated with indigenous agriculture and the home market. Thus the typical colonial feature of the colony's agriculture and its home market being articulated with metropolitan industry was showing a decline. Third, the hold of foreign capital was declining; and the indigenous bourgeoisie had gradually acquired a dominating position in the indigenous production sphere as well as in the home market. Last, the colonial economy, like the indigenous bourgeoisie, had acquired a minimal strength and bargaining position vis-à-vis the metropolitan centre. For example, the economy instead of being weighed down by a huge debt enjoyed large foreign exchange balances by the end of W.W. II, and the colonial bourgeoisie was able to bargain effectively while associating with foreign capital in setting up enterprises,<sup>69</sup> or while negotiating trade agreements with Britain.<sup>70</sup>

#### IV

The question now was: how to understand these positive changes? As mentioned earlier the colonial view was to see these changes as the beneficial result of colonialism or as the result of imperialism voluntarily pulling out. Colonial scholars have focused on the increasing import substitution in consumer goods industry in India (see Table 1) and the sharp decline in the British market in India, particularly in cotton textiles, to basically argue that Britain was now '*surrendering*' its interests in India in favour of Indian industrial interests. The 1919 'Fiscal Autonomy Convention' was described as "a British self-denying ordinance"<sup>71</sup> which led to the "deliberate surrender of the largest export market in the world for a staple British manufacture."<sup>72</sup> The fact that in the changed circumstances since the First World War India was able to achieve a somewhat better

<sup>68</sup> See Aditya Mukherjee, *Imperialism, Nationalism...*, pp. 28-30, R.W. Goldsmith, *The Financial Development of India, 1860-1977*, New Haven, 1983, p.102 and G. K. Shirokhov, *Industrialisation in India*, Moscow, 1973, pp.48-49.

<sup>69</sup> See Aditya Mukherjee, *Imperialism, Nationalism...*, Ch. 10.

<sup>70</sup> See *ibid.*, Chs. 7 and 8.

<sup>71</sup> I. M. Drummond, *op. cit.*, p.124

<sup>72</sup> Clive Dewey in Dewey and Hopkins, ed., *op. cit.*, p.36.

bargain in the trade agreements of the 1930s (the Ottawa Agreement, 1932, the Mody-Lees Pact, 1934 and the Indo-British Trade Agreements of 1935 and 1939), compared to the total surrender to British industrial and financial interests earlier, was interpreted as “the clever and powerful Indians (having) forced a disadvantageous trade treaty upon the weak and inept English.”<sup>73</sup> The 1939 agreement was described by Drummond as: “a 'capitulation' -the sort of thing which Marxists tell us the evil imperialist Western governments force on the weak and helpless countries of the third World. But in this case, as at Ottawa...it was Britain who had capitulated, sacrificing most of her preferential advantages.... The reader is left to ask himself who was exploiting whom.”<sup>74</sup>

It was further argued that not only was Britain not exploiting India but it was actually encouraging Indian industrialization.<sup>75</sup> The fact that India still did not industrialize was because the Indian entrepreneur was incapable of taking advantage of the government initiative, it was just not upto taking on the immense challenge.<sup>76</sup>

Also, somewhat like what Tirthankar Roy was to echo later, Dewey accused Marxists and nationalists of being simplistic and indulging in “a conspiracy theory of imperialist exploitation”.<sup>77</sup> He accused them of ascribing “Indian tariff policy to a single dominant determinant, principally the Lancashire cotton lobby...” and not recognizing the “remarkable metamorphosis” that had occurred since the First World War, where “the power-struggles within the India Office and the Government of India were resolved in favour of factions allied with the Bombay mill owners, while the factions allied with Lancashire were reduced to virtual impotence.” It was said, “in the 1870s the Secretary of State allied with Lancashire against the Government of India, while in the years after 1917 the Government of India aligned itself with Indian nationalists against the India Office...” In their battle with the Secretary of State the Government of India's “alliance with the *nominal* nationalist enemies” proved useful as did “the public opinion they helped *manufacture*” and the “upsurge of political unrest in India.”<sup>78</sup> It

<sup>73</sup> Drummond, *op.cit.*, p.132

<sup>74</sup> *Ibid.*, p. 140. It is to be noted that the loss of 'preferential advantage' by Britain is seen as exploitation.

<sup>75</sup> *Ibid.*, p. 122-3 and Clive Dewey in Dewey and Chaudhuri, ed., *op. cit.*

<sup>76</sup> Dewey, *Ibid.*, p. 249-52. Given the massive economic upsurge of Indian business in recent years at least doubts should arise about the various alleged incapacities of the Indian entrepreneur.

<sup>77</sup> Dewey in Dewey and Hopkins, ed., *op.cit.*, p. 38 and Tirthankar Roy, *op.cit.*, pp. 10-18,309-11. Roy e.g., accuses Marxists and 'left-nationalist' scholars of picking up the arguments of the early nationalists “that were for them not much more than political tools” and then “reestablishing” them “as correct and valid descriptions.” *Ibid.* p. 311.

<sup>78</sup> Dewey in Dewey and Hopkins, ed., *op.cit.*, p. 50, 55-56, emphasis mine. Somewhat inexplicably

seems some 'manufactured' political unrest by the 'nominal nationalist enemies' was still necessary despite the assertion that “an important attribute of sovereignty had passed from England to India, *twenty-five years before independence*”.<sup>79</sup> A.D.D. Gordon argued a similar position saying that the Government of India was influenced by the Home government on the one hand and the fiscal demands of the local business interests on the other, with the government of India increasingly giving in to the latter, 'nurturing' Indian industrialists rather than industrialists of Britain. Subsequent events, it was claimed, were to “illustrate this point” as with the “*granting of independence*” in 1947, manufacturing industry was to grow from “strength to strength”.<sup>80</sup> Evident again is the tendency to see continuity between developments since the First World War and those after independence and the failure to understand the decisive structural break that 1947 represented in the political economy of the colonial situation in India.

While all this is bad economic history it is even worse political history. It goes one step further backwards from the so called “Cambridge School”, which saw Indian nationalism as a '*tamasha*' 'manufactured' by the Indian elite, and argues the early 19<sup>th</sup> century Whig or liberal imperialist position, which saw the role of British rule as gradually training Indians for self-government.<sup>81</sup> It was now the Government of India which was helping to 'manufacture' nationalist opposition! The colonial people are robbed even of their own liberation struggle. With elements of 'sovereignty' already being passed on to India with Government help one is left wondering what the Gandhian mass movement phase of the Indian national movement, between World War I and 1947, costing tens of thousands of lives and involving untold sacrifices by millions, was all about.<sup>82</sup>

Dewey in the same work talks of rival factions within the India Office and the Government of India and again a few pages later sees the two themselves as rival factions. Tirthankar Roy too sees the Secretary of State and the Viceroy representing Imperial and Indian interests with “the balance tilting in favour of India in the twentieth century”. He goes one step further and adds a third layer, that of the provincial Governors “who were concerned with local developmental or welfare related issues”. *op.cit.*, p.247. This third layer of colonial Governance presumably would tilt the balance even further in India's favour.

