
UNIT 26 ECONOMIC HISTORY

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26.1 INTRODUCTION

The emergence of economics as a discipline in the eighteenth century led in due course to the development of a new branch in history called economic history. The progenitors of economics were Adam Smith and other classical economists. India was very much in the vision of the classical economists, a group of thinkers in England during the Industrial Revolution. They advocated *laissez faire* and minimising of state intervention in the economy. Adam Smith, the foremost classical economist, condemned the East India Company in its new role as the ruling power in India. In his view, the Company's trading monopoly ran counter to the principle of the freedom of the market. In the classic work entitled *An Inquiry into the Nature and Causes of the Wealth of Nations* (1776), he said, 'The government of an exclusive company of merchants is perhaps the worst of all governments for any country whatever.'

Economics underwent a theoretical transformation in the early twentieth century under the influence of John Maynard Keynes, who advocated strategic economic intervention by the government for promoting welfare and employment. Keynes, too, thought deeply about India while developing his new economic theories, and his earliest major work, *Indian Currency and Finance* (London 1913), illustrated his notions of good monetary management of the economy. It is also noteworthy that the early classical economists, such as Ricardo, influenced the thinking of a group of Utilitarian administrators who set about reforming the administration of India in the nineteenth century. Above all, the influence of Adam Smith is noticeable in the end of the Company's monopoly by the Charter Acts of 1813 and 1833.

Not surprisingly, therefore, historians have paid close attention to the connection between the evolution of economic thought in England and the question of reform of the colonial administration in India. This is evident in such works as Eric Stokes, *The English Utilitarians and India* (Oxford 1959); S. Ambirajan, *Classical Political Economy and British Policy in India*; and A. Chandavarkar *Keynes and India: a Study in Economics and Biography* (London 1989). Classical political economy in England laid the foundations for the *laissez faire* economics of the Raj in the nineteenth century. Keynesian economics, on the other hand, contained the germs of the development economics of the mid-twentieth century. Both types of economics affected the state and the economy in India, and stimulated debates in the economic history of India.

26.2 COLONIAL AND NATIONALISTIC WRITINGS

Early colonial writers about the economy of India did not have to reckon with a critical Indian public and nationalistic opinion. Some of them were free and frank in their criticisms of the effect of the British rule upon the indigenous economy and they were sometimes critical of what they admitted to be a drain of wealth from India to Britain. They did not deny what a contemporary Persian chronicler named Saiyid Ghulam Hussain Khan observed in *The Seir Mutaqherin* (1789) with regard to the English habit of ‘scraping together as much money’ in this country as they can, and carrying it ‘in immense sums to the kingdom of England’. A manuscript official report, entitled ‘Historical Review of the External Commerce of Calcutta from 1750 until 1830’, commented freely on ‘the plunder of the country’. After conquering Bengal, the East India Company ceased to import silver for their purchases of Indian goods for export to Europe, and deployed the revenues of Bengal for the purpose. According to the report, the unrequited exports became the vehicle for the remittance of the fortunes made by individual Englishmen in the country.

As critical Indian opinion emerged in the later nineteenth century, the colonial administration became more concerned to show that economic progress was happening in the country. The Madras administration commissioned a voluminous statistical work by S. Srinivasa Raghavaiah, entitled *Memorandum on the Progress of the Madras Presidency during the last forty years of the British Administration* (Madras, Govt. Press, 1893), which constituted a well-documented apology for foreign rule in the country. The second century of British rule in India was marked by an ongoing controversy between the critics and apologists of empire. Indian nationalists, sympathetic Britishers and, at a later state, Marxists intellectuals blamed the drain for the impoverishment of India. Colonial officials, at the instance of Lord Curzon, contended that there was no impoverishment at all, and rival estimates of national income were produced on both sides. Among the works of the period may be mentioned, on the one side, Dadabhai Naoroji, *Poverty and Un-British Rule in India* (London, 1901), an earlier version 1873), and William Digby, “Prosperous” *British India: a Revelation from the Official Records* (1901); and on the opposite side, F.T. Atkinson, ‘A Statistical Review of the Income and wealth of British India’, *Journal of the Royal Statistical Society*, June 1902. Atkinson, an official under Lord Curzon, sought to show that the national income of India was rising over the years, though somewhat slowly. Naoroji who entertained contrary views, computed the annual drain from India at around £30,000,000 in his own day, and estimated that earlier, around 1800, the figure had stood at about £5,000,000.

