

Introduction

The economic history of India has been a contested field. The nationalist and the imperialist historiography was useful to get us started in thinking about different aspects of colonization and economic development in colonial and pre-colonial India. There have been important contributions from a large number of historians and economists. Economic historians Naoroji (1878) and Dutt (1906) made an economic argument against British rule using the concept of drain of wealth from India and the disproportionate influence of the imperial power in different spheres of the economy. This was a product of the time and an effective political weapon to make an economic case for independent economic policy that would prioritize economic development of the country rather than imperial interests. An imperialist view of colonial India in recent work comes from Niall Ferguson in *Empire: How Britain Made the Modern World* (2012). Ferguson sees British imperialism as playing a crucial role in bringing modernization to the colonies. The idea of modernization is defined as integration into world trade and financial markets and building of modern infrastructure. Very little is said about growth in per capita incomes and improvements in living standards. More recently, there has been a revival of the nationalist approach in Shashi Tharoor's *Inglorious Empire: What the British Did to India* (2018); this narrative contests the imperialist view. Without colonization, India would have prospered. Without the destruction of traditional industries, India would have become an industrial nation.

Neither Ferguson nor Tharoor use data as evidence. Neither say anything concrete about the fiscal capacity and technological capabilities in pre-colonial India and how to think about measuring living standards. For Ferguson the benefits flowed from Britain to the colonies, and for Tharoor there was a drain of resources from India to Britain.

Many of the conclusions from this literature have not stood up to empirical scrutiny. For example, the magnitude of economic drain has been debated. The economic impact of the railways has been shown to be more beneficial than merely a transportation network that served

2 Introduction

imperial interests of trade. By the early twentieth century the network criss-crossed the country and connected markets and towns. The claim that colonial policy stopped industrialization does not square up with the evidence from subsequent research. A large import substituting cotton textile industry developed with Indian ownership. The interwar years saw a diversification of the industrial sector under Indian entrepreneurship and the entry of multinational corporations. Deindustrialization in the nineteenth century is flagged up as evidence of impoverishment, and specialization in agricultural exports is considered to be the cause of underdevelopment. Yet Indian GDP per capita declined in the eighteenth century when the textile trade prospered and stagnated in the nineteenth century rather than declined as India became an agricultural exporter. Data show that the main economic decline coincided with a booming trade in traditional textile exports.

British rule impacted on the Indian economy in significant ways. Without quantitative evidence it is difficult to understand which areas of the economy became underdeveloped and which areas developed, or which policies had a detrimental effect and which did not. There is an overarching moral critique of occupation of one country by another. This would not diminish in importance, should there be evidence of economic prosperity. Political freedom is factored into measurement of living standards today. By that yardstick, being a colony feeds into the index of underdevelopment. There are examples of economic growth under colonization, such as Malaysia in Asia and Senegal in Africa. A moral critique would still make a case against colonization, whereas an economic critique may not.

There is a rich literature using empirical evidence at the regional level to illustrate the impact of colonization on regions, communities, and social groups. Among them are contributions by Sugata Bose, Rajat Datta, Sumit Guha, Dharma Kumar, and David Ludden. There are rich evidence-based narratives of industry in the work of Amiya Bagchi, Morris David Morris, Rajat Ray, and Indrajit Ray. An evidence-based approach to an economic history of India was adopted in the work of historians of Mughal India such as Irfan Habib, Shireen Moosvi, and Najaf Haidar, and in the work on the colonial economy by Dietmar Rothermund, Tirthankar Roy, and B.R. Tomlinson. In the last twenty years there has been a revival of interest in Indian economic history. Data digitization has made it easier to build large data sets and researchers have used new granular data. New data, new sources, and digitization has made it possible to think of new questions and provide new perspectives.

I.1 Data on Colonial India

3

This book brings together old and new research and offers a historical perspective on how we can think of India's economic development. It aims to build a narrative based on the new empirical evidence to understand the nature of economic development or a lack of it in a large colonial economy, using concepts and theories from economics and economic history. It aims to use the available empirical evidence to understand the impact of British rule on the economy. It takes a long view to understand the changes from the pre-colonial economy to colonial rule and puts a timeline on what has come to be known as the *Great Divergence* between Europe and Asia, with a focus on India. Finally, it attempts to understand India's post-independence development from the perspective of an economic historian of colonial India. By taking a long view, the book explores persistent effects of historical institutions as well as policy-driven changes after independence in 1947.

I.1 Data on Colonial India

The East India Company and the colonial government produced detailed records on different aspects of the economy. Evidence on exports and imports from India, wages, and prices were documented carefully by the East India Company. Regional surveys produced evidence on the state of agriculture and industrial and service sector activities, occupation structure, and other aspects of living standards and quality of life. These resources have documented wages paid to workers in different occupations as well as prices of goods traded in the internal market and the records of fiscal spending. This information is patchy. From the time of Crown rule, we have more systematic data on population, production, disease environment, government revenue, and expenditure. The decennial censuses from 1872 made available district level data on population, occupations, civil condition, education, and other aspects of the economy and society. District gazetteers and sectoral reports provide more granular data. The reports of the Sanitary Commission provide health and demographic data. Agricultural censuses from 1891 recorded acreage under different crops, livestock, and irrigation at the level of districts. Yield per acre by crop was estimated for these districts. Investors manuals, business directories, and reports of industrial associations provide information on firm ownership, capital, the number of workers, and profits. Over the last two decades new research by economic historians has analysed this data using rigorous statistical methods and has brought new insights, some of which question existing views in the literature on the colonization of India.

4 Introduction

Historical data can never be as good as contemporary empirical evidence. Still, it is possible to compile the evidence available and evaluate it statistically. This book is