Private Investment in India 1900–1939

Amiya Kumar Bagchi

Book DOI: http://dx.doi.org/10.1017/CBO9780511563218

Online ISBN: 9780511563218

Hardback ISBN: 9780521076418

Paperback ISBN: 9780521058926

Chapter

14 - British imperial policy and the spread of modern industry in Indi

a pp. 420-444

Chapter DOI: http://dx.doi.org/10.1017/CBO9780511563218.015

Cambridge University Press

14

BRITISH IMPERIAL POLICY AND THE SPREAD OF MODERN INDUSTRY IN INDIA

14.1 PRIORITIES OF THE IMPERIAL ORDER

India was the richest prize of the era of colonialism and the British held on to her well beyond the age of imperialism, in which Britain ceased effectively to be the leader of world capitalism. India occupied a special position in the British imperial order, and much of Britain's long-term policy with regard to India in the period covered in this book can be explained in terms of an effort to keep her in such a position. Up to 1914, India formed the biggest single foreign market for traditional British exports – particularly for cotton textiles, but to a lesser extent for engineering goods; India's exports to hard currency areas provided the critical balancing item in the current balance of payments of the British Empire and more particularly, of Britain, with the rest of the world;[1] the payments for 'home charges', the profits on capital accumulated in India by British nationals and the payments for the financing and transport of Indian exports and imports served as the mechanism for the transfer of the surplus from India to Britain. India was useful less as a field for the reinvestment of profits made by British nationals elsewhere than as the dependable source from which part of the needed surplus for maintaining the British-controlled gold standard and the political apparatus of *Pax Britannica* was derived.

This special position of India was maintained by a policy of exclusiveness which has often escaped the notice of economic historians marvelling at the policy of free trade pursued by Britain in India. As Maurice Dobb has noticed, 'the aphorism that "Trade Follows the Flag" embodies the essential truth that a significant aspect of the rôle of colonies in international economics is that they constitute in large part "private markets" for the interests of the national group which controls them, even where the policy of the "Open Door" prevails'.[2] Exports by other manufacturing nations to India were discouraged by government policy; government patronage was extended almost exclusively to British manufacturers alone; imports of non-British manufacturers were probably even more effectively discouraged by

[1] See Chapter 2 above and the references to A. E. Kahn's book in the later sections of this chapter.

[2] Maurice Dobb: *Political Economy and Capitalism: some Essays in Economic Tradition* (London, 1940), Chapter VII, p. 240.

the prevailing ethos. Most of the British civil servants, bankers, and merchants were convinced of the superiority of British goods over others.

In order to preserve India's usefulness as a source of scarce foreign currency for the British Empire and lend credence to the professed policy of free trade, India, alone among the bigger colonies of Britain (excluding of course, the colonies of black Africa), was prevented from adopting the policies of state patronage for industry (including tariff protection against imported goods) which helped to industrialize Canada, Australia and South Africa.[3] One consequence of this policy was that, while the so-called 'new' colonies of Canada, Australia and South Africa normally had an import surplus with Great Britain, India always had an export surplus with Britain.[4] The further ironical consequence was that these new colonies, as they grew richer, attracted British capital from abroad, whereas most of the foreign investment in India (with the possible exception of investment in railways) consisted of reinvestment of part of the profits made or salaries earned by Europeans in India.[5]

This 'Open Door' policy in India was buttressed by an ideology which had implicitly or explicitly racialist overtones. Indians were excluded from most 'positions of profit' by government policy, private business practices, or prejudice that transcended official or non-official instructions, so that the last large field of 'free and profitable employment' of Britons outside Britain could not be entered by indigenous Indians.[6]

Naturally the economic policy of the Government of India, throughout the period from 1900 to 1939, remained geared to the purpose of preserving the British imperial order. The top priority was attached to the maintenance of stability in the imperial system: the interests of individual industries in Great Britain or of British industrialists in India were subordinated to that overriding objective. As a concrete example of how this priority system worked, let us take the case of the extension of the railway system in India at the end of the nineteenth century. It was believed in Britain that a more

[3] See, e.g. H. G. J. Aitken (ed.): *The State and Economic Growth* (Social Science Research Council, New York, 1959), Chapters 2 and 3 for an account of the role of the state in the economic growth of Australia and Canada.

[4] For evidence that British merchants and policy-makers were aware of this fact see Sir Charles H. Armstrong, late Chairman of the Bombay Chamber of Commerce: 'Indian Trade and the War', *JRSA*, LXIII, No. 3263, 28 May 1915, pp. 645–7; and D. T. Chadwick: 'The Trade of India with Russia, France and Italy', *JRSA*, LXVI, No. 3397, 28 December 1917, pp. 96–107.

[5] Professor Nurkse had already noticed the fact that most British investment flowed to temperate lands in his article 'The Problem of International Investment Today in the Light of Nineteenth Century Experience', *Economic Journal*, LXIV (December 1954), p. 750; Matthew Simon provided detailed confirmation of this rough guess in his paper 'The Pattern of New British Portfolio Investment 1865–1914' in J. H. Adler (ed.): *Capital Movements and Economic Development* (London, 1967), pp. 33–66.

[6] Cf. J. M. Maclean: 'India's Place in an Imperial Federation', *JSA*, LII, No. 2665, 18 December 1903, pp. 81–90. For evidence of racial prejudice working against technically trained Indians, see Chapters 5 and 6 above.

active policy of expansion of the railway system would ultimately widen the market for British goods in India, increase directly the demand for British-manufactured railway materials in India and finally increase the flow of exports from India, thus benefiting British trade and industry all round. Hence many British politicians and businessmen advocated such a policy. However, the Government of India (or rather, the Secretary of State for India) was not prepared to sanction such a policy if it would endanger the financial balances of the Government of India and thus impede, directly and indirectly, the processes of remittance of funds from India to Great Britain, since the smooth working of the latter was crucial for the stability or equilibrium of the imperial system of balances of payments (and of the gold standard). In general, the interests of large British industries, such as the cotton textile, shipping and engineering industries, and of British banks coincided with the requirements of imperial policy before 1914, so that it was often assumed that British interests were in fact *identical* with the interests of Lancashire.

Such homogeneity of interests of the different partners in imperial power did not, however, always prevail, nor was it to be expected in an ever-changing economic situation. The conflict between British imperial policy and the short-term interests of British businessmen in India was quite obvious in many cases: cotton mills in India controlled by British industrialists would have benefited from tariffs on the imports of cotton piecegoods. We find most British businessmen joining the Indian mill-owners in protesting against the imposition in 1896 of an excise duty on Indian mill-made cotton piecegoods to 'countervail' a revenue duty on imports of piecegoods from abroad (mainly Britain).[7] Again, British engineering firms would have benefited from a more liberal stores purchase policy on the part of the Government of India.[8] British industrialists in India realized that fiscal autonomy for India might in fact benefit the established industrialists most, at least in the beginning. We find, for example, Ernest Cable (later Lord Cable) of Bird and Company and the Bengal Chamber of Commerce wanting fiscal autonomy for India in 1904.[9] There were demands by British businessmen and their representatives before and during the First World War for tariff protection for the paper and sugar industries, which were then mainly under British control.[10]

European (British) businessmen in India also feared the prospect of control of local industry by British finance capital based in Britain: in 1918, when Lloyds Bank wanted to absorb the National Bank of India, the Secretary of State for India vetoed the move, and was warmly supported

[7] See Chapter 7 above.
[8] See Chapter 10 above.
[9] See his speech in *Indian financial statement and proceedings* (PP 1904, LXIII), p. 255.
[10] See Chapters 2, 12 and 13 above.

by British business interests in India.[11] But on the whole, they were quite happy with the existing arrangements under which they had the major share of external trade, organized banking and finance, industries catering for the export markets, and industries depending primarily on government patronage. Protectionist policies might after all encourage the growth of indigenous Indian entrepreneurship and force the Europeans to compete with the Indians on somewhat more equal terms in the home market. The interests of Indian business or of Indian economic development inevitably received a low priority in the imperial scheme, and could be sacrificed in order to safeguard the other interests involved in the preservation and smooth working of the system.