The debate generated the first general work on the economic history of India. To Curzon’s annoyance, a retired ICS officer who became President of the Indian National Congress, Romesh Chunder Dutt, drew up a formidable critique of the economic effect of British rule upon India in *The Economic History of India under Early British Rule (1757–1837)* (London, 1902) and *The Economic History of India under the Victorian Age* (London, 1904). Dutt dwelt on the heavy land tax upon the peasants, the destruction of the handicrafts, the recurrence of famines, and the annual drain to Britain in his economic critique of British rule. The British, he said, had given India peace, but not prosperity. Colonial administration did not accept his nationalist contentions, but one claim he made is indisputable: ‘No study is more interesting and instructive in the history of nations than the study of the material condition of the people from age to age.’ Mohandas Karamchand Gandhi, before he became the Mahatma, wept as he read Dutt’s *Economic History* and, in the next generation, the doctrine that the most fundamental impact of British rule upon India was a destructive economic impact, became

axiomatic with Marxist intellectuals, such as R.P. Dutt. A member of the Communist Party of Great Britain, he wrote a radical critique of colonial rule entitled *India Today*. Published by the Left Book Club from London in 1940, it was promptly banned in India. In this book, R.P. Dutt sought to show that the industrial imperialism which R.C. Dutt had criticised in his day had since then made a transition to financial imperialism, and that the drain had become more enervating for the economy in the latest phase of imperialism in India.

26.3 PRE-COLONIAL ECONOMY AND COLONIAL TRENDS

The debate on the colonial impact on the economy and the question of impoverishment under British rule brought forth a new issue : what was the state of the economy before British rule? Was India more prosperous then, and had she already embarked on an endogenous path of development that was cut off by the British ascendancy? Was national income higher at the time? Valuable official reports on the state and structure of the indigenous economy had been written in early colonial times, the most notable among these being the reports on eastern and southern India by Francis Buchanan-Hamilton. His voluminous and statistical surveys of agriculture, manufactures and inland trade were partially printed in Francis Buchanan, *A Journey from Madras through the Countries of Mysore, Canara and Malabar 1801* (2nd ed. Madras 1870); and Francis Buchanan, *An Account of the Districts of Bihar and Patna in 1811 – 1812*, 2 vols. (Bihar and Orissa Research Society, n.d.). Later on, historians directed their curiosity to the economic conditions in Mughal Times, some early studies being Edward Thomas, *The Revenue Resources of the Mughal Empire in India* (1871) and Jadunath Sarkar, *The India of Aurengzeb: Topography, Statistics and Roads* (1901). It was, however, a British revenue official of UP, W.H. Moreland, who first ventured into a general economic history of pre-colonial India in *India at the Death of Akbar* (1920), *From Akbar to Aurangzeb* (1922), and the *Agrarian System of Moslem India* (1929). In Moreland's estimate the national income of India at the time of Todar Mal's survey in Akbar's reign was not perceptibly higher than what it was at the beginning of the twentieth century.

Moreland concluded that a parasitic agrarian despotism had driven India to an economic dead end, despite the considerable expansion of foreign trade that the Dutch and English East India Companies brought about in the seventeenth century. The conclusion that the foreign companies operating in Mughal India brought in a lot of silver and stimulated textile exports was later confirmed by K.N. Chaudhuri's econometric study, *The Trading World of Asia and the English East India Company 1660-1760* (Cambridge, 1978). A soviet author named A. I. Chicherov presented an argument in *Indian Economic Development in the Sixteenth to Eighteenth Centuries* (Moscow, 1971) which Moreland would not have supported: that Mughal India was undergoing an endogenous capitalist development which was cut off by the ascendancy of foreign monopoly capital under the English East India Company. That this is unlikely to have been the case is shown by the reputed Marxist historian Irfan Habib in 'The Potentialities of Capitalist Development in the Economy of Mughal India', *Journal of Economic History*, vol. XXIX, 1969. Habib demonstrated the sophistication of the Mughal urban economy, but like Moreland he emphasized its parasitic relationship with the heavily taxed rural economy.

For the colonial period, R.C. Dutt's *Economic History* was followed by a series of works: D.R. Gadgil, *The Industrial Evolution of India in Recent Times* (1924); Vera Anstey, *The Economic Development of India* (1929); and D.H. Buchanan, *The*

Development of Capitalistic Enterprise in India (New York 1934). More recently, there has been a collective two-volume survey; Tapan Raychaudhuri and Irfan Habib (eds.), *The Cambridge Economic History of India, Vol 1, C.1200 – C.1750* (Cambridge 1982); and Dharma Kumar (ed), *The Cambridge Economic History of India, vol. 2 C.1757 – C.1970* (Cambridge, 1983). Daniel Houston Buchanan, an American author, was of the opinion that other-worldly values and the caste system inhibited economic development in India. D.R. Gadgil, who updated his near classic work several times, emphasised, on the contrary, more strictly economic factors: the difficulties of capital mobilisation on account of the absolute smallness of capital resources in respect to the size of the population, the late development of organised banking, and the seasonal fluctuations of a monsoon economy. A dispassionate economist, he did not blame either foreign rule or the Indian social structure for the absence of an industrial revolution in India; some of the Western contributors to the second volume of *The Cambridge Economic History*, on the other hand, showed a disposition to challenge R.C. Dutt's vision of the negative impact of colonialism, and they dwelt instead on the technological backwardness of the Indian economy. This, in their view, inhibited industrial development and capitalist enterprise during the colonial period.