<sup>79</sup> Dewey in Dewey and Hopkins, ed., *op.cit.*, p.67, emphasis mine.

<sup>80</sup> A.D.D. Gordon, *op.cit.*, pp. 238-241, emphasis mine. See also a critique of Gordon in Aditya Mukherjee, “Business and Politics in Bombay”, *Indian Historical Review*, 9.1-9.2, 1981. B. R. Tomlinson also sees the Government of India balancing the “imperial and domestic commitment” and the former dominated till the First World War and presumably the latter after that. B. R. Tomlinson, *Political Economy of the Raj 1914-47: The Economics of Decolonization in India*, Macmillan, London, 1979, p. 28.

<sup>81</sup> Tomlinson, for example, sees “British rule in India” as having “successfully achieved by 1947” the nineteenth century objective of Elphinstone: “We must not dream of perpetual possession, but must apply ourselves to bring the natives into a state that will admit of their governing themselves in a manner that may be beneficial to our interests as well as their own...” *Ibid.* p.152.

<sup>82</sup> The colonialists would perhaps have little objection to seeing this movement as the 'official' movement of the 'elite' keeping down the real aspirations of the Indian people, a position favoured by the 'Subaltern school.'

## V

In my understanding, there is a completely different explanation for the developments in the twentieth century, particularly between World War I and 1947. Instead of decolonisation, what this period witnessed was not only the continuation of colonial exploitation (though in an altered form) but its blatant intensification in many respects at great cost to the Indian economy and its people.

Britain did not after World War I abandon its most important market for textiles in India, so ruthlessly captured in the 19<sup>th</sup> century, as a result of their now giving in to Indian industrial interests or merely due to Indian nationalist pressure. Britain was forced to concede substantially her imperial *industrial* interest in the colonial market in favour of imperial *financial* interest, i.e., using the colony as a source of capital through unrequited remittance or 'drain'. It was a switch from one imperial interest to another, not a switch from imperial to Indian national interest.

The tussle between the two *imperial* interests had already surfaced by the late 19<sup>th</sup> century when the Government of India was facing some difficulty in raising the revenue necessary for meeting the sterling remittance requirements.<sup>83</sup> The Government of India, unable economically and politically to raise the required revenue from any other source like land revenue, salt tax, etc., was keen to levy some revenue duties on Indian imports (not protective duties) which the Secretary of State under pressure from British textile manufacturing interests was adamant in not allowing. It is important to note that Government of India was not bending to national interest but was only trying to facilitate remittance and 'drain', a critical imperial financial interest. Eventually, in the 1890s the dilemma was resolved, expectedly at India's cost, by levying revenue duties on imports along with countervailing excise duties of the same amount on Indian manufacture of textiles to avoid even a semblance of any protection to Indian industry.

The dilemma of adjusting the two imperial interests, of finance and industry, followed a somewhat different trajectory in the 20<sup>th</sup> century, particularly since 1914. British financial demands on India increased manifold since W.W. I. For example, Home Charges<sup>84</sup> increased from

<sup>83</sup> The Government of India's sterling obligation or remittances were met by utilizing an equivalent amount in Rupee out of the Government's revenues to purchase the necessary hard currency earned by India through her export surplus. Smooth remittance therefore could occur only if the Government of India could generate a *budgetary* surplus equal to the *remittance*, and the export surplus was sufficient to convert the former into the latter. When these conditions did not prevail, the Government was forced to adopt measures such as introducing revenue tariffs, borrowing at home and/or abroad, using up India's currency reserves, altering the Rs./Stg. Exchange rate or resorting to a combination of fiscal and monetary manipulation. More on this later.

<sup>84</sup> The Home Charges were the sterling expenses of Government of India incurred in Britain including cost of maintaining the Secretary of State's office, civil and military charges, interest on public debt and

approximately £ 20 million in 1913-14 to £ 32 million in 1924-25. Military expenditure doubled from £ 5 million to £ 10 million and interest charges on external public debt increased from about £ 6 million to £ 14.3 million between 1913-14 and 1934-5.<sup>85</sup> In 1917 India supplied goods worth £ 100 million without any payment and in 1918 decided to make another gift of £ 45 million to the British war effort.<sup>86</sup> During World War II defence expenditure increased by over nine times, from about Rs. 50 crores in 1939-40 to Rs. 458 crores in 1944. The proportion of the total expenditure of the Central Government accounted for by the Defence Services (an expenditure Tirthankar Roy fully approves) was about 55 per cent in 1920-21 rising to 75 per cent by the end of World War II.<sup>87</sup> Far from decolonizing, retaining India had become even more critical for Britain.

The huge rise in India's sterling 'obligations' or 'commitments' (often used as an euphemism for, if not denial of drain)<sup>88</sup> or the 'external drain' required large increases in the revenues raised by Government of India or the 'internal drain' in order to pay for the external drain. Again, the only possible area where revenue could be increased substantially was customs revenue, which primarily meant import duties. Thus between 1901-5 and 1936-7 while the total revenue raised by Government of India more than doubled, *customs alone met about 72 per cent of the increase* in total revenue. Customs which had overtaken land revenue as the principal source of revenue by 1921-25 was thus critical in the maintenance of the rapidly increasing remittances of the Government of India on account of home charges, military expenditure, etc.<sup>89</sup>

the guaranteed interest on Railway investments, pension and furlough to British civil and military officers, etc. The Home Charges represented to a very large extent what the early nationalists in India correctly described as drain of resources or capital from India.

<sup>85</sup> Rajat Ray, *Industrialization in India*, OUP, Delhi, 1979, pp. 11-13.

<sup>86</sup> A.I. Levkovsky, *Capitalism in India*, PPH, Delhi, 1966, p. 96.

<sup>87</sup> Subramanian and Homfray, *Recent Social and Economic Trends in India*, 1946, pp.15, 72; B.R. Tomlinson, *The Political Economy of the Raj, 1914-1947: The Economics of Decolonization in India*, Macmillan, London, 1979, p.93. The early nationalists focused their critique on the huge defence expenditure incurred by India to meet *British* imperial designs pointing out that India's defence expenditure as a proportion of annual revenue was larger than that spent by advanced and militaristic nations like Britain and Czarist Russia. See Bipan Chandra, *Rise and Growth...op.cit.*, pp. 580 ff. Tirthankar Roy however approves of this expenditure by arguing that the colonial government "spent less on luxuries and more on the *genuine duties* of the state such as defence..." *op.cit.*, p. 273, emphasis mine.

<sup>88</sup> It is, for example, said that "we do not need a conspiracy theory of imperialism" to explain the Government of India's "day-to-day running of its own business" which "in financial terms meant two things only - obtaining adequate revenue to meet its commitments in India and Britain, and securing enough remittance to pay its sterling debts" or obligations. See B. R. Tomlinson, *Political Economy of the Raj 1914-4: The Economics of Decolonization in India*, Macmillan, London, 1979, pp. 25-6. Tirthankar Roy's favoured euphemism was government's "expenditure commitments". *Op.cit.*, p.254. The point, however, is to question the very legitimacy of the 'commitments' or 'obligations' to begin with.