The factors which have been outlined above would constitute a sufficient explanation for the industrial backwardness of India before 1918. The alternative explanations that are often encountered in the literature generally ignore the facts of the exploitative relationship of Britain with India and of the relationship of racial dominance between Europeans (particularly British nationals) and Indians, fostered and maintained by the British rulers. Professor Habakkuk, for example, writes: 'The contrast of Japan with India is certainly one which requires explanation, since India had many of the basic conditions of industrialization – a merchant class, banking and transport facilities, considerable production for the market – and perhaps in this case difference in character and quality of the native entrepreneurs was the decisive factor.'[12] As we have seen in Chaper 6, the emergence of Indian entrepreneurship in most parts of India was systematically discouraged by the political, administrative and financial arrangements maintained by the British rulers, and in the few cases before 1914 in which 'native' entrepreneurship had emerged, it was no less enterprising or interested in industry than were British businessmen in India. If anything, Indians showed a greater degree of courage, since they did not have many of the tangible advantages that British businessmen enjoyed because of their birth.

Another favoured explanation for the industrial backwardness of India, which attempts to by-pass the question of imperial domination, adduces the shortage of capital. This attempt cannot succeed because the growth of

[11] See *Capital* (Calcutta), 2 August 1918, pp. 231–9, 9 August 1918, pp. 291–3 and 16 August 1918, pp. 351–2, articles entitled 'India's Banking Machinery'. These articles also reflect the rivalry between the Bank of Bengal and the Bank of Bombay, and the misgivings of British businessmen about the proposed merger of the three Presidency Banks. It was feared that the greater control over the affairs of the Bank of Bombay exercised by Indians would be translated into a major share of control over the affairs of the Imperial Bank of India. These fears proved to be largely illusory.

[12] H. J. Habakkuk: 'The Historical Experience on the Basic Conditions of Economic Progress' in Leon H. Dupriez (ed.): *Economic Progress*, Papers and Proceedings of a Round Table held by the International Economic Association (Louvain: Institute de Recherches Economiques et Sociales, 1955), pp. 149–69, at p. 158.

capital is ultimately dependent on the levels of investment. If, as we have maintained, India functioned primarily as the source of surpluses for the British empire and as the market for the staples of Britain, rather than as a field of investment, much of the potential investment out of profits and high salaries did not in fact take place in India. Hence if capital was in short supply in relation to population, this shortage was at least partly caused by the working of the imperial mechanism.

There is in fact little evidence of shortage of capital in India in relation to the demand for capital for investment in industry under the stunted conditions for growth of the market for domestically produced industrial goods that prevailed in India before 1914. The capital market was, as in almost every other under-developed or semi-developed country, imperfect, and smaller industrialists naturally complained about the shortage of 'industrial finance'. But neither European managing agency houses nor the larger Indian business houses complained about such shortage.[13] When the profitability of investment in a particular field was judged to be low, of course, capital would not be forthcoming for investment in it. But it was not just a shortage of the right kind of financial institutions which held up industrial development.[14] The level of internal demand for manufactured goods was low because of the poverty of the ordinary people and the high degree of inequality of distribution of incomes. The cost of production of goods requiring a high degree of skill and ability to adapt techniques to local conditions was higher than in more advanced countries because the level of education of the workers was low.[15] The slow development of consumer goods industries and the lack of government orders for indigenously produced capital goods virtually eliminated the possibility of building up capital goods industries. Naturally, when capital goods were in short supply in western economies – during and immediately after the First World War – industrial production in India was hindered by the stringent supply conditions of capital goods. But these shortages of domestic and foreign capital goods or skills were more the result than the basic cause of industrial stagnation.

Before the First World War, modern factories in India constituted an 'enclave' economy. There were only two major centres of industrial production – Calcutta and Bombay. Most of the British and European enterprise was engaged in extractive industries in eastern India. For reasons that have been analysed by Singer, Nurkse and Baldwin,[16] the effects of foreign invest-

[13] See Chapter 6 above.

[14] Cf. the experience of the short-lived Tata Industrial Bank, referred to in the concluding section of Chapter 2. See also Chapters 9 and 13.

[15] See Chapter 7.

[16] R. E. Baldwin: 'Patterns of Development in Newly Settled Regions', *Manchester School of Economic and Social Studies*, May 1956; R. Nurkse: 'Some International Aspects of the Problem of Economic Development', *American Economic Review*, May

ment in plantations and extractive industries did not spread widely among the indigenous population. In the case of the jute industry, the growth of indigenous manufacture did create some degree of prosperity for the farmers of Bengal – primarily those of modern East Pakistan – but for reasons that we have analysed in detail in Chapters 6 and 8, the concentration of economic and political power in European hands prevented the growth of any substantial Indian business class. It was only in Bombay and Ahmedabad that Indian entrepreneurs survived the era of British political domination, but they had to wait till after the First World War before they could become the dominant business group even in western India.

One concomitant of this lopsided development was the emergence of distinct divisions between industrially developed and industrially backward regions. As we shall see in later sections, these divisions were only partially mitigated by the slight quickening of industrial change in the 1930s. Looking back, one is tempted to say that the seeds of the partition of India along ostensibly religious lines were sown before the First World War, but they might not have germinated without the aid of subsequent mistakes of policy, both in the economic and in the political field, on the part of leaders who did not want India to be divided.

14.2 INDIAN OPINION ON ECONOMIC POLICY AFTER THE FIRST WORLD WAR

As we saw in Chapters 2 and 3, radical changes took place during our period in the relations of Great Britain with the rest of the world, including India, and in the economic policy pursued by the Government of India.[17] Indian interests still remained subject to imperial interests, but the links between the Indian economy and the imperial economy were weakened. In particular, Japan emerged as a major competitor with Britain in the field of the most important British export to India, namely, cotton piecegoods.[18] At the same time, Indian mills had also begun to supply a much larger fraction of the home market than before. Britain's grip on the international payments mechanism was loosened by the impact of the First World War and the doldrums of the twenties, and the U.S.A. emerged as the leader of world capitalism. Along with these global and local economic changes, a movement for fundamental political change in India had gathered momentum under the leadership of Mahatma Gandhi. Under these circumstances, the

1952; H. W. Singer: 'The Distribution of Gains between Investing and Borrowing Countries', *American Economic Review*, May 1950.

[17] For accounts of the working of the payments mechanism of the British imperial system before and after the First World War, see S. B. Saul: *Studies in British Overseas Trade* and A. E. Kahn: *Great Britain in the World Economy* (Columbia University Press, New York, 1946).

