CLASS NOTES
DE-INDUSTRIALIZATION IN INDIA

- The increasing political & economic subjugation of India to Britain since the middle of the eighteenth century had a pronounced impact on the Indian economy.
- The destruction of traditional Indian craft industries was one of the earliest noticed manifestations of British economic control over India.
- The process has often been referred to as the 'de-industrialization' of the Indian economy in Indian economic history.

WHAT IS DEINDUSTRIALIZATION?

- De-industrialization refers to the process of a continued and marked industrial decline.
- Quantitative measures for industrial growth & decline : – The proportion of the national income generated by industry & the percentage of population dependent on it
- Two issues got immense attention of political & economic interest groups in India & Britain: – 1) the destruction of Indian industries & 2) the ruralization of the country received a lot of attention
- The Indian Nationalists used the destruction of Indian craft industries under early British rule to substantiate their point that India was being exploited under British rule.
- The nascent free trade group in Britain attacked the East India Company's monopolistic control over India by criticizing the destruction of the country's traditional crafts under the Company rule.

THE PRE-BRITISH ECONOMY

- The limited quantitative data on indicators of industrial change such as output, productivity, capital investment & the size of the workforce — prevent any conclusive assessment of pre-colonial India's industrial performance.
- Qualitative evidence helps in forming a fairly reliable picture of the state of the industrial sector during this period.
- In spite of a highly uneven distribution of income, in Mughal India — the demand for essential manufactured goods in home market, appears to be large & exhibited an increasing trend.
- The rich nobility provided the market for the production of high class luxury goods.
- Cotton textiles were produced all over India constituted the most important manufacture.
- Dye stuffs (predominantly indigo) & sugar were the next most important commercial industrial products.
- The other significant agro-based industries included — oils, tobacco, opium & alcoholic beverages.
- Although the mining industry was inadequately developed, India was self-sufficient in iron.
- Ship building was important in developing industry
- In Mughal India, unlike pre-industrial Europe – there was no sharp division between urban centres where industries were concentrated & the countryside which supplied primary produce.
- Industrial production in India continued to be a largely rural based activity.
- The Mughal economy while marked by expanding demand — organizational developments grew very slowly.
- Relative stagnation in demand, a low rate of capital formation & the absence of rapid technological innovations — contributed to the Mughal industrial economy as a whole growing rather slowly.

THE NATURE OF EARLY TRADE

- Early European trade with India was heavily balanced in India's favour.
- Indian cotton textiles were rapidly displacing pepper & other spices to become the most important Asian, import into the west.
- By 1664, the English East India Company imported more than 750,000 pieces of cotton goods from India – accounted for 73% of the Company's total trade.
- In the next two decades , it increased to 1.5 million pieces with cotton textiles – contributing to 83% to the total import value. (Cambridge Economic History of India, hereafter CEHI Vo1.1).
- The expansion of Indian cotton textile exports substantially accelerated the growth of the textile industry 'which probably employed to a sizeable section of the population.'
- This unprecedented growth of Indian textile imports into Europe resulted in a steady inflow of bullion into India, as India enjoyed a positive balance of trade.
- Indo European trade of this period, tilted in favour of India could not have sustained for nearly three centuries without the discovery of American mines– Silver mines in Peru & Chile provided more silver bullions to Britain
- The increased European liquidity became a vital prerequisite for permitting the sustained financing of this trade – with its highly adverse balance of payments
- Contemporary Western observers – influenced by mercantilist thinking – attributed the instability in national finances of Western countries to their, markedly negative balance of trade.
- The shipment of large quantities of treasure to Asia by the European companies made them the focus of criticism.
- European trade with India in the early nineteenth century was based upon the price differential between Asia & the rest world

- European merchants bought goods at a low price in India & sold them for a much higher price in the European, African & New World markets.
- The main problem of the European companies was the financing of their Indian purchases. Since there was no demand for European goods in India the purchases of Indian goods had to be financed by bullion payments.