<sup>89</sup> See Thomas, P.J., *The Growth of Federal Finance in India: Being a Survey of India's Public Finances from 1833 to 1939*, London, 1939, pp.500-01 and Aditya Mukherjee, *Imperialism*,

The import duties on cotton goods had gone up from 3.5 per cent in the 1890s to 25 per cent for British cotton goods in 1931. (Duty on non-British, mainly Japanese goods had risen to 75 per cent by 1933). The countervailing excise of 3.5 per cent levied in 1896 however could not be increased in the changed political circumstances with a powerful anti-imperialist mass movement having come up in the meantime. Significantly, this change in scenario was not seen by the British government as the *surrender* of imperial interest, even if that may have been the view of some imperialist scholars. Samuel Hoare, the Secretary of State for India, quite conscious of the crucial role played by import duties in maintaining imperial interests, argued against the Lancashire agitation for removal of cotton duties. Apart from the “disastrous” political consequences such a course of action would produce, he urged that it must be recognized that “the present level of tariff on British cotton goods” was necessary for revenue purposes for “without this revenue India would be unable to discharge its financial obligations in this country and provide for military expenditure.”<sup>90</sup>

Maintenance of remittance from India to Britain at any cost became the centre piece of British economic policy in this period for yet another reason. Britain, having lost its industrial supremacy in the world (first in consumer goods and later in capital goods as well) by the end of the 19<sup>th</sup> century and particularly by the beginning of the 20<sup>th</sup> century, was increasingly emerging as the major financial centre of the world with the pound sterling as its foundation<sup>91</sup> - a position that Britain was able to maintain till W.W.II to a large extent with the aid of India, by manipulating blatantly her currency, exchange and budgetary and financial policy.

It is small wonder, then, that finance was one portfolio the British refused to part with (even in the limited sense of appointing an Indian of *their* choice to the Viceroy's Executive Council) till the very end, i.e., till the formation of the Interim Government in 1946. Several other economic portfolios such as those of commerce, industry, planning and development, and supply were given to Indian members long before that. Even when the colonial Government set up the Reserve Bank of India in 1935, it was barely given any autonomy, with the British government insisting on “the last word” on financial matters. The bank, seen as an *instrument* for safeguarding imperial financial interests, was not to be allowed to be

*Nationalism...op.cit.*, pp.177-180, Tables 6.1 and 6.2.

<sup>90</sup> Samuel Hoare to Kirpatrick, M.P., 3 February 1933, *Secretary of State's Private Office Papers*, L/PO/270, India Office Records (IOR), London. For a detailed discussion on the fiscal policy since W.W.I and maintenance of imperial interest, see Aditya Mukherjee, *Imperialism, Nationalism... , op.cit.*, Chs 5-8 on Tariffs, Trade and Industry from 1916 to 1947, the figures in this para are from p.180.

<sup>91</sup> See E.J. Hobsbawm, *Industry and Empire*, Harmondsworth, 1969, Chapter 7, particularly, pp. 148-153.

misused by Indians who “like a spoilt, willful, naughty child” would instantly want to use it to demand financial responsibility.<sup>92</sup>

An India Office document of December 1930, marked 'secret' and called “The Position of the Secretary of State in Relation to Indian Finance,”<sup>93</sup> brings out clearly some of the reasons for the crucial importance attached to the issue of finance by the British. It was stated that about 60 per cent of the Indian Government's budget, i.e., about £60 million out of £100 million, was absorbed by military expenditure, sterling debt charges and liabilities in respect of salaries and pensions for officials for which the Secretary of State was responsible. Of this, defence expenditure alone absorbed 45 per cent of the central revenues.<sup>94</sup> When such a large proportion of the revenue was earmarked for charges for which the Secretary of State was responsible, it was pointed out that “it is hardly open to doubt that Parliament should retain the power to secure that its obligations are duly honoured”.<sup>95</sup> Since the “revenues from which these commitments must be met are collected in rupees”, and the 'commitments' were in sterling, it was “incumbent” upon the Secretary of State to see “that currency and exchange are being so managed” as to “permit of the remittances of the requisite funds from India to London”. Also, he had to ensure that the revenue and expenditure of the Government of India were balanced.<sup>96</sup> In other words, the Secretary of State needed the “power to *impose* on the Indian Executive such measures as are needed to *provide the funds* and to *facilitate their transfer*... from India to London.”<sup>97</sup> Some decolonization!

Before I go on to outline other aspects of the fiscal and monetary policy

<sup>92</sup> Neville Chamberlain, Chancellor of Exchequer and Samuel Hoare, Secretary of State at a cabinet meeting, Minutes of Meeting of the Cabinet Committee regarding Financial Safeguards, 4 November 1932, *Financial Collection*, L/F/5/191, India Office Records, London. The 'naughty child' statement is Chamberlain's. For a detailed discussion on the Reserve Bank, see Aditya Mukherjee, “Controversy over Formation of Reserve Bank of India, 1927-35”, *EPW*, 27.5, 1 February 1992 and *Imperialism, Nationalism... , op.cit.*, ch. 4, sec. V.

<sup>93</sup> 8 Dec. 1930, *Finance Department (L/F)/5/191*, IOR, London. See also another similar document dated June 17, 1931, signed by R.A. Mont, H. Strakosch, L.J. Kershaw and C.H. Kisch, L/F/5/191, IOR, London.

<sup>94</sup> Basudev Chatterjee citing the June 1931 document says that “the aggregate annual charges under the heads of defence, debt servicing and salaries and pension ... 'would ... absorb three quarters of the total revenues of the Federation’” *op.cit.*, p.21.

<sup>95</sup> ‘The position of the Secretary of State ...’, 8 Dec. 1930, L/F/5/191, *op.cit.*, pp.3, 8. Assurances that the Indian Federal Government would meet these obligations as a first charge on the government budget were clearly not considered enough. The note anticipated and rejected parallels with Australia in this regard that were repeatedly drawn by Indian capitalist and nationalist leaders with the argument, rarely made publicly, that “Australia, however, is a country where the government is of *our own kith and kin*.” *ibid.*, p.9 emphasis mine. Many colonial scholars like Drummond and more recently Niall Ferguson, *op.cit.*, fail to note the critical differences between British presence in USA, Canada, Australia and in colonies like India or West Indies when talking of the British 'empire'.

<sup>96</sup> *Ibid.*, pp.2, 4.