[18] See Chapter 7 above.

British rulers were persuaded to grant some economic concessions to privileged Indians, and in particular to Indian businessmen: the real cost of granting such concessions was much lower when Britain was in any case losing her closed market in India to foreign competitors, and the rulers had to find new allies in India, however undependable they might be in the long run.

What comes as a surprise was that articulate Indian opinion on economic policy remained so little ahead of British economic policy in India after the First World War. The demand for greater state patronage for industries and for a measure of industrialization under the banner of private enterprise was never to be more persuasively argued by any Indian publicist after Ranade. Looking back, one can see that the measures which might have sufficed when the major competitors of Britain – Prussia, France, the U.S.A. and Japan – were just beginning on the road to industrialization would not have sufficed when several capitalist countries had already advanced far along that road. Moreover, the depression of the twenties was not a propitious period to venture on a path of industrialization under the auspices of private enterprise. Again, the problems of development of the backward regions of India or the advancement of the less privileged communities within India could be tackled only if essentially socialist measures, of redistribution of incomes on more egalitarian lines and diffusion of opportunities of development among all sections of society, were carried out. But Indian business had already tasted profit in the China trade in yarn and opium, and in the scarcity conditions of the First World War, and it was unwilling to leave the safe anchorage of free enterprise; no other section of society emerged to effectively challenge the leadership of business in the field of economic and social policy. Hence we find Indian business opinion and vocal public opinion often on the side of caution in the field of economic policy.

Caution then dictated financial orthodoxy to the British rulers, and Indian businessmen acquiesced. The Indian Retrenchment Committee had a number of Indian members: they were as enthusiastic in recommending measures of drastic retrenchment as their British colleagues. Indian business opinion *was* critical of the slow and halting progress of tariff protection in the twenties. It was also generally critical of what it considered to be extreme monetary deflation, which was enforced to keep the external value of the rupee at 1*s*. 6*d*. But their views did not advance beyond such mercantilist platitudes. The removal of the basic obstacles to industrial development in India in the 1920s would have required the adoption of a framework of socialist planning: the Government of India would certainly not have encouraged any such revolutionary development, nor would the Indian capitalists have risked stirring up the whole social order in this fashion. Hence they contented themselves by demanding tariff protection, which would be profitable to them in the short run and which would be granted by the then Government of India – under pressure. The pattern that was thus initiated at the beginning of the 1920s became set in the thirties: industrial development was limited almost entirely by what would be permitted in a framework of tariff protection excluding all other kinds of government action.[19] This limited industrialization combined with the depression of the thirties to increase the disparity between the more backward regions and the relatively industrialized pockets, and between the commercially prosperous and the commercially backward communities.

There was some opposition from landlords or spokesmen for the more backward provinces to measures of tariff protection, as there were demands from representatives of industrial labour in the Legislative Assembly, such as Chaman Lal or N. M. Joshi, that measures of tariff protection should be coupled with measures to improve the standard of living of workers. But the spokesmen of labour rarely had much influence on economic policy in a broader sense. The opposition of the landlords or of the predominantly agricultural provinces to tariff protection for industry is understandable since it generally involved a redistribution of income in favour of industrialists and of the relatively industrialized urban centres. But, as we have seen in Chapters 6 and 12, the opposition of landlords or capitalist farmers to tariff protection could not be absolute, for (a) they often invested in industry, and (b) in a time of depression, the protection of an industry depending on an agricultural raw material could benefit the producers (or the interests connected with the producers) of such material.

During the economic depression of the 1930s, more and more politicians and publicists began to talk or write about economic planning. The All India Congress Committee went to the length of setting up a National Planning Committee under the chairmanship of Jawaharlal Nehru. But most of the discussion on planning assumed a basically capitalist order of institutions,[20] and often envisaged collaboration with British or other foreign capitalists. 'Planning' was taken in a very loose sense, and was equated more with *étatisme*, as in modern Turkey or Prussia under Bismarck, than with a rational reorganization of the whole productive system on basically socialist

[19] The growth of Indian capitalism was thus stunted and it became subservient to capital in more advanced countries. Since no social transformation took place in India and the rate of growth of the economy was very low, the conditions for technical dynamism did not exist, and the Indian economy remained extremely vulnerable to changes originating in advanced capitalist economies. India shared this status of 'dependent capitalism' with Latin American countries such as Argentina, Brazil and Mexico.

[20] See, for example, M. Visvesvaraya: *Planned Economy for India* (Bangalore, 1934), p. 8 and 230–2 and N. R. Sarkar: 'Economic planning in India' in Mukerjee and Dey (eds.): *Economic Problems of Modern India*, Vol. 2, pp. 191–213. Visvesvaraya (p. 8) stated explicitly: 'The Indian plan should avoid *communistic* tendencies; its basic policy should be to encourage collective effort without interfering with individual initiative. The developments should be more on the lines followed in the United States of America and Turkey' (italics in the original).

principles. In the case of the most ambitious effort by the nationalist party, the Congress, we find big business represented along with socialists and 'near Communists' on the National Planning Committee. According to the most enthusiastic and most influential organizer of this effort, Jawaharlal Nehru, the deliberation of the Committee had 'an air of unreality about it'.[21]

Thus for all practical purposes Indian economists and politicians remained imprisoned by some of the basic presuppositions of the British imperial system even after the First World War: a capitalist order of society, international collaboration between capitalists of all countries, avoidance of drastic social changes and respect for the fundamental rights of property. No major social forces emerged to challenge these basic presuppositions effectively. The only forceful challenge to the miniature capitalist system built up by the dominant Indian capitalist groups was a secessionist one; the Muslim League demanded a separate State in the name of the Muslims of India. The success of the Muslim League in forcing the partition of the country on the nationalist leaders is a measure, on the one side, of the contradictions inherent in the system of dependent capitalism which had grown up, and on the other of the narrowness of the social values guiding most nationalist and Muslim League leaders in their struggle against the British.

14.3 SOME FACTORS BEHIND THE DEMAND FOR A SEPARATE STATE OF PAKISTAN

The roots of the secessionist movement leading to the partition of India are diverse and tortuous. There were basic differences in world outlook between believing Hindus and believing Muslims; there were the social differences aggravated by the obsessively hierarchical practices of the Hindu caste system; there was the deliberate policy of 'divide-and-rule' practised by British administrators who felt their position in India altered by the massive nationalist movement which had grown up since the beginning of the twentieth century; there were the divisive tendencies inherent in the anti-Muslim attitudes (generated partly as a reaction to the British policy of encouraging Muslim leaders to carry on loyalist propaganda) of many early nationalist leaders, including revolutionaries.[22] The divisive tactics and the

[21] See J. Nehru: *The Discovery of India* (third edition, Calcutta, 1947), pp. 331–7, at p. 331.

[22] See Maulana Abul Kalam Azad: *India wins Freedom* (Bombay, 1959), p. 4. Rabindra Nath Tagore wrote the novel *Gharey Bairey* (published in 1916 in the Bengali periodical 'Sabuj Patra') which had as background the movement of revocation of the partition of Bengal in 1905. In this novel, the extreme nationalists were either *zemindars* or young men from the middle classes, and the people resisting the boycott of foreign goods (which were cheaper than indigenous goods) came from the poorer classes and were mainly Muslim in religion. Tagore had written an essay ('Lokahit') a little earlier (in

secessionist ideology thrived on the underlying movement tending to aggravate the economic disparity (a) between the more backward districts, many of which (particularly in East Bengal and Punjab) had a majority of Muslims, and the less backward districts, and (b) between the Hindu entrepreneurial and professional groups which dominated commerce, industry and the professions, and the Muslim upper classes. The latter naturally tried to find an independent base from which to attack the barriers set up by the more established Hindu upper and middle classes.