THE DECLINE IN EARLY TRADE WITH EUROPE

- In the similar time period, the emergence of Bengal as a significant commercial entity. European trade overtook 'country trade' in importance.
- Indian secondary industry responded by increasing localized manufactures to meet the increased demand.
- However, the European traders do not appear to have stimulated new form of commercial & industrial organization.
- The expansion of Indian manufactured exports to Europe however stopped by the first year of the nineteenth century.
- In the first half of the nineteenth century India progressively lost its export market in manufactures.
- A radical change in commodity composition of India's foreign trade taken place, with agricultural products gaining in importance & manufacture declining.

TRADE AFTER BATTLE OF PLASSEY

- In the pre-1757 period, 80 to 90% of the East India Company's exports from India were finance by bullion imports.
- Gradually situation changed – Period 1795 to 1812 the East India Company made goods worth nearly 33% of the exports they made from Bengal.
- The first six decades since the Battle of Plassey was a period dominated by the exploitation of India by merchant capital.
- During this period the East India Company began to establish control in India & monopolized all British trade with the subcontinent.
- After the assumption of the Diwani of Bengal the pressure on the Company to export bullion into Bengal to finance its investments decreased.
- The Bengal plunder : – profits from the duty free inland trade & the 'surpluses from Diwani revenues were not used to finance the Company's investments.
- The Company progressively abandoned free competition to secure its goods in the local markets.
- The producers of these goods were forced to supply their produce to the Company at low prices arbitrarily fixed by the Company.
- An observation by a contemporary commentator clearly highlights this point
- The roguery practiced in this department is beyond imagination: but all terminates in defrauding the poor waver; for the prices which the Company's gomastas, & in confederacy with them the jachendars (examiners of fabrics) fix upon goods as manufactured would sell in the public bazaar or market upon free sale". (William Bolts "Considerations on India Affairs", 1772).
- The years between the Battle of Plassey & 1813 saw the Company administration in Bengal in virtual anarchy.
- Company servants indulged in 'private' trade & stared remitting their money to Europe mainly through foreign companies & clandestine English trade.

THE IMPACT OF EUROPEAN TRADE

- The pre-1813 British exploitation of India can be termed as exploitation by merchant capital in a context of mercantilism.
- The East India Company's objective was to buy the maximum quantity of Indian manufactured goods at the cheapest possible price so that substantial profits can be made by selling these goods in Britain & other foreign countries.
- The reckless & anarchic attempts to increase their purchases while forcing down the price adversely affected the traditional Indian export industry, especially the cotton textile manufacture
- In the absence of reliable quantitative data of indigenous industrial production for this period, historians & economists have been forced to rely largely on qualitative evidence on British exploitation
- British textile manufacturers forced the British Govt to impose restrictive import tariffs & bans on the import of fine Indian textiles.
- As early as 1720 the British manufacturing interests had successfully prohibited the import of Indian silks and printed calicoes into Britain.
- The duty for home consumption of Indian calicoes & muslins was very heavy.
- In 1813 the Parliament again imposed an increased consolidated duty on home consumption of calicoes & muslins.
- Company virtually reduced the weavers to the status of indentured labourers, by forcing them to take advance from the Company & sell their products below market prices.
- By the regulation of 1789 , they forced to pay a penalty of 35% on the advance taken, if they defaulted in supplying the goods.
- Monopoly of the Company, became the focus of attacks from traders who had been excluded from having a share in the Indian trade
- British manufacturers perceived the manufactures imported by the Company into British to be threatening their own industries.
- It resulted in a progressive decline in the share of Indian cotton piece goods in the Company's investments from Rs, 92,68,770 in 1705 to Rs,90,51,324 in 1799 and to Rs.25,50,000 in 1810.
- The value of cotton piece goods exported on Company account from Bengal declined from Rs.61,67,851 in 1792 to Rs. 3,42,843 in 1823.
- The shift in the commodity composition of Indian exports – from manufactured goods to primary

products since the early nineteenth century – is accompanied by a complimentary increase in the share of manufactured goods in Indian imports.