<sup>97</sup> *Ibid.*, p.11, emphasis mine.

followed by Britain in this period to meet its growing imperial *financial* interests, it must be noted that the rising tariffs did not mean that Britain was ready to withdraw from trying to maintain its *industrial* interest in the colonial market, i.e., decolonize even in this limited sense. While it is true that British exports to India were shrinking rapidly since W.W.I, (except in chemicals where they increased) India still remained, as late as 1938, the *largest* single market for British exports of cotton piece-goods as it did for general machinery and other items.<sup>98</sup> The Indian market though shrinking was thus far from redundant, on the contrary its importance *increased* as British share in world trade kept declining. Basudev Chatterjee has ably demonstrated how Lancashire was desperate to hang on to the Indian market and Britain tried to ensure that it did, as much as the new circumstances would permit.<sup>99</sup> By introducing the principle of Imperial Preference at Ottawa and through the various trade agreements of the 1930s Britain was making a last ditch effort to retain as much of the Indian market as was possible at a time when Britain was no longer able to compete effectively with other countries in various commodities, such as Japan in cotton textiles. There were however limits to how much imperial preference could be given to British goods as it could lead to retaliation by other countries, which in turn would affect Indian exports. This could not be permitted as India had to generate an export surplus at any cost so that the smooth flow of remittance to Britain could be sustained as imperial financial interests would not countenance any interruption in that process.<sup>100</sup>

It is to ensure that India remained a constant source of capital to Britain through remittances, during a period when Britain just flitted from one crisis to the other (especially the two world wars and the depression), that the most gross use of imperial authority was made to turn the instruments of economic policy in her favour and against Indian interest.

To the great agitation of Indian nationalist opinion, the colonial government, in order to “manage” the currency and exchange in such a manner that the process of raising revenue in India and its remittance to Britain remained undisturbed, constantly followed a deflationary policy in India, including by severely contracting the currency in circulation, in order to push up the exchange value of the Rupee which it tried to keep at 1s. 6d. by virtual decree. A fiscal and monetary deflationary policy including severe cuts in Government capital expenditure was followed even during the Depression years, severely aggravating its negative consequences.<sup>101</sup>

<sup>98</sup> Tomlinson, *op.cit.*, P.46

<sup>99</sup> *Trade, Tariffs and Empire: Lancashire and British Policy in India 1919-1939*, OUP, Delhi, 1992.

<sup>100</sup> See Aditya Mukherjee, *Imperialism, Nationalism...*, *op.cit.*, Chs 5-7 on Tariffs, Trade and Industry from 1916 to 1939 for a detailed discussion of the various trade agreements in the inter-war period

<sup>101</sup> See Aditya Mukherjee, “The Currency Question in Colonial India”, *Yojana*, Vol. 51, Special Issue, August 2007, Aditya Mukherjee, “The Depression Years: Indian Capitalists’ Critique of British

With the onset of the Great Depression, the situation in India changed drastically. World prices, especially those of primary produce, plummeted and India's export earnings collapsed. With agricultural prices being so low, the Government was unable to collect full revenue.<sup>102</sup> Also, with the fall in export earnings, there was great difficulty in securing remittance to meet India's sterling obligations or the Home Charges.<sup>103</sup> With both revenue and remittance in jeopardy, the colonial Government was in the throes of a major financial crisis. Under continuous pressure from London,<sup>104</sup> the Government of India sought to ease remittance by resorting to severe deflation, contracting currency repeatedly, causing havoc in the Indian economy, especially in the money market.

A total breakdown of the remittance mechanism was averted by the massive export of gold from India that the government encouraged in this period. The gold exports were crucial in compensating for the drastic drop in India's export surplus on commodity transactions.<sup>105</sup> Between 1931-32 and 1938-39, on an average, more than half (about 55 per cent) of the total visible (positive) balance of trade (i.e. balance of transactions in merchandise and treasure) was met through the net exports of treasure, with the exports of gold increasing sharply in years when the commodity balance of trade was particularly low. For example, in 1932-33, *gold exports constituted about 95 per cent of the total visible positive balance of trade.*<sup>106</sup> Clearly remittance had to be maintained at all costs, if the export surplus in commodities (necessary to convert the rupee revenues into remittance) fell short it was made up through export of gold.

Apart from the role of gold exports in India's maintaining a smooth flow of remittance of the 'sterling obligations' or the Home Charges, as well as, the other invisibles such as profits, dividends and interests earned on

Monetary and Financial Policy in India, 1929-39”, in Amiya Kumar Bagchi, ed., *Money and Credit in Indian History: From Early Medieval Times, Tulika, 2002* and *Imperialism, Nationalism...op.cit.*, chs. 3-4 on Finance and Monetary Policy 1926-39, for a detailed discussion of British policy and Indian response on this question. Much of the advantage that Indian industry got due to the rise in tariffs in this period was smothered by the deflationary fiscal and monetary policy of the government. See, Bagchi, *Private Investment...op.cit.*, p.66.

<sup>102</sup> Schuster, Finance Member to Irwin, Viceroy, 1 June 1931, *Private Office Papers*, (L/PO)/269, IOR, London.

<sup>103</sup> *Ibid.*

<sup>104</sup> George Schuster, the Finance Member, wrote to Irwin on 1 June 1931: “We have been getting the usual telegrams from London trying to force us to contract, contract, contract and put up the bank rate in their own words ‘to create a money famine’, which will make it impossible for people here to get rupees to sell for sterling. They say if you only do that you will get remittance”. *L/PO/269*, IOR, London.

<sup>105</sup> See A.K. Bannerji, *India's Balance of Payments*, Bombay, 1963, pp.22,27. Subramanian and Homfray, *Recent Social and Economic Trends in India*, 1946, pp.45-46 and G.D. Birla, *Indian Currency...*, p.17.

<sup>106</sup> The above figures have been computed from Subramanian and Homfray, *op. cit.*, Table XII, pp.45-46. C.B. Mehta of Bombay Bullion Exchange, cites similar figures for 1931 to 1938, Federation of

foreign investments, it played another critical role for British interests at home. At a time when Britain was facing a balance of payment crisis it played a major part in strengthening the value of sterling vis-à-vis gold and other currencies.<sup>107</sup>

It was small wonder then that the gold export from India was one issue on which the British home government remained very firm, though many countries including Britain were following an opposite strategy themselves. It appears that the Governor of the Reserve Bank of India, Osborne Smith, had to resign partially because of his taking a position on this question which was far too independent of the India Office and the Finance Department. He took a position similar to the nationalist demand for devaluation of the rupee to prevent outflow of hoarded gold from India.<sup>108</sup>

However the blatant and cynical manner in which Britain used Indian finances for its own benefit during the Second World War was breathtaking in its audacity. It puts paid to any notion of imperialism withdrawing or decolonisation having occurred till the bitter end of colonial rule. Britain took massive forced loans from India (popularly called the Sterling Balance) of about Rs.17,000 million (estimated at seventeen times the annual revenue of the Government of India and one-fifth of Britain's gross national product in 1947)<sup>109</sup> at a time when over three million Indians died of famine!

The Sterling Balances got accumulated as a result of the “large purchases of goods and services...made by the British Government, in India”, against sterling bills or securities placed in reserve in London. For these large exports of goods and services, India, thus, received no “tangible quid pro quo” other than “I.O.U.s of His Majesty's Government”.<sup>110</sup> The procedure was similar to that adopted during World War I the Reserve Bank of India expanded currency or issued notes against its sterling holdings held

Indian Chambers of Commerce and Industry, *Annual Report*, (hereafter FICCI, A.R.,) 1938, pp.46-50. See also Kasturbhai Lalbhai, President, FICCI, A.R., 1935, p.6.