In Chapter 4 we have referred to the tendency of the different land-tenure systems of India to converge to a situation in which a large proportion of the real cultivators were without any legal right to their land. In East Bengal the majority of the cultivators were Muslims and the majority of landlords were Hindus. Hence there were potent seeds of conflict along communal lines. The jute and rice economy of East Bengal was hard hit by the agricultural depression of the thirties; successive provincial governments, including the 'popular' one which was elected under the Government of India Act of 1935, failed to improve the condition of peasants,[23] who became more and more discontented. The recommendations of the Bengal Land Revenue Commission, which was appointed in 1938 and which in its report advocated the abolition of the Permanent Settlement and the granting of some rights to ordinary cultivators including share-croppers, were not put into effect.[24] In the Punjab and in the north-west of India generally, a large majority of the traders were Hindus, although the majority of the people were Muslims. This created communal tensions between the Hindu traders and money-lenders and the Muslim cultivators. A series of legal and other measures were taken to ameliorate the conditions of ordinary peasants, but these did not lead to a permanent improvement in the situation.[25] Hence mass discontent was added to the discontent of the tiny

the year 1321 according to the Bengali calendar, around 1914 or 1915) pointing out that the call for unity and evocation of brotherly relations during the Swadeshi movement (starting in 1905) rang a little false when Hindus were used to discriminating against Muslims in a blatant fashion in their daily lives.

[23] See Chapter 8.

[24] See Sir Frederick A. Sachse: 'The work of the Bengal Land Revenue Commission', *JRSA*, LXXXIX, No. 4596, 19 September 1941, pp. 666–77.

[25] In some ways, the history of the British administration of the Punjab provides the most ironic commentary on the efforts of men who believed themselves to be the true friends of the underdog – the Sikh or Muslim cultivator – as against the Hindu money-lender or trader and who did not or would not understand the functional use of the money-lender in the British system of revenue collection and extraction of the surplus. Thorburn's name comes first to mind in this connection. But Thorburn was not alone. There was Sir Denzil Ibbetson, the man who framed the bill for introduction of co-operative societies, there were F. L. Brayne, Malcolm Darling and Sir Michael O'Dwyer of the Jallianwallabagh fame in the same tradition. See S. S. Thorburn: *Musalmans and Money-lenders in the Punjab* (Edinburgh and London, 1886); M. L. Darling: *The Punjab Peasant in Prosperity and Debt* (London, 1928), Chapters IX–XII; H. K. Trevaskis: *The Land of the Five Rivers* (London, 1928), pp. 307–44 ('The Economic Dictatorship of the

Muslim middle class in Bengal, who felt themselves debarred from any offices of importance by the predominant position of the Hindus.

If the pace of industrial development in the rest of India had been fast enough, it is possible that the sheer pull of the market would have led to a betterment of the prospects of both the cultivators and the middle classes. But the pace of development was slow. It was obvious that both East Bengal and the Punjab had an economic base for the development of those industries which had grown up in the two industrial poles of Calcutta and Bombay. The Punjab produced cotton of better and better quality in ever larger quantities as irrigation progressed and as the domestic cotton-mill industry of India expanded, and East Bengal was practically the only source of jute, which was in its turn the base for the single most important item in India's export trade. Moreover, the regional markets of the Punjab and East Bengal were by no means small. An average peasant of East Bengal was probably more prosperous in a normal year than an average peasant of the heartland of India.[26] A Punjabi peasant, however oppressed by money-lenders and traders, was certainly more prosperous than a peasant from almost any other province of India.

The demographic changes in the twentieth century further increased the weight of the Muslim-majority districts in the political arithmetic of India. The proportion of Muslims to the total population of India had gone up steadily since 1881.[27] Bengal and Assam were the only provinces which had experienced uninterrupted growth in population from 1901 to 1941; apart from Assam, the rate of growth of population in Bengal was the highest among the provinces. A large part even of the growth of population in Assam was accounted for by the immigration of peasants – mainly Muslim – from East Bengal. Bengal was the most populous province in India, with a population of 42 million in 1901 and 60 million in 1941. Thus, even if the proportion of Muslims to Hindus in Bengal had remained the same, the proportion of Muslims to Hindus in the whole of India would have gone up. There is, in fact, evidence that the natural rate of increase of Muslims was higher than that of Hindus in the districts of the Gangetic delta which already had a majority of Muslims in the population at the beginning of the century.[28] Finally, during the twenties, Punjab and Sind

Money-Lender'); F. L. Brayne: *The Remaking of Village India* (London and Bombay, 1929); and H. Calvert: *The Wealth and Welfare of the Punjab* (Second edition, Lahore, 1936), Chapters XIII and XVIII. See also Philip Woodruff: *The Men who Ruled India*, Vol. II, *The Guardians* (London, 1963), pp. 159–63, 187–9, 235–43.

26 See Chapters 5 and 8.

27 *Census of India, 1931*, Vol. I, *India*, Part I, *Report* by J. H. Hutton (Delhi, 1933), p. 387; *Census of India, 1941*, Vol. I, Part I, *Tables* by M. W. M. Yeatts (Delhi, 1943), pp. 102–3. The number of Muslims per 10,000 of the population of India went up from 1,974 in 1881 to 2,122 in 1901 and 2,384 in 1941.

28 See S. G. Panandikar: *The Wealth and Welfare of the Bengal Delta* (Calcutta University Press, Calcutta, 1926), pp. 231–3, for an attempted explanation of the differential rates of increase in the numbers of Hindus and Muslims in the Bengal Delta.

also experienced a high rate of growth of population.[29] Thus the population of provinces or districts with Muslim majorities increased in relation to the population of the rest of the country throughout the period under consideration.

Thus the economic, social and demographic bases for a separatist movement along communal lines among the Muslims grew stronger as the twentieth century wore on. To call this movement a 'feudal' or anti-capitalist reaction against modernization would be to mistake its origins or its aims. The more perceptive of the Indian nationalist leaders knew that any solution would have to incorporate a drastic alteration of the political and social relations between Hindus and Muslims. Thus C. R. Das, the Swarajist leader, had declared that when the Congress came to power in Bengal, it would reserve 60% of all new appointments for the Muslims until they achieved parity of representation with the Hindus according to population. In the case of appointments to the Calcutta Corporation he would reserve 80% of the seats for the Muslims for the same purpose. But with the untimely death of Das, his proposals were buried, never to be seriously considered again.[30]

Jawaharlal Nehru, in practically all his books, made perceptive comments on the differences in industrial growth between the regions of India, on the economic domination of Muslim cultivators by Hindu landlords, money-lenders and traders, on the difficulties preventing the Muslim *bourgeoisie* from making headway against the competition of the better-entrenched Hindu middle classes, and so on. In his *Glimpses of World History*, he went so far as to say that the exploitation of the Muslim weaver or tenant in Bengal and in India as a whole by the *bania* or the landlord was the 'root cause of the tension between Hindu and Muslim'.[31] In his autobiography he pointed out that communal politicians (in the 1920s and 1930s) were wrangling for jobs for the middle-class intelligentsia. Behind this struggle lay, according to him, the economic (class) difference between Hindus and Muslims in the Punjab and in Bengal, since the former tended to come from richer, more urban, and exploiting classes. He also pointed out that the Hindu Mahasabha (a communal party) had consistently opposed measures for reducing the burden of rural debt in the provinces, since the bankers and *banias* were almost always Hindus.[32] In the *Discovery of India*, written in 1945, Nehru specifically discussed provincial differences in the growth of industry, and the differences in the characteristics of ordinary and educated people associated with differences in provincial

[29] See Table 4.9 above for variations in the populations of the major provinces of British India from 1901 to 1941.