DEINDUSTRIALIZATION

- Early nationalist economist such as R.C. Dutt & subsequently Madan Mohan Malaviya (in his dissent note at the Indian Industrial Commission) argued that India underwent de-industrialization; their evidence was statistics of import of manufactures, particularly import figures of Manchester made cotton cloth.
- According to R.C.Dutt , the value of cotton goods sent from England & its ports east of the Cape of Good Hope mainly to India, increased in value from 156 in 1794 to 108824 in 1813.
- Due to forcible reduction of purchase prices in India & the import restrictions on Indian textiles in England – resulted in drastic reduction in income of weavers – restricting any possibility of capital accumulation & technological evolution.
- The growing British textile industry had all the advantage which was dented to its Indian counterpart.
- The British industry had a rapidly developing technological base, it had the advantage of economies of scale and finally it was carefully protected in its formative years from foreign competition.
- According to Bipan Chandra , the decline in per unit price of cloth was much faster than that of yarn.
- This combined with the fact that the ratio prevented any benefit accruing to the Indian weaver. However, historical evidence does not bear out these arguments.

ECONOMIC IMPACT OF THE COLONIAL RULE

- According to Adam Smith, “The govt of an exclusive company of merchants is perhaps the worst of all govts for any country whatever.” (Wealth of Nations 1776)
- Smith’s criticism of the monopolist character of the Company was an attack on its statutory privileges which led to the abolition of these privileges in 1813 and 1833.

SUBORDINATION OF ‘NATIVE’ CAPITAL

- Indian ’native’ traders needed for the procurement of goods for export. But establishment of political hegemony of company reduced the traders to the position of agents
- In the middle of 18th century, some flourishing native business communities emerged – Hindu, Jain & Bohra merchants of the Gujarat coast, Khatris & Lohani of Punjab & Sind, Marwari banias of Rajasthan, the Moplas & Syrian Christians & Cochin Jews of present day Kerala, the Chettis & Komtis of Tamil & Andhra region, the Vaniks of Bengal, etc
- Some of them, e.g. those in Gujarat or Kerala region, were prominent in overseas trade.
- In the pre-colonial era, these communities played a very important role in the internal economy — some important roles are as follows

1. They facilitated tax collection in cash by converting crops into money & by paying, on behalf of the landlords or tax farmers, cash to the state in advance: often they were also guarantors of the tax collectors.
2. The traders & bankers also facilitated remittance of revenue. For example by means of a bill of exchange or hundi the banking house of Jagat Seth paid the annual revenue payable by the Bengal Nawab to the Mughal emperor.
3. Money-changing by bankers, particularly the Sarrafs : – service not only to trade but also the state
4. The State depended on the traditional trading communities for provisioning the army during the wars - From late 17th century, warfare became quite frequent – For supplies to army for food, wages & sale of plundered goods, etc. the state depended on traders & banjaras (migrating dealers in foodgrains, livestock etc.).
5. Traders & bankers were vitally important to the State & the nobility — as source of loans during crises like warfare or the failure of crops, as well as other credit requirements in normal times.

- As the regional States began to wilt, & the East India Company’s extended control over India, some of these lines of business began to close for Indian business communities.
- For instance, the banking house of Jagat Seth ceased to be the state banker & repository of revenue in 1765 when the Company became Diwan of Bengal.
- Till 1753 the Company, depended on the Indian merchants to procure cloth: these merchants were called dadni merchants – through these merchants, dadan or advance was given by the Company to the artisans or weavers.
- From 1753 the Company began to replace the dadni merchants with gomastas who were agents of the English & dependent on commission paid by the English as a percentage on value of cloth collected by these agents.
- After the battle of Plassey the increasing political power company switch over to this new gumasta system which reduced the Indian merchants to commissioned brokers.
- In 1775 a variant of this system, known as the ‘contract system’, consolidated the position of the English in relation to the Indian brokers.
- In 1789 the system of ‘direct agency’ was introduced, dispensing with Indian middlemen altogether.
- By the end of the 18th century , Indian businessmen were reduced to a subordinate position (e.g. in salt, saltpeter business) or virtually excluded (e.g. in raw silk, cotton cloth)
- The decline of export industries in the early half of the 19th century, restricted opportunities for Indian businessmen further.