<sup>107</sup> See G. Balachandran, *John Bullion's Empire: Britain's Gold Problem and India Between the Wars*, Richmond, 1996, particularly pp. 178 ff.; D. Rothermund, *India in the Great Depression, 1929-39*, Manohar, Delhi, 1992; Walchand Hirachand, President, FICCI, A.R., 1933, p.5; C.B. Mehta and M.R. Parikh, FICCI, A.R., 1933, p.423; N.R. Sarkar, 5 Feb. 1932, *Purshotamdas Thakurdas Papers*, (PT Papers), press clippings, fl.11, NMML, and Purshotamdas, 5 May 1934, *PT Papers*, fl.76.

<sup>108</sup> L/PO/321, IOR. For a detailed account of the unusually strong difference (expressed not quite with the celebrated British gentlemanly understatement) between Osborne Smith and the Government of India, especially the Finance Member, James Grigg, where Smith ended up calling the Viceroy a “weak ass, terrified of failure” and Grigg “a liar, undercover slanderer and mongrel...a dirty scurrilous swine”, etc., see exchange of telegrams between the Secretary of State and the Viceroy, Sept.-Oct. 1936, L/PO/321 and Osborne Smith to Purshotamdas, 16 Nov. and 24 Oct. 1936, *PT Papers*, fl.105.

<sup>109</sup> B.R. Tomlinson, *Political Economy...*, p.140.

<sup>110</sup> G.D. Birla, *Indian Currency in Retrospect*, Allahabad, 1944, pp.18-21. See also, conclusions of War Cabinet meeting, 27 July 1943, L/PO/325, IOR, London.

in reserve in London to pay for the British war purchases in India.<sup>111</sup> The rapid expansion of currency that occurred as a result (the total notes issued increased by nearly four times between 1939 and 1944) combined with the fact that large quantities of goods and services were made available to England for which no goods or services came back to India in return, led to severe shortages and a runaway inflation.<sup>112</sup> What was shocking was that this policy could be pursued at a time when famine conditions prevailed in India. To cap it all, after the War was over, Britain made a serious bid towards defaulting on repayment of the loans raised at such tremendous cost to India.<sup>113</sup>

The Second World War also saw British colonialism deny India yet another opportunity to make an industrial breakthrough an opportunity seized by the 'White' colonies. Indian entrepreneurs, who had already in the inter-war years shattered the bogey of India facing a lack of capital or entrepreneurship, or of Indian capital being 'shy' and unwilling to take risks, by growing rapidly, much faster than foreign capital in India and venturing into new areas,<sup>114</sup> were poised for a major industrial push during the Second World War. The persistent efforts of Indian entrepreneurs to enter frontier areas of industry in India such as automobile, aircraft and locomotive manufacture, shipbuilding, manufacture of armaments, engineering goods, machine tools, etc., were smothered by the colonial state using fiscal, monetary and other instruments of state policy such as the 'Capital Issues Control', all in the name of the “War effort,” but in actuality in deference to imperial interests and even the interest of the white colonies.<sup>115</sup>

<sup>111</sup> Secretary of State, L.S. Amery, Secret Note on Economic Situation in India, 11 Aug. 1943, *War Staff Papers* (L/WS), 1/581, IOR, London and War Cabinet Note on Indian Sterling Balances, 1 Aug. 1942, L/PO/325, IOR, London.

<sup>112</sup> See L.S. Amery, Note on Economic Situation in India, 11 Aug., 1943, L/WS/1/581, IOR. *The Eastern Economist* (EE) criticized the Government of India for using the RBI to finance British expenditures without raising corresponding funds, e.g., by issuing rupee loans, but by simply issuing notes against sterling in England. This, the journal argued, was the worst form of inflationary finance, and the sterling credits represented the involuntary, forced savings inflicted on the Indian people, 26 Nov. 1943, p.981.

<sup>113</sup> For a full discussion of this issue see Aditya Mukherjee, *Indo-British Finance: The Controversy over India's Sterling Balances, 1939-1947*, *Studies in History*, 6.2, new series, 1990 and Aditya Mukherjee, *Imperialism, Nationalism...op.cit.*, ch.5

<sup>114</sup> See section III above. In fact, one of the crucial problems faced by the Indian capitalists was the “realization problem” - it was not shortage of resources but how to create conditions for converting the available resources into productive investment which bothered them. One may perhaps show a linkage between the more belligerent phases of Indian capitalists vis-à-vis the colonial government and their unrealized accumulations. See Aditya Mukherjee, *Imperialism, Nationalism...op.cit.* particularly ch.9.

<sup>115</sup> I have dealt with this at some length in *Ibid.*



## VI

To return to the question of the positive 'non-colonial' type of developments since W.W. I listed in section III, clearly they were not the result of any process of decolonization because, as I argue above, there was no such process occurring. Neither were these developments the *result* of colonialism itself. They were the product of space *wrenched* from it. As I have argued earlier<sup>116</sup> it is easily demonstrable that all the developments listed above, occurred (to list some of the causes) either (a) as a result of the *struggle*, political and economic, against imperialism, whether through the national movement, legislative assemblies, business chambers or directly by entrepreneurs, as most demonstrably in the case of shipping,<sup>117</sup> or (b) when the grip of imperialism weakened or loosened due to world factors autonomous of the logic of the colonial system in the colony, such as the World Wars and the Great Depression,<sup>118</sup> or (c) when the principal metropolis Britain, lost out in competition to other metropolitan centres and preferred to permit indigenous enterprise in the colony to grow rather than allow other foreign powers to capture the colonial market, e.g., protection to cotton, iron and steel, matches and sugar was related respectively, to competition from Japan, Belgium and Germany, Sweden, and Java, a Dutch colony,<sup>119</sup> or (d) due to the inner contradictions of colonialism itself, e.g., the increasing need for revenue from the colony to meet imperial financial interests could no more be met from a by now stagnating or even declining agriculture but had to be met through revenue tariffs on imports, which provided indigenous manufacture certain amount of protection against imperial industrial interests.<sup>120</sup> In other words, the specific non-colonial type of developments in the 20<sup>th</sup> century occurred *not as a result of colonialism but in spite of or in opposition to it*.

The very limited growth of the positive, non-colonial developments was occurring in an embryonic form in the hostile womb of colonialism whose continuation was making the birth of capitalism in India more and more difficult. The structural distortions created by colonialism made the future transition to self-sustained growth much more difficult. It required

<sup>116</sup> See f.n. 39 above

<sup>117</sup> There was a direct correlation between surges in the Indian national movement and economic concessions conceded by the colonial state. I have in great detail documented the efforts collectively as well as individually of Indian business to resist the 'collective monopoly' of British capital and weak concessions from the colonial state in my *Imperialism, Nationalism...op.cit.* See also Bagchi, *Private Investment...op.cit.*, Ch.6.