[30] Maulana Abul Kalam Azad: *India wins Freedom*, pp. 20–1.

[31] J. Nehru: *Glimpses of World History* (Bombay, 1967; originally published by Kitabistan, Allahabad, 1934), p. 452.

[32] Nehru: *An Autobiography*, pp. 466–7.

development. He noted that a Bengali Muslim was far nearer to a Bengali Hindu than he was to a Punjabi Muslim.[33] He also noticed that while Bombay became the 'centre and headquarters of Indian-owned industry, commerce, banking, insurance, etc.', Calcutta continued to be 'the chief centre of British capital and industry', although the British were 'being caught up by Marwaris and Gujratis'.[34]

But Nehru failed to draw the right conclusion from these observations: the differences in opportunity between different religious groups, between different economic classes or between provinces in different stages of development could not be eliminated or even mitigated significantly, by assuring a fair deal to the minorities or by talking about the need for balanced development of all regions in a market-dominated economy. The community which suffers under economic and social handicaps cannot advance if only the obvious legal or social discriminations against it are eliminated: it has actually to be accorded very strong preferences in opportunities for economic and social advancement in order to overcome the unfavourable initial conditions. The provinces or regions which are economically backward have to receive more than their 'fair' share of public investment in a free enterprise economy because there is a tendency for private investment to flow into the more developed regions.[35]

In any case, there was little recognition of the economic and social roots of Muslim separatism in the thinking of most of the leaders of the Congress party. The willingness to make the drastic sacrifices necessary to improve the social and economic position of Muslims or of the more backward provinces was totally absent from the programmes of the more advantageously placed business or professional classes which formulated the policies of the party. A socialist solution for the problems of disparate development of communities or regions, was, of course, unthinkable, according to most of the nationalist or separatist leaders. Hence the so-called 'feudal' (really big landlord) elements and the lawyers leading the Muslim League were provided with ammunition for their struggle to create a separate state of Pakistan. The real issue involved in their struggle, however, was neither the restoration of the pre-capitalist order nor the uniform betterment of the conditions of Muslims through the abolition of economic classes, but the hedging off of a part of India from competition by the established Hindu business groups or professional classes so that the small Muslim business class could thrive and the nascent Muslim intelligentsia

[33] Nehru: *The Discovery of India*, pp. 275–8, at p. 278.

[34] *Ibid.*, p. 277.

[35] For a discussion of the processes of 'cumulative disequilibrium' working against under-privileged communities or backward regions under conditions of free enterprise see G. Myrdal: *Economic Theory and Underdeveloped Regions* (London, 1957) and *Value in Social Theory* (London, 1958).

could find employment.[36] In the process, of course, some Muslim tenants of East Pakistan got a little more out of the value of the land they tilled, but this beneficial effect was neither general nor permanent. In retrospect, it appears that much of the mass discontent against the colonial capitalist path of development that India was treading before independence was dissipated through the struggle for the creation of two different nation states, and thus the struggle for a radical revision of the social structure of the subcontinent along socialist lines was further postponed.

We have seen in Chapter 6 that in undivided India, the new entrepreneurs came from groups which had connections with trade and finance, rather than from the westernized professional classes. In Pakistan also, the people who took advantage of the state patronage of industrialization were groups which traced their origins to various 'trading castes' although they were Muslims.[37] As in India, so in Pakistan, development has taken place along capitalist lines: it has been limited by social and political factors rather than by any immutable endowment of natural resources.[38] Economists who underestimate the influence of political arrangements on economic growth have been surprised by the 'explosion' of private investment in Pakistan. They may have other surprises in store for them if, as is likely, the capitalist path of development in Pakistan is blocked in its turn by internal social and political hindrances and by international political developments.

In the remaining sections of the chapter we summarize some major features of the limited industrial growth that had taken place in India up to 1939.

14.4 THE SPREAD OF MODERN INDUSTRY IN DIFFERENT REGIONS OF INDIA

Between 1900 and 1939, India more or less completed the 'textile revolution'; she became nearly self-sufficient in the production of cotton textiles,[39] and emerged as a major exporter of cotton piecegoods during the Second World War. Several new industries, run on modern techniques, grew up in this period: of these, steel and cement could be roughly classed as producer goods industries. The production of refined sugar in large-scale units employing modern methods had started before 1900, but the total output remained insignificant until the latter half of the period. By the

[36] See in this connection, P. Moon: *Divide and Quit* (London, 1961), Chapter XIV, especially p. 288.

[37] See G. F. Papanek: 'The Development of Entrepreneurship', *The American Economic Review*, LII, 2, May 1962, pp. 46–58 and *Pakistan's Development: Social Goals and Private Incentives* (Cambridge, Mass., 1967), Chapter II.

[38] Kingsley Davis had, in common with many other economists, considered the prospects of industrial development of Pakistan to be rather dim because of the supposed lack of mineral resources. See Davis: *Population of India and Pakistan*, Chapter 20.

[39] See Chapter 7.

end of the period the capacity of the sugar industry was large enough to satisfy the internal demand for refined sugar in India.[40] Among other notable industries employing large-scale units should be mentioned the match and paper industries.

Large-scale production employing modern methods remained confined to the consumer goods industries and the crude producer goods industries. India in 1939 was almost entirely dependent on imports from abroad for her requirements of machinery and machine tools, and for chemicals. By 1939 a beginning had been made in the production of some heavy chemicals, such as caustic soda and sulphuric acid. But the real beginning of an industry producing cotton-textile machinery was made only after the Second World War had started.[41] While some crude machinery and machine tools had been produced during the First World War, practically all the facilities had been dismantled after the war, because of lack of demand and of government support in any form.

Before the First World War, industrial investment was almost exclusively confined to the two 'nodes', Bombay and Calcutta, but Ahmedabad in the Bombay Presidency was emerging as a centre of cotton mills. During the first few years after the First World War as well, it was the investment in the cotton mills of Bombay and Ahmedabad and the jute mills on the Hooghly that dominated total industrial investment. But with the rise of the cement industry to serve the different regions of India, the depression in the cotton-mill industry of Bombay from 1923 onwards and the jute mills of Bengal from 1928 onwards, and the rise of the sugar industry in the United Provinces and Bihar, there was some spread of industry to other regions of India. In this diffusion, the cotton-textile industry continued to play a leading role. The total number of spindles and looms in the cotton mills of India rose from 6·62 million and 96·7 thousand respectively in 1914 to 10·06 million and 202·4 thousand respectively in 1939. The total number of spindles and looms in Bombay City and Ahmedabad taken together rose from 4·01 million and 66·1 thousand respectively in 1914 to 4·75 million and 114·1 thousand respectively in 1939.[42] Thus it can be seen that the cotton-mill industry, particularly the spinning section of it, expanded much faster in centres away from Bombay and Ahmedabad. The expansion was particularly rapid in Delhi, the United Provinces (mainly Cawnpore) and Madras (mainly Coimbatore, Madura, and Madras).