26.4 STATISTICAL INQUIRIES

The colonial administration had produced vast body of annual official statistics. After independence, economic historians utilized these statistics to interpret long-term trends in national income and agricultural and industrial production. The two seminal works in this respect were by George Blyn on agricultural production and by S. Sivasubramonian on national income. Both authors based their conclusions on detailed statistical information set out in tabular form, so that other historians might draw their own conclusions from the tables. George Blyn's work was entitled *Agricultural Trends in India 1891-1947: Output, Availability and Productivity* (Philadelphia, 1966). S. Sivasubramonian's thesis at the Delhi School of Economics. 'National Income of India 1900-01 to 1946-47, (1965) was later published in expanded form, including the post-independence period, as *The National Income of India in the Twentieth Century*, (New Delhi, 2000).

Blyn discovered that agricultural production in India showed adverse trends after 1920. The negative trends were especially pronounced in what he called the Greater Bengal region, which included Bihar and Orissa. There was declining per capita food availability in the late colonial period. S. Sivasubramonian demonstrated that the national income of India grew slowly in the period between 1900-1947, since agriculture, which was the principal sector in the economy, did not perform well. Industrial production expanded more perceptibly, especially because of the rapid growth of factory industry. On S. Sivasubramonian's evidence, there is no question of any 'deindustrialisation' having occurred in India between 1900-1947.

There is no comparable statistical series for the nineteenth century. The issue of deindustrialisation is therefore very much alive as regards the nineteenth century. Since factory industry did not account for an appreciable part of industrial production at the time, the issue boils down to the question whether cottage industries declined in that century. In a well-publicized controversy during the 1960's, Morris David Morris argued, against his opponents, that the cotton weavers benefited from the cheaper threads from Britain, but since neither side could produce any statistical series, the controversy, embodied in M.D. Morris et al, *Indian Economy in the Nineteenth Century: a Symposium* (Delhi, 1969), produced more heat than light. In yet another controversy, later on, Amiya Kumar Bagchi, in an article entitled 'Deindustrialization in Gangetic Bihar 1809 – 1901', produced statistical evidence from Buchanan Hamilton's

survey that the proportion of people employed in cottage industries went down drastically in the nineteenth century. The article, published in Barun De (ed.), *Essays in Honour of Professor Susobhan Chandra Sarkar* (New Delhi, 1976), provoked a critique by Marika Vicziany, who doubted the reliability of the statistical data from Buchanan Hamilton. Her critique, entitled 'The Deindustrialization of India in Nineteenth Century: A Methodological critique of Amiya Kumar Bagchi', along with 'A Reply' by Amiya Kumar Bachi, came out in *The Indian Economic and Social History Review*, vol 16, 1979. Subsequently, J. Krishnamurty, in 'Deindustrialization in Gangetic Bihar during the nineteenth Century: Another Look at the Evidence', *The Indian Economic and Social History Review* 22, 1985, argued that the qualitative evidence was in favour of Bagchi's decline thesis. More recently, Tirthankar Roy, in *Traditional Industry in the Economy of Colonial India* (Cambridge, 1999), has once again argued against any decline in the nineteenth century, but except for Bagchi, nobody else in this controversy has been able to adduce any statistical data from contemporary sources. As regards the eighteenth century, when the East India Company imposed a monopoly on textile exports, the Bangladeshi scholar Hameeda Hossein has produced evidence of terrible coercion upon the weavers in *The Company Weavers of Bengal: The East India Company and the Organisation of Textile Production in Bengal 1750 – 1813* (Delhi, 1988).

26.5 TOWN AND COUNTRY

The beginnings of modern Indian business enterprise in the early 19th century have been traced by Blair B. Kling in *Partnership in Empire: Dwarkanath Tagore and the Age of Enterprise in Eastern India* (Berkeley, 1976), and by Asiya Siddiqui in 'The Business World of Jamsetjee Jeejeebhoy' (*Indian Economic and Social History Review*, vol 21, 1982). Private European enterprise in the colonial port cities of the nineteenth century has been sketched in Amales Tripahi, *Trade and Finance in the Bengal Presidency 1793-1833* (Calcutta, 1979) and, for the subsequent period, when managing agency houses became dominant, in Radhe Shyam Rungta, *The Rise of Business Corporations in India 1851-1900* (Cambridge, 1970). Big Indian enterprise on the model of Dwarkanath Tagore and Jamsetjee Jeejeebhoy suffered a setback in the colonial port cities as European capital became gradually monopolistic, but as C.A. Bayly has shown in an influential work entitled *Rulers, Townsmen and Bazaars: North Indian Society in the Age of British Expansion 1770 – 1870* (Cambridge, 1983), Indian traders fared better in the inland markets by adjusting to colonial rule

Essays by several historians regarding the colonial impact upon the Indian economy are collected together in K.N. Chaudhuri and C.J. Dewey (eds.), *Economy and Society* (New Delhi, 1979), and C.J. Dewey and A.G. Hopkins (eds.) *The Imperial Impact: Studies in the Economic History of India and Africa* (London, 1978). Some of these essays presented new conclusions, especially on markets, industrial policy, and agrarian society. Many regional economic histories have appeared over time, two well-known works being N.K. Sinha, *The Economic History of Bengal*, 3 vols. (Calcutta, 1965, 1970) and C.J. Baker, *An Indian Rural Economy: the Tamil Nad Countryside 1880 – 1950* (New Delhi, 1984). There is also one micro-history of economic and social change in a single Punjab Village over time by Tom Kessinger, entitled *Vilayatpur 1848 – 1968: Social and Economic Change in a North Indian Village* (Berkeley, 1974).

The biggest British investments in the Indian economy, designed for imperial rather than national benefit, were in railways and canals. These investments did not bring about the sort of industrial growth witnessed in Germany, Russia and Japan in the nineteenth

century, and hardly improved per acre agricultural productivity over the land as a whole. There were harmful ecological side effects, and famines continued to visit the rural population time and again. These themes are explored in Danial Thorner, *Investment in Empire* (Philadelphia, 1950); Daniel Thorner. 'Great Britain and the Economic Development of India's Railways', *Journal of Economic History*, vol XI, 1951; Elizabeth Whitcombe, *Agrarian Conditions in Northern India: the United Provinces under British Rule, 1660 – 1900* (Berkeley, 1972); and Amartya Sen, *Poverty and Famines: an Essay on Entitlement and Deprivation* (International Labour Organisation, 1981), a brilliant essay by the Nobel Laureate economist showing that famines could occur because of adverse movements in prices and wages even when the food stocks were available.

26.6 INDUSTRIALISATION

The twentieth century in its first half witnessed a certain degree of industrialisation, but there was no industrial revolution, nor any economic break-through despite an appreciable growth of large-scale industry before 1947. Historians have differed on why there was no 'take-off'. The Marxist economist Amiya Kumar Bagchi, in *Private Investment in India 1900 – 1939* (Cambridge, 1972), and the non-Marxist historian, Rajat K. Ray, in *Industrialization in India: Growth and Conflict in the Private Corporate Sector 1914 – 1947* (New Delhi, 1979) both argued that colonial policies were responsible for this. Morris D. Morris, an American economic historian of note, argues, on the contrary, in his contribution to the second volume of the *Cambridge Economic History of India* (1983), that the technological backwardness of the Indian economic structure blocked the sustained growth of investment in large-scale industry. Subsequently B.R. Tomlinson, a historian who hardly took a side in the dispute, nevertheless observed, in his *The Economy of Modern India 1860 – 1970* (*New Cambridge History of India*, Vol III, Cambridge, 1993), that 'a ruthless insistence by government on strategic priorities limited the expansion' of Indian industry during the Second World War, when there were new opportunities. By then, there was a large Indian capitalist class locked in a struggle with European capital in India. Its growth, and internal tensions, is studied in Claude Markovitz, *Indian Business and Nationalist Politics 1931-1939. The Indigenous Capitalist Class and the Rise of the Congress Party* (Cambridge, 1985). By common consent, the explanation of backwardness is no longer sought in social values and customs. The political factor in economic backwardness or growth is still, however, a matter of dispute.

26.7 SUMMARY

The economic policies of the colonial rulers were at the centre of a controversy in the late 19th century India. Whereas the colonial administration sought to project its policies as beneficial to the country, the nationalist writers and sympathetic British commentators attacked these policies as exploitative and oppressive. Dadabhai Naoroji, R.C. Dutt and William Digby were some of the famous critics of government policies. The economic history of India, as we know it, may be said to have begun during this period. D.R. Gadgil, Vera Anstey and D.H. Buchanan followed in their footsteps in taking up the economic history of the colonial period. Jaduanth Sarkar and W.H. Moreland wrote about the Mughal economy. In the post-independence period, economic history became an established field of study and several studies were undertaken on various periods of Indian history covering several aspects of economy.

26.8 EXERCISES

- 1) Discuss the views of various authors on the economic history of pre-colonial India.
- 2) What are the differences between colonialist and nationalist works on Indian economic history? Answer with examples.
- 3) Write short notes on the following with reference to the economic history of India :
 - a) Industrialisation
 - b) Town and country.