<sup>118</sup> Bipan Chandra has documented how the spurts of growth experienced by Indian industry in this period was a result of the "loosening of the link" with colonialism during the two wars and the Great depression in *Colonialism and Modernisation, op.cit.*

<sup>119</sup> See the classic study by B. P. Adarkar, *The Indian Fiscal Policy*, Allahabad, 1941, pp.468-73 and my *Imperialism, Nationalism...op.cit.*, Ch.6.

<sup>120</sup> As discussed in section V above. Also see *Ibid.*

the overthrow of colonialism, and the 'un-structuring' of the colonial structure for India to start its attempt to build independent capitalism after colonialism for nearly two hundred years ravaged its economy and society and deprived it of the opportunity of participating in the process of modern industrial transformation occurring in other parts of the world. Despite the post W.W.I positive developments the Indian economy till 1947 remained essentially backward and structurally colonial. The Indian economy at independence was still basically dependent on a stagnating, low productivity, 'semi-feudal' agriculture with modern industry (in 1950) contributing a mere 6 to 8 per cent of the national income and (in 1951) employing 2.3 per cent of the labour force (in 1946).<sup>121</sup>

What India inherited after two hundred years of colonial 'benevolence', which allegedly gave India the 'advantages' of 'commercialization', 'exposure to the world market', 'transport and communication', 'a strong state', 'western scientific skills', etc., benefits that Tirthankar Roy could hardly stop listing, was a very sorry state of affairs indeed.

As Angus Maddison's monumental work shows, India was the largest economy of the world for the entire thousand years of the first millennium accounting for close to 30 per cent of the world's GDP. Till as late as the beginning of the 18<sup>th</sup> century India's was still the largest economy with about 25 per cent of the world's GDP, more than *eight times* that of the United Kingdom. The decline started soon after and at the end of nearly two hundred years of colonial rule (during which Tirthankar Roy claims "colonial India experienced positive economic growth")<sup>122</sup> India's share had been reduced to a mere 4.2 per cent in 1950. It was a few decades before India could sufficiently shrug off the colonial legacy and begin to gradually claw her way back into improving her share of the global pie.<sup>123</sup>

The impact of colonialism in human terms was traumatic and all too visible. At independence the *average* life expectancy was barely 30 years. The poor obviously died much younger. India was faced with acute food shortages creating near famine conditions repeatedly in different areas. The Bengal famine of 1943, just four years before the British left, claimed more than *three million* lives.<sup>124</sup> (A great tragedy which Tirthankar Roy

<sup>121</sup> Raymond W. Goldsmith, *The Financial Development of India: 1860-1977*, Yale University Press, New Haven, 1983, p.68 and Bipan Chandra, "Colonial Legacy", in Bimal Jalan, ed., *The Indian Economy: Problems and Prospects*, New Delhi, 1992, pp. 8-9.

<sup>122</sup> Tirthankar Roy, *op.cit.*, p.14.

<sup>123</sup> Angus Maddison, *The World Economy: Vol. I A Millennial Perspective, Vol. II Historical Statistics*, OECD, 2006, Indian Edition, New Delhi, 2007, table 8b, p. 641.

<sup>124</sup> See Amartya Sen, *Poverty and Famines: An Essay on Entitlements and Deprivation*, OUP, Delhi, 1982, Appendix D, pp.195-216 for a comprehensive exercise in estimation of famine deaths during the Bengal famine. While the Famine Inquiry Commission put it at 1.5 million Sen convincingly argues why the figure is closer to around 3 million. See also, Paul Greenough, *Prosperity and Misery in Modern Bengal: The Famine of 1943-44*, New York, 1982, where he argues a higher figure, and Rakesh Batabyal,

predictably underplays, putting the famine deaths only at “some half a million”, a figure much lower than even the official famine Inquiry Commission and other government estimates.)<sup>125</sup> Between 1946-53 about 14 million tons of food grains worth Rs.10,000 million had to be imported, seriously affecting India's planned development after independence. In 1951, 84 percent of the people (92 percent women) were illiterate. The legacy of colonialism which Tirthankar Roy misjudged so completely<sup>126</sup> was anticipated by the poet Rabindranath Tagore, shortly before his death in 1941, in his inimitable way:<sup>127</sup>

The wheels of fate will some day compel the English to give up their Indian Empire. What kind of India will they leave behind, what stark misery? When the stream of their centuries' administration runs dry at last, what a waste of mud and filth will they leave behind them.

## VII

The growth that India witnessed *after* independence was not all about carrying on the 'good' work started during colonialism. It was a product of a structural break painstakingly crafted through a multi pronged planned effort - an unique effort of trying to industrialize and build capitalism with democracy and civil liberties. Jawaharlal Nehru and other leaders were deeply aware that India was experimenting with a hitherto uncharted path as none of the industrialized countries of the world had democracy and civil liberties during the initial period of transition to capitalism and industrialization. I have evaluated elsewhere the nature of this stupendous effort since independence.<sup>128</sup> I will only outline here a brief comparison of some of the features of the colonial period, especially the period of so called decolonisation and positive growth since World War I with those of the period after independence. This may help underline the enormity of the break required, and to a considerable extent achieved.

The growth of per capita income in India in the colonial period was either zero or very low, remaining way below that of the independent countries of Europe, USA and Japan between 1820 and 1913. See table 2. In the last decades of colonial rule after colonialism had its full impact, the per capita income in India actually *declined* at an annual rate of -0.22 per cent

*Communalism in Bengal: From Famine to Noakhali, 1943-47*, Sage, New Delhi, 2005.

<sup>125</sup> See Tirthankar Roy, *op.cit.*, p. 257 and f.n. 124 above.

<sup>126</sup> See f.n. 38.

<sup>127</sup> Quoted in Bipan Chandra, Mridula Mukherjee, Aditya Mukherjee, *India After Independence*, *op.cit.*, p.19.

<sup>128</sup> *Ibid.*, Aditya Mukherjee and Mridula Mukherjee, “Imperialism and the Growth of Indian Capitalism in the Twentieth Century”, *Economic and Political Weekly*, XXIII, II, 12 March 1988, Also reprinted in Ghanshyam Shah, ed., *Capitalist Development: Critical Essays*, Bombay, 1990 and Bipan Chandra, Mridula Mukherjee and Aditya Mukherjee, *India After Independence*, *op.cit.*, chs. 25-31. See also Bipan Chandra, “Aspects of the Transformation Period of the Modern and Contemporary World”, *Hitotsubashi Journal of Social Studies*, XXI, 1, August 1989.

between 1913- 1950.<sup>129</sup> After independence, on the other hand, it grew at 1.4 per cent in the first couple of decades (about 3 times faster than the *best* phase, 1870-1913, under colonialism) and much faster at 3.01 per cent in the next 30 years, 1973-2001 (a rate considerably higher than that achieved by West Europe,<sup>130</sup> USA or Japan) and in the last four years (2003-4 to 2006-7) at an astounding 7 per cent (it was over 8 per cent in 2006-7) comparable to the explosive rates achieved by Japan (though in very special circumstances) between 1950-73.<sup>131</sup>

**TABLE 2**

**Rate of Growth of per capita GDP**  
(Annual average compound growth rates)

	(1)	(2)	(3)	(4)	(5)	(6)
	1820-70	1870-1913	1913-1950	1950-73	1973-2001	2001-2007
France	1.01	1.45	1.12	4.04	1.71	
UK	1.26	1.01	0.93	2.42	1.86	
USA	1.34	1.82	1.61	2.45	1.86	
Japan	0.19	1.48	0.88	8.06	2.14	
India	0.00	0.54	-0.22	1.40	3.01	5.65*

\* per capita net national product

Source: Column 1 to 5 from Angus Maddison, *op. cit.*, Table 8b, p. 643. Column 6 is based on *Economic Survey, 2006-07*, Government of India, New Delhi 2007, and Aditya Mukherjee, “Indian Economy in the New Millennium,” in Bipan Chandra, Mridula Mukherjee and Aditya Mukherjee, *India Since Independence*, Penguin, Delhi, forthcoming, 2008.