This spread of industry was aided by the relative cheapness of labour in the new centres and the availability of cheap sources of hydroelectric power,

[40] See Chapter 12.

[41] The Textile Machinery Corporation was floated under the management of Birla Brothers in 1941: *ITJ*, February 1941, p. 115.

[42] The figures for 1914 are given in Table 7.4 above; the figures for 1939 are taken from Sir Ness Wadia: 'The Industry in Retrospect', *ITJ, 1890–1940, Jubilee Souvenir* (Bombay, 1941), p. 18.

particularly in south India. But it was also helped by the creation of local markets through tariff protection for the whole of India.[43] The sources of entrepreneurship in new industries and centres were also to a large extent, but not entirely, local. In the south, many communities which had earlier been involved in trade moved into industry: the Chettiars were the most famous community among the traders, but entrepreneurship was not confined to, or even dominated by, the Chettiar community.[44] In most of Central Indian States, such as Gwalior, Bhopal, and Indore, the Jains and Marwaris had been the most important trading communities before the First World War,[45] and naturally they were heavily involved in the new textile mills that sprang up in these states. Ahmedabad continued to grow at a faster rate than Bombay, and, by the end of the thirties, the number of looms and spindles in the former city was more than two-thirds the number of looms and spindles in place in the mills of Bombay. The capitalists of Ahmedabad devoted most of their energy to developing the cotton mills, but eventually they moved into other fields, such as cement, sugar and chemicals. Baroda, which was contiguous with Ahmedabad, witnessed an inflow of entrepreneurship from the latter city in the development of its cotton mills. Although Bombay declined relatively to other major industrial cities, such as Coimbatore, Cawnpore or Ahmedabad, as a centre of textile production, the capitalists of Bombay, headed by the house of Tata, continued to play a large part in other fields, such as iron and steel, cement, shipping and chemicals.

In the north of India, the sugar industry was probably the single most important field of investment of capital. It provided new opportunities for investment, both to established business groups, such as Begg, Sutherland and Company, and Juggilal Kamlapat, and to new business groups, such as the Narangs, Dalmia Sahu Jain, and Birla Brothers. One major part of India which remained relatively untouched by the dispersion of industry was that comprising Punjab, Sind and the North-Western Frontier Provinces – roughly the region which came later to form West Pakistan.[46] It is

[43] The established centres did not generally have enough capacity at the onset of tariff protection to supply all the regional markets of India, and therefore local entrepreneurs could set up new capacity in advance of, or in competition with, older Indian centres of production, when tariff protection restricted imports from abroad.

[44] The Southern India Mill-owners' Association was represented before the Special Tariff Board by J. Doak, C. S. Ratnasabapathy Mudaliar, R. Venkataswamy Naidu and G. N. Sirur – none of them Chettiars. Further, in a list of eight highly profitable Coimbatore cotton mills we find the names of only two Chettiar firms as managing agents. See ITB: Special Tariff Board: *Oral Evidence*, Vol. III, p. 71 and *Written Evidence*, Vol. II (Delhi, 1937), p. 92.

[45] The Central India State Gazetteer series, *Gwalior State Gazetteer*, p. 77; *Indore State Gazetteer*, p. 127; *Bhopal State Gazetteer*, p. 55. See also Chapter 6 above.

[46] When we talk about the relative lack of industrial development we mean only the lack of development of modern large-scale units of production. If we look at the percentage of the occupied labour force engaged in industry in 1931, including cottage and small-

difficult to find any satisfactory explanation for this lack of industrial development. One factor may have been the relative lack of power – coal was almost entirely absent in this region and there was no development of hydroelectricity comparable to what occurred in south India. Another inhibiting factor may have been that, although the extension of irrigation facilities in the Punjab and Sind increased the prosperity of the peasant to some extent in the twenties, he was much harder hit by the agricultural depression than peasants in most other parts of India (that is, with the possible exception of Bengal), for exports formed a much larger fraction of the total agricultural output of Punjab and Sind than of that of most other parts of India. The third factor may have been that there was no regional entrepreneurial group with the extensive connections, capital and experience comparable to those of the groups that existed in central, southern or even eastern India.[47] The case of the Punjab and Sind illustrates very well that industrial development is *not* automatically triggered off by increasing agricultural production in a region.

The lack of industrial development in the Punjab and Sind – the major source of long-staple cotton in India – and in East Bengal – the major source of jute – and thus together in the most important raw material base of the two biggest manufacturing industries of undivided India, provided a powerful argument for those who wanted to create a separate state for the Muslims of India. In the Punjab, the demand for political control over industrial policy also had a powerful argument in the relative prosperity of the Punjabi peasant – particularly in the canal colonies – and the dynamism of the small entrepreneur. During the twenties and thirties many small foundries and other workshops catering to the needs of the farmers had sprung up in the Punjab.[48] These small industrialists could not, however, compete with the large business houses in the rest of India. When the State of Pakistan came into being, the political insulation of the north-west

scale industries, Punjab would appear to be better developed than all other large Indian provinces except Delhi. See *Census of India, 1931*, Vol. II, Part I, *Report* (Delhi, 1933), p. 307. But in 1930 the number of workers employed in the factories of Punjab was 44,724 as against 381,349 in Bombay and 480,349 in Bengal; the populations of Punjab, Bombay (including Aden) and Bengal in 1931 were 23,581,000, 21,931,000 and 50,114,000 respectively. See Gov. India, CISD: *Statistical abstract for British India from 1922–3 to 1931–2* (Calcutta, 1933), pp. 812–13, and *Census of India, 1931*, Vol. I, Part I, *Report* (Delhi, 1933), p. 35. The number of workers in manufacture per 100 male workers in 1931 was 4·1 in East Bengal (Pakistan) as against 10·4 in West Bengal and 8·4 in the Indian Union as a whole. See Alice and Daniel Thorner: 'The twentieth century trend in employment in manufacture in India – as illustrated by the case of West Bengal', in C. R. Rao *et al.* (eds.): *Essays on Econometrics and Planning* (Calcutta, 1964), p. 306.

47 The importance of political factors in allowing the latent entrepreneurial potential of trading groups to express itself in industrial investment is dramatically illustrated by the experience of Pakistan since independence.

48 See *Census of India, 1921*, Vol. XV, *Punjab and Delhi*, Part I, *Report* (Lahore, 1923), pp. 78, 352–5; *Census of India, 1931*, Vol. XVII, *Punjab*, Part I, *Report* (Lahore, 1933), pp. 41–2.

from the rest of India would provide a large market for the local industrialists who would have time to develop because of immunity from competition.