- In new lines opening up (e.g. jute & opium), a role subordinate to the English business houses was assigned to Indian businessmen.
- In the first half of the 19th century – Indian businessmen in Bengal were involved in : – Petty money lending, maternal trade in agricultural & artisanal products, the sale of imported manufactures
- However, within foreign capital's domination Indian businessman, got the spaces to do well in business.
- For example, the business in raw cotton & opium in western India, allowed considerable capital accumulation for Indian businessmen
- Some of the Parsi businessmen in the first half of the 19th century became major exporters of these commodities.
- This capital accumulation led to industrial investments in Bombay & the growth of a textile industry which challenged Manchester's hold over the Indian market in the early 20th century.

MARKET DOMINATION

- Very little is known of the trends in production that could decipher the earnings of artisans & farmers.
- However, the way production & marketing in the late 18th & early 19th centuries is marked in the history.
- By the 1770's & 1780's monopoly of the Company & its servants was established – Servants were engaged in private trade of cotton cloth in Bengal.
- It means that artisans had no option but to sell their products to the Company & its servants.
- Up to the middle of the 18th century, the weavers appear to have enjoyed freedom to sell their products to the English, the French or the Dutch or to Indian merchants.
- From the 1750's, the gomastas began to compel weavers to sell their products to the English.
- The elimination of the French & the Dutch from competition by military means helped the process.
- Extortion by fraudulent undervaluation of cloth & chicanery in the English Factories became common.
- In the 1780's this practice became systematised as the Khatbandi system: the artisans were indentured to sell exclusively to the Company under Regulations passed by the Bengal govt.
- Thus the artisans were reduced to the position of bonded labourers by the denial of free access to the market, by the use of coercion, and by laws and regulations made by the Company's government.
- It creates a buyer's market, i.e. situation where the buyer can dictate the price, the buyer being the English Company's its servants, English traders, plants & agency houses.
- The capital remained outside of production process, leaving technology and organization of production by and large where it had been in the 18the century.
- There are variations from region to region, from industry to industry.
- Forcibly buying in cheaper price & selling in high prices in Europe — it was the main theme of the profit generation
- In some cases the involvement of the capitalist was greater; e.g. in the raw silk industry in Bengal where wage employment was not uncommon, or in the nijabadi system where indigo planters employed people in farms owned by the planters.
- These are exceptional cases and affected only a small section of producers.

RURAL & URBAN SITUATIONS

- Due to lack of proper data – frequency and intensity of famines as a means of gauging economic conditions of the people.
- The number of people who died in famines could have been a measure, but such figures are not available.
- From the middle of the 18th century a number of major famines occurred in India. North India was affected by famines in 1759 (Sind), 1783 (Uttar Pradesh, Kashmir, Rajasthan), 1800-04 (U.P.), and 1837-38 (U.P., Punjab & Rajasthan).
- In western India, present day Maharashtra and Gujarat, famine years were 1787, 1790-92, 1799-1804, 1812-13, 1819-20, 1824-25 and 1833-34.
- Famines of 1770 in Bengal was possibly the most disastrous of all in this period, causing about one crore deaths i.e. one-third of the population of Bengal.
- These famines occurred due to a variety of causes not all of which can be traced to British rule; in fact, several of the famines mentioned above struck regions outside of British territories.
- In the 18th & early 19th centuries an important factor was the devastation caused by frequent warfare
- There was a tendency in the early days of British administration to push up land revenue demand to a high level.
- British collected the revenue with greater rigour than was customary in pre-British days. They also refused revenue concession to farmers in a bad season.
- This inflexibility of revenue policy was certainly a major cause of the Bengal Famine of 1770, apart from failure of seasonal rains.
- English traders & their agents' activities might have contributed to the intensity of famines in some cases
- In the early 19th century the forced cultivation of commercial crops for export in place of foodgrains may have been a factor
- The neglect of the British to maintain or expand the pre-British irrigation works, in the territories that came under their rule, expose agriculturists to their old enemy, drought
- From the middle of the 19th century the newly established Public Works Department began to pay some attention to irrigation requirements in British India

- The revenue policy also became more flexible & from 1880 famine relief measures were systematised.
- Two trends of urbanisation : – 1) The decline & depopulations of old urban centers & 2)The rapid growth of new cities & town.
- The rapid growth of new cities is due to the needs of British commerce & administration.
- The premier examples were the future colonial metropolises, Calcutta, Bombay & Madras.
- Simultaneously, many small towns grew in size as administrative centres or central places for the marketing of imported manufacturers and exportable agricultural goods.
- The new urban growth was not oriented towards industrial production, quite unlike the European pattern.
- Towns and cities which experienced growth in the first half of the 19th century were engaged predominantly in the service sector i.e. marketing, transport, administration etc.
- There are evidences of decline on stagnation of older cities, e.g. the Mughal capital cities of Agra and Delhi, or regional seats of power like Deccan, Murshidabad, Patna, Seringapatam, Hyderabad etc.
- This change was due to the shift in the political centre of gravity away from them to new colonial metropolises.
- It was also due to the decline in the trade marts located in them and re-channeling of trade to new routes & networks.
- De-urbanization seems to have been particularly marked in the heartland of Northern India, the region around Delhi, and in parts of Western India.
- The colonial metropolises were different only in that these were meant to pump out a substantial part of that wealth.
- That leads to another important feature of the colonial economy, the transfer of funds to England.

TRANSFER OF FUNDS

- The 17th & early 18th century account books of the East India Company, shows that apart from trade goods it used to send to India large amounts of 'Treasure', i.e. gold & silver.
- This was to buy Indian goods for sale in Europe. After the battle of Plassey (1757) & the assumption of Diwani of Bengal by the Company (1765, saw a sharp decline in the import of Treasure' into India.
- Yet export of Indian goods to Europe continued with the help of the surplus revenue remaining with the Company
- The company was getting Indian goods for sale in Europe for nothing; or that the company was collecting a tribute from its territories in India in the form of goods for sale in Europe. It can be called a 'political tribute
- The term , political' because it was the Company's political power that enabled it to collect revenue to invest in its business. This is how there began the 'drain of wealth'
- The Company had a word for it: 'Territorial Revenue' e.g. the revenue surplus from Bengal.
- As the Company's territory in India extended, the 'territorial revenue' expanded. The company was able to use the territorial revenue from one region, e.g. Bengal, to pay for the military costs of acquiring other territories.
- The territorial revenue was used to provide the funds for the business which raked in 'commercial revenue'. It was a perfectly self contained system, needing no funds from England
- The system was successful in financing the Company's exports to Europe & Company's investment in China to buy tea and silk.
- The Chinese branch of business involved export of silver to China which caused monetary problems in this country.
- This system operated in full swing from 1765 till 1813 when the Company's monopoly was abolished.
- In the next two decades the business of the Company decline sharply and 'Territorial Revenue' became their mainstay.
- It had been remitting their profits to England in the form of goods through company by means of bills of exchange. Thus, apart from the Company's account, on private account there was transfer of funds to England.
- Not all that was thus sent out to England was business profit; it included earnings of Englishmen from plunder & lost during wars, bribery obtained from regional principalities, and fraudulent dealings with Indian business partners or underlings.
- A knowledgeable English businessman, G.A. Prinsep, calculated that between 1813 and 1820 the yearly average private wealth sent out to England from Bengal alone was about Rs. 1 Crore and 8 lakhs.
- So, profits of business & other private earnings formed one part of funds remitted to England.
- Another part was the money paid to shipping companies, banks, insurance companies etc. in England. This amounted to about Rs. 57 lakhs in 1813-20 annually.
- A third channel of transfer of funds was the Company's remittance to England — to pay for the salary of the Company's employees in England, the interest on loans taken by the Company in England, dividends to the stockholders of the Company etc.
- This amount varied greatly, from one to three crores of rupees. This became known as 'Home charges' & was the sum total of the money sent to England by the Company's govt after it stopped trading in 1833.

EXTERNAL TRADE

- In the years 1758-61 the average value of cotton cloth exported from India by the English EIC was about Rs. 27.4 lakhs (416,000 pieces on the average); this was about 81% of total value of average exports in those years.

- Raw silk, pepper & saltpeter accounted for the rest, less than 20 % of exports.
- In 1850-1851 the major export items were opium, raw cotton, indigo and sugar (according for about 30, 19, 11 and 10 % respectively of total exports in value).
- Thus India was now reduced to almost totally an exporter of raw or processed agricultural goods. Of exports only 3.7% was cotton piece goods.
- In 1850-51 large quantities of English factory manufactures were the major import items; 31.5% of total value of imports was mill cotton cloth and 9% was cotton yarn.
- In 1850-51 India imported Rs. 1.13 crores worth cotton yarn and twist, & Rs. 3.37 crores of cotton cloth, called piece goods.
- Two decades earlier: cotton yarn import was only Rs. 42 lakhs, and cotton piece goods only Rs. 1.18 crores, in the year 1828- 29.
- Thus in about twenty years these imports from Manchester mills had gone up about three times. In the same period, the export of Indian cloth dropped to an insignificant quantity
- India ceased being an exporter of cotton cloth & became an importer of cloth and yarn, while England stopped importing cloth from India and acquired an export market of that commodity in India.

INDIAN RAILWAYS

- In 19th century Europe it was opening up' India, or China, or some other Africa or Asian country
- Opening up meant preparing a country for trade with European countries by removing barriers to trade: such barriers could be the objection of the Chinese government to entry of foreigners, or conflicting claims of various Europeans.
- In India, after the abolition of the Company's monopoly privileges, opening up meant chiefly railway development.
- The objectives are quite obvious: Railways would enable imported English manufactured goods to reach the interior of the country, facilitate the collection and export of raw materials and agricultural goods from the interior, and allow an opportunity for the investment of English capital in railway companies operating in India.
- Railways had to connect the interior commercial centres with the sea ports
- These sea ports like Calcutta, Madras, Bombay and Karachi were also the centres of European business and seats of political power
- A minimum rate of freight charges was necessary – which would allow cheap transport of manufactured goods
- The railway companies were set up in England as joint stock companies. English capitalists bought shares in these companies in the stock market in London.
- In order to encourage them to buy shares in a business remote from England and to create confidence in them, the Government of India offered a guarantee of at least 5% interest on their investments.

OUTCOME OF RAILWAYS

- Thus all the Indian railway companies were in reality English companies protected by a 'guaranteed interest contract'.
- A govt guarantee of interest means that irrespective of profit or loss the interest had to be paid out of Indian tax payers' money to the English investors.
- This encouraged over-expenditure & extravagance in railway construction management.
- The guaranteed interest had to be paid in England in sterling, thus increasing India's foreign exchange expenditure in England called the 'Home Charges.
- The English railway companies imported into India, the engines, the rails, the machinery and even the coal for the engines (coal was imported for a decade
- In most other countries railway construction had encouraged auxiliary industries like the engineering industry, iron & steel production, mining etc.
- India was denied the benefit of such auxiliary industrial development due to the policy of the railway companies to import almost all that was needed by them.
- If the railway companies proved to be so expensive a burden on the finances of India, why did the Govt of India agree to sponsor them and offer guarantees?
- Some of these reasons were strategic & political of the railway scheme: the railways would help the govt to control the distant parts of India, to move around the army to quell internal disturbance and foreign attack, and to guard the frontiers of India against Russia and other powers.
- There was pressures on the Indian and British government from interest groups who were economically and politically powerful

----