Similarly, the colonial period saw a process of de-industrialisation where traditional industry was largely destroyed and modern industry grew very slowly. Despite the growth of modern industry since W.W. I, at about 3.8 per cent per annum, it contributed a mere 6 to 8 per cent of the national product in 1950, having started from an extremely low level of 4 per cent of national product in 1913.<sup>132</sup> Moreover, modern industry was yet dominated

<sup>129</sup> The figures are all from Table 2 which is based on Angus Maddison, *op.cit.*, P. 643 except where indicated. Sivasubramonian and Heston's estimates show an annual growth rate of per capita income between 1914 to 1946 which is somewhat higher at 0.26 and 0.13 respectively but nevertheless prove our point reflecting the sharp contrast between before and after independence. M. Mukherjee's estimates of income growth are much lower than even Maddison's. See Goldsmith, *op.cit.*, Table 1.2, p.4.

<sup>130</sup> West Europe as a whole grew at 1.88 per cent between 1973-2001. Maddison, *op.cit.*, p. 643.

<sup>131</sup> Figures for 2001-2007 are based on *Economic Survey, 2006-07*, Government of India, New Delhi 2007, Table 1.2, S-4, and Aditya Mukherjee, “Indian Economy in the New Millennium,” in Bipan Chandra, Mridula Mukherjee and Aditya Mukherjee, *India Since Independence*, Penguin, Delhi, forthcoming, 2008. I have taken the per capita income growth rate for 2006-7 at a conservative 8 per cent. S. Sivasubramonian's comprehensive and detailed study confirms the sharp break in aggregate growth rates as well as in different sectors of the economy between 1900-1947 and 1947-2000. See, e.g., S. Sivasubramonian, *The National Income of India in the Twentieth Century*, OUP, New Delhi, 2000, Table 9.35, Fig. 9.5, pp. 622-28.

<sup>132</sup> Goldsmith, *op.cit.*, p.68 and Bipan Chandra, *Colonial Legacy... op.cit.*, p. 8-9.

by consumer goods industry with a near total and debilitating dependence on the advanced countries for capital goods and technology. Contrast this with the period after independence. Industry during the first three plans (1951-65) grew at 7.1 per cent per annum. More important “the *three-fold* increase in aggregate index of industrial production between 1951 and 1969 was the result of a 70 per cent increase in consumer good industries, a *quadrupling* of the intermediate goods production and a *ten-fold* increase in the output of capital goods.”<sup>133</sup> This pattern of industrial development led to a structural transformation of the colonial legacy. From a situation where to make any capital investment, virtually the entire equipment had to be imported (in 1950, India met nearly 90 per cent of its needs of even machine tools through imports) the share of imported equipment in the total fixed investment in the form of equipment in India had come down to 43 per cent in 1960 and a mere 9 per cent in 1974, whereas the value of the fixed investment in India increased by about two and a half times over this period (1960-74).<sup>134</sup> This was a major achievement, and it considerably increased India's autonomy from the advanced countries in determining her own rate of capital accumulation or growth.

Agriculture, the largest sector of the Indian economy, was in a state of ruin under colonialism. Per-capita agricultural output actually *fell* at the rate of 0.72 per cent per year during 1911-1941. Per-capita food grains output fell even more sharply by 1.14 per cent per year, a 29 per cent fall over the period.<sup>135</sup> All crop *yields* per acre declined by 0.01 per cent per year between 1891 -1946 and again food grain yields declined more rapidly by 0.18 per cent, and even more sharply by 0.44 per cent per year between 1921-46.<sup>136</sup> No wonder the food shortages and famine conditions mentioned above. After independence, a combination of institutional changes (land reforms) and massive state sponsored technological change transformed this situation.<sup>137</sup> During the first three plans (leaving out 1965-66, a drought year), Indian agriculture grew at an annual rate of over 3 per cent, a growth rate more than *eight times faster* than the annual growth rate of 0.37 per cent achieved during the half a century (1891-1946) of the last phase of

<sup>133</sup> A. Vaidyanathan, “The Indian Economy Since Independence (1947-70), in Dharma Kumar, ed., *The Cambridge Economic History of India*, Vol. II, Delhi, 1983, p. 961, emphasis mine.

<sup>134</sup> See Aditya Mukherjee, “Planned Development in India 1947-65: The Nehruvian Legacy” in Shigeru Akita, ed., *South Asia in the 20<sup>th</sup> Century International Relations*, Tokyo, 2000 also in Bipan Chandra, Mridula Mukherjee, Aditya Mukherjee, *India After Independence*, op.cit., ch.25. These figures are from an extremely persuasive piece by Vijay Kelkar, “India and the World Economy: A Search for Self Reliance”, Paper read at Seminar on Jawaharlal Nehru and Planned Development, New Delhi, 1980.

<sup>135</sup> George Blyn, *Agricultural Trends in India, 1891-1947: Output, Availability, and Productivity*, Philadelphia, 1966, p.123 and p.102. See also Goldsmith, op.cit., p.68.

<sup>136</sup> *Ibid.*, table 7.1, p.151, table 5a, p.327 and pp.83-5 for an explanation of how Blyn uses ten 'reference decades' for his analysis. See also S. Sivasubramonian, op.cit.

<sup>137</sup> See my chapters on Land Reforms and the Green Revolution in Bipan Chandra, Mridula Mukherjee, Aditya Mukherjee, *India After Independence*, op.cit.,

colonialism in India.<sup>138</sup> The Green Revolution in the late 1960s maintained a rate of growth ranging from about 2.5 to 3.5 per cent (primarily through increases in yield) till the mid 1990s.<sup>139</sup> The Green Revolution areas like Punjab and Haryana did not have any *continuities* with trends in the colonial period as Tirthankar Roy, for example, argues.<sup>140</sup> Haryana was largely an extremely backward area in colonial times and even Punjab showed meager growth rates in terms of all-crop yields per acre of 0.36 per cent per annum between 1901-1941 by one estimate and of only 0.06 per cent between 1906-7 and 1941-42 by another. The highest increases in yield seen in Punjab were in non-food crops of an average of 1 per cent per annum between 1891-1951.<sup>141</sup> In contrast the value productivity of eleven major crops in Punjab increased between 1950-51 and 1969-70 by 255 per cent, i.e., an average annual increase of more than 12.5 per cent.<sup>142</sup> The huge productivity difference certainly signifies a *structural* break.