14.5 TWO PHASES IN THE DEVELOPMENT OF INDIAN ENTREPRENEURSHIP AND INDUSTRY

One can clearly divide the interwar period into two phases, so far as the importance of Indian entrepreneurs in Indian industry and the relationship of the Indian economy to the British economy are concerned: up to 1929 or so, although new Indian business houses had emerged and new industries such as cement and iron and steel were being established, Indian industrial investment was still dominated by older entrepreneurial groups and centres. The imports of jute-textile machinery formed more than a third of the total imports of textile machinery during the years from 1919–20 to 1921–2 and between a fourth and a third of the total imports of textile machinery during the years from 1919–20 to 1923–4. Up to 1930–1, in fact, the imports of jute-textile machinery rarely fell below a quarter of the total imports of textile machinery into India. The corresponding proportion declined to between ⅛ and ⅕ in the thirties. The value of imports of textile machinery was between a third and a half of the total imports of industrial machinery for the years from 1919–20 to 1923–4.[49]

If we take into account the imports of boilers and prime-movers which were installed in textile mills, but which were included in the general category of machinery and mill-work, rather than in the specific category of textile machinery, the proportion of imports of textile machinery to total imports of industrial machinery becomes even higher during these years. In the later years of the twenties and in the thirties, however, the proportion of imports of textile machinery to total industrial machinery imports often fell below the one-quarter mark. The relative decline in imports of textile machinery from 1926–7 onwards was even greater in real terms: for the prices of all industrial machinery fell after the boom years of the early twenties, but the prices of textile machinery fell less than those of sugar and paper machinery.[50]

The greater importance of investment in the textile industries in the early twenties meant that the European capitalists who were already entrenched in the jute industry and the established Indian (and European) capitalists of Bombay and Ahmedabad played a larger role in industrial investment. New Indian industrial groups had already begun emerging, as we have seen in

[49] All the comparisons are based on figures from Gov. India, CISD: *Annual statement of the seaborne trade of British India* (Calcutta, annual). The figures for imports of industrial machinery are given in Chapter 3 above (Table 3.2).

[50] For the price indices of textile and sugar machinery see Tables 3.2 and 12.2.

Chapter 6; Birla Brothers had established one jute mill and at least two cotton mills between 1919 and 1921, and acquired another (Kesoram Cotton Mills, registered in 1919) by 1925; in the north, Sri Ram was building up his group around the Delhi Cloth and General Mills, and Juggilal Kamlapat was moving into the cotton, sugar and vegetable oil industries in a big way. But there was not yet the explosion of local entrepreneurship which took place in the 1930s.

In many respects, the twenties were a period of waiting for the growth of Indian industrial capitalism.[51] In the first place, although discriminating protection was granted to the iron and steel and paper industries, the Government of India had not yet been forced into granting tariff protection to all consumer-goods industries. In the second place, although the external economic relations of Britain and India had changed substantially since 1914, India was still playing some of the balancing role she traditionally played in the British imperial system. In 1929, for instance, India had a positive net trade balance of £19 million with the U.S.A., which went part of the way towards meeting Britain's large deficit balance with the latter.[52] Another part of India's enormous transfers to Britain was effected through her credit balance with other countries of the British Empire, such as Ceylon, Malaya, and South Africa.[53] The relative size of India's adverse balance on account of current visible trade with the U.K. had fallen, mainly because of the curtailment of imports of cotton piecegoods from the latter. But it was still very large absolutely. This large adverse balance with the U.K. on current account was accompanied during the first four or five years of the 1920s by a net inflow of capital from the U.K.[54]

Thus in spite of the agricultural depression, the substantially diminished roles of imports into India from the U.K. and of Indian contributions of the hard currency earnings in the British imperial system, the pre-war trade and capital inflow relations remained qualitatively unchanged during the twenties. Indian entrepreneurs advanced by taking advantage of the (limited) opportunities for import substitution, and by exploiting the changed political relations between India and the United Kingdom. However, no

[51] See also Chapter 3.

[52] Kahn: *Great Britain in the World Economy*, p. 233. Malaya in 1929 had a positive balance of £46 million with the U.S.A.; thus she had largely replaced India as the main source of dollars for Britain in meeting her deficit balance in current trade with the U.S.A.

[53] Kahn: *Great Britain in the World Economy*, p. 232.

[54] In many of the traditional textbook accounts of international capital movements, a continuing adverse balance of trade with the creditor country is in fact accompanied by an equivalent net outflow of capital from the creditor to the debtor country. This, however, overlooks the multilateral character of world trade and, in particular, the crucial role that India played in the imperial payments system: her balancing role could be successfully played only if she had a continually favourable balance with the group of countries with which the U.K. had an adverse balance on current account. See also Saul: *Studies in British Overseas Trade*.

decisive and irreversible advance was made until the coming of the depression.

The depression of the 1930s radically altered the character of trade relations between India and the U.K. India moved closer to a situation of bilateral balance with the U.K.; the position of the U.K. *vis-à-vis* the U.S.A. improved in spite of the restrictionist measures taken by the latter. On the other side, British exports to India declined drastically, whereas the share of Britain in exports from India increased both because of the fact that Britain was less affected than other advanced capitalist countries by the depression and because of Imperial Preference. Britain's relations with other countries of the Empire became closer; although the share of the U.K. in India's imports fell substantially between 1929 and 1939 and India's share in British exports also fell, the share of the Empire countries together in British exports rose from 39·5% in 1929 to 45·6% in 1938.[55] This latter development was accounted for both by Imperial Preference and by the fact that India's income rose more slowly than did those of many of the other countries of the Empire.

Not only was there a greater degree of bilateral equilibrium in current trade between India and the U.K.; also the Government of India repaid during the years from 1931 to 1935 a substantial amount of the capital it had earlier raised in London and became independent of the London money market for the raising of long-term capital.[56]

Some of the shift in the trade relations between the U.K. and India was brought about by the policy of tariff protection for Indian industry which was forced upon the Government of India by the adverse impact of the depression, on the traditional sources of government revenue.[57] The expanded home markets for domestic producers led to a rapid growth of the textile industry in the smaller centres, and of industries such as sugar and paper. Changes in the political climate also led to a change in the position of the European businessman *vis-à-vis* the Indian businessman. It can be argued that the systematic preference for the European businessman, built into the political administrative and financial framework before the First World War,[58] acted as a system of quotas for investment and production such that the agreed quota for Indian businessmen at any moment of time was zero: Indian businessmen could only enter fields in which the whole of Indian production had not already been entirely allocated by administrative and political preference to European businessmen. Economists inferring equal opportunities for all entrepreneurs from a system of formal free trade seem to have overlooked this aspect of systematic bias towards one group of entrepreneurs.

[55] Kahn: *Great Britain in the World Economy*, pp. 244 and 211 (including footnote).
[56] Banerji: *India's Balance of Payments*, pp. 186–96.
[57] See Chapter 2 above. [58] See Chapter 6 above.

During the 1920s, and more particularly during the 1930s, this bias was gradually mitigated by a greater degree of Indianization of the civil and military administrations and by a greater degree of participation by (mainly well-to-do and educated) Indians in the political process. Indian entrepreneurs were not slow to realize the advantages of participation in the government of the country: the Kumara Rajah of Chettinad (M. A. Muthiah Chettiar) in Madras, Sir Jwala Prasad Srivastava in the United Provinces, Sir Gokul Chand Narang in the Punjab and Sir Bejoy Prosad Singh Roy in Bengal served as ministers in the respective provincial governments up to 1937.[59] The coming of the popular provincial governments under the Government of India Act of 1935 further increased the opportunities for Indian entrepreneurs to influence the formulation and the execution of the policy of the provincial governments.