**Table 3**

Gross Domestic Capital Formation (GDCF) as percentage of GDP, Public Expenditure at Current Prices and Public Expenditure as Percentage of GDP 1901-2006 (All figures are annual averages)

	GDCF as % of GDP	Public Expenditure Rs. Crore (current prices)	Share of Public Expenditure in GDCF as % of GDP
1901-1913	6.92*	75.4 (1925-30)#	
1914-1946	6.75*	41.7 (1930-38)#	
1950-1955	9.04	331.8	3.14
1955-1960	13.3	769.6	5.62
1960-1970	14.66	1912.1	6.96
1970-1980	17.63	8003.4	8.19
1980-1990	21.23	26416.9	9.98
2004-2006	32.65		

Source: Computed from *Economic Survey 2006-07*, Government of India, New Delhi, 2007, Tables 1.4 and 1.5, S-6 to S-9.

\* Goldsmith, op.cit., Table 1-10, p.20 and Table 2-9, p.80.

# Computed from Rajat K. Ray, *Industrialisation in India*, OUP, Delhi, 1979, Table 40, p.257.

<sup>138</sup> See Blyn, op.cit., Table 5.8, p. 119, K. N. Raj, *Indian Economic Growth: Performance and Prospects*, New Delhi, 1965 for the pre and post independence figures respectively. See also my chapter on “The Indian Economy, 1947-65: The Nehruvian Legacy” in *India After Independence*, op.cit.

<sup>139</sup> See my chapter “Agricultural Growth and the Green Revolution” in Bipan Chandra, Mridula Mukherjee, Aditya Mukherjee, *India After Independence*, op.cit.,

<sup>140</sup> Tirthankar Roy, op.cit., ch.3, e.g., P.51.

<sup>141</sup> See Mridula Mukherjee, *Colonialising Agriculture: The Myth of Punjab Exceptionalism*, Sage, New Delhi, 2006, pp.157-61, the first estimate is computed from Blyn and the second is of John Lindauer and Sarjit Singh.

<sup>142</sup> Mridula Mukherjee, *Ibid.*, P.162.

The rate of capital formation, the key to economic development, occurred at a very slow pace during the colonial period. India was in fact losing to Britain as drain or tribute an equal proportion, if not more, of what was invested in India. The drain has been variously calculated to be between 5 to 10 per cent of her national income.<sup>143</sup> The average annual rate of capital formation between 1901 to 1913 was 6.92 per cent of GDP, falling to 6.75 per cent between 1914-46 (see Table 3). Public expenditure, an important engine of capital formation in backward countries, declined sharply from Rs. 75.4 crores annually during 1925-1930 to Rs. 41.7 crores during the Depression years 1930-38, when the opposite needed to be done. The massive cut in government expenditure along with other deflationary fiscal and monetary policies greatly exacerbated the negative effects of the Depression on the Indian economy.

The contrast between the colonial and the post independence scenario is evident. While public expenditure was low and *declining* during the last decades of colonial rule<sup>144</sup> the initial forty years of independence (1950-1990) saw it rise by more than three times (see Table 3, column 2 and 3). Similarly, while the last fifty years or so of colonial rule (1901-1946) saw the gross capital formation in the economy hover around 6 to 7 per cent of GDP annually, the first fifty years after independence saw the rate of capital formation rise consistently and sharply, ending up at a rate of 33.8 per cent in 2005-06 about *five times* the colonial rate.<sup>145</sup>

There was also a rapid *per capita* increase in the availability of some of the infrastructural and social benefits as they grew several times faster than the population immediately after independence. In 1965-66, as compared to 1950-51, installed capacity of electricity was 4.5 times higher, number of town and villages electrified was 14 times higher, hospital beds 2.5 times higher, enrollment in schools was a little less than 3 times higher and very importantly admission capacity in technical education (engineering and technology) at the degree and diploma levels was higher by 6 and 8.5 times, respectively. This when population increased only by 37.3 per cent over the period.<sup>146</sup>

Also, Jawaharlal Nehru and the early Indian planners were acutely aware of India's backwardness in science and technology (an area left

<sup>143</sup> See for example Irfan Habib, "Colonization of the Indian Economy 1757-1900", in *Essays in Indian History*, *op.cit.* pp. 304-5 and Bipan Chandra, chapter on "The Colonial Legacy" in Bipan Chandra, Mridula Mukherjee, Aditya Mukherjee, *India After Independence*, p.10. See also f.n. 19 above for other estimates of the drain.

<sup>144</sup> Increase in expenditure during the Second World War was due to British War needs and not capital expenditure promoting development in India.

<sup>145</sup> See Table 3, column 1 and *Economic Survey 2006-0*, *op.cit.*, I Table 1.5, S-9.

<sup>146</sup> Calculated from Jagdish Bhagwati and Padma Desai, *India Planning for Industrialisation*, London, 1970, p.74.

consciously barren in the colonial period) and therefore made massive efforts to overcome this shortcoming. An unprecedented increase occurred in the educational opportunities in science and technology in the universities and institutes. National expenditure on scientific research and development kept growing rapidly with each plan. For example, it increased from Rs. 10 million in 1949 to Rs. 4.5 billion in 1977. Over roughly the same period the stock of India's scientific and technical manpower increased more than 12 times from 190 thousand to 2.32 million. A spectacular growth by any standards, a growth whose benefits India reaps today as the world moves towards a 'knowledge' society.<sup>147</sup>

The quantum jump in investments, growth rates, improvements in health, education etc., listed above did not occur because of any dramatic change in India's "climatic risks," "resource endowments," "hunger for gold," or tendency to "have sumptuous marriage feasts," some of the causes listed by Tirthankar Roy for the Indian economy stagnating in the colonial period.<sup>148</sup> They occurred because of the concerted effort to break away from the disabilities created by the colonial structure.

However despite the paradigmatic change since independence India is still faced with intolerable levels of poverty and backwardness.<sup>149</sup> Undoing the ravages of nearly two hundred years of colonialism was never going to be an easy task. What is certain, however, is that the answers to the future challenges would not lie in building on the continuities with colonialism but on the breaks.

<sup>147</sup> See Aditya Mukherjee, "Indian Economy, 1947-65: The Nehruvian Legacy", in Bipan Chandra, Mridula Mukherjee and Aditya Mukherjee, *India After Independence*, *op. cit.*, p. 349.

<sup>148</sup> See f.n. 38 above.

<sup>149</sup> See Aditya Mukherjee, "Indian Economy in the New Millennium", in Bipan Chandra, Mridula Mukherjee and Aditya Mukherjee, *India Since Independence*, Penguin, New Delhi, forthcoming, 2008 where I have highlighted the spectacular growth along with the immense human development challenges.