Before we end this section, we should notice that the emergence of new entrepreneurial groups in India is far better understood if we connect them with trade and the opening up of opportunities in particular fields and regions, than with specific castes. As was pointed out in Chapter 6, tariff protection for modern industries made production for the home market more profitable than trade, at least up to a point. The agricultural depression, with its severe effects on the fortunes of peasants, made money-lending less attractive than before: many capitalists found idle money in their hands and invested it in industry. It is true that the most important group of entrepreneurs – the Marwaris – claimed to belong to the Bania castes; but many of them were Jains, that is, were really outside the accepted framework of Hinduism. In Punjab and north-western India in general, the entrepreneurs were mainly Aroras and Khatris who claimed Kshatriya (military caste) status. Finally, most of the groups which became prominent industrialists in Pakistan after independence came from Muslim trading castes.[60] What seems to be common to most of the entrepreneurial groups is that they had been connected with trade or construction before entering industry.[61]

14.6 THE UPSHOT OF STUNTED INDUSTRIALIZATION IN INDIA

In 1939, Indian industry had developed far enough for India to be more or less self-sufficient in the production of consumption goods such as cotton

[59] The information is derived from various issues of the *Indian Year Book* and *Debrett's Peerage, Baronetage, etc.*

[60] Papanek: 'The Development of Entrepreneurship' and *Pakistan's Development*, Chapter II.

[61] Walchard Hirachand's family in Sholapur had been prominent in trade and money-lending and they had entered construction later; in Bengal Sir Rajendranath Mookerjee first made his name and money in civil engineering and then moved into the iron and steel industry. Mookerjee was a Brahman by caste. So was Laxmanrao Kirloskar, who founded the house of Kirloskar.

cloth, sugar and matches. But the development of the capital goods industries was extremely meagre, and the share of modern industry in total national income was low. The employment created in the modern industrial sector was very limited indeed. The total employment in all perennial factories in British India, including native states, was 1,421,377 in 1937, 1,521,219 in 1938 and 1,528,028 in 1939; including seasonal factories the figures of employment rise to 1,958,879 in 1937, 2,036,758 in 1938 and 2,050,231 in 1939.[62]

The shift in economic power between Britain and India after 1929–30 did have some effects on industrial investment. As we have seen in Chapter 3, total industrial investment remained surprisingly stable in real terms during the years of the depression of the thirties. Furthermore, there also seems to have occurred a marginal shift in the occupational structure between 1931 and 1941. According to some calculations made by Alice and Daniel Thorner, the percentage of workers in manufacture, mining and construction in the Indian Union declined from 10 to 9 between 1911 and 1931 and rose again to 10 in 1951. Although they have not yet released their estimates of the change between 1931 and 1941 for the whole of India, they have given figures for the four selected states of Baroda, Central Provinces, Madras and United Provinces, and for West Bengal separately. In all these cases, we observe a slight decline in the proportion of the working force engaged in manufacture, mining and construction between 1901 and 1931 and a slight increase in the same between 1931 and 1941.[63] Thus in spite of a wider spread of investment in the twenties and thirties, West Bengal, a relatively industrialized region, shared in the general Indian movement towards greater industrialization in the thirties.

The private entrepreneurial base supporting this development was rather small. In our discussion of the supply of entrepreneurship we have primarily devoted our attention to large entrepreneurial groups, not because they were the most important in the development of the economy or even in the development of all the modern sectors of the economy, but because they were the only ones which counted in the development of the industries we have selected. Throughout the country small businessmen had been busy since before the First World War in the setting up of cotton gins and presses, rice and oil mills, jute presses, open-pan processes of sugar manufacture (*khandsaris*), and small powerloom or handloom factories. Sometimes their efforts in the development of their enterprises were assisted by joint-stock banks as rice mills in the Guntur district were helped by the Bank of

[62] *Statistical abstracts for British India* (statistics collected under the Factories Act, 1934). The total population of India and Pakistan in 1941 was 388,998,000.

[63] Alice Thorner: 'The Secular Trend in the Indian Economy, 1881–1951', *The Economic Weekly*, Special Number, July 1962; and Thorner: 'Twentieth century trend in employment in manufacture in India'.

Madras.[64] More often, it was mainly local capital which helped in the development of the small-scale industries.[65]

But these small capitalists did not start an industrial revolution. They did not pioneer any new methods of production or any new industries. The industries that grew up under the umbrella of tariff protection were generally controlled by capitalists with a large amount of capital; but the latter also depended entirely on western countries for their techniques of production. We have seen in our chapters on the iron and steel, sugar and paper industries that tariff protection did not lead to inefficiency in the usual textbook sense, but in fact helped the industrialists to expand their plants, and improve their methods of production. But these improvements took place in the context of a borrowed technology and a very narrow basis of technical personnel. There were no major technical improvements pioneered in India and applied to the solution of industrial problems.

Thus in 1939 the economy of India remained poor, basically agricultural and colonial. The social structure had not adapted to the requirements of capitalistic growth. In most parts of India the land-tenure system was extremely cumbersome, with an enormous number of layers or intermediary rights between the state and the cultivator. There was little 'capitalist farming' in the true sense. The administrative system was colonial, geared primarily to the maintenance of law and order.

Industry had developed only to a limited extent; practically all the development was confined to consumer-goods industries.[66] Although indigenous capitalists had managed to get a much larger share of modern industry than they had before 1914, foreign capitalists were firmly in control in the staple industries. Moreover, there was already a shadow of the shape of things to come in the penetration of Indian industry by large foreign firms, controlled from abroad by foreign capitalists. Unilever, ICI, Dunlop, General Motors and other such firms established their branches or subsidiary companies in India.[67] Thus even before Indian capitalists had wrested control over the economy from the pre-capitalist elements and from the old European-controlled Indian firms, they had to witness the invasion of new fields of industry by international cartels. Moreover, the capitalist groups in

[64] See the written evidence of Sir W. B. Hunter, Appendix II (prepared by W. R. T. Mackay, the inspector of branches of the Bank of Madras in charge of the rice-mill industry in the delta districts of Kistna and Godavari), *Evidence* (*Report of IIC*), Vol. III (PP 1919, XIX), pp. 277–9.

[65] See the evidence of Rao Bahadur R. N. Mudholkar, in *Evidence* (*Report of IIC*), Vol. II (PP 1919, XVIII), pp. 467, 475–6.

[66] According to a United Nations calculation, in 1936 67% of the total volume of employment in factories in India was in consumer-goods industries, 18% in industries producing intermediate materials (wood, paper, chemicals, etc.) and 15% in other finished goods (mostly capital goods). See U.N.: *Processes and Problems of Industrialization in Underdeveloping Countries* (New York, 1955), p. 138.

[67] D. R. Gadgil: 'Indian Economic Organization' in Simon Kuznets *et al.* (eds.): *Economic Growth, Brazil, India, Japan* (Durham, N.C., 1955), pp. 448–63, at p. 456.

different regions were in very different stages of development – some having already become established industrialists and some not having emerged from the stage of 'primitive accumulation' through commerce. In this situation, there were naturally conflicts between them for the control of resources and markets, which contributed, among other things, to the partition of India. Meanwhile, however, the struggle of ordinary people against British rule continued. When independence came, the capitalist class in India and Pakistan, however small numerically and weak financially, was still in a far better position than before to utilize the advantages of an independent State for furthering its own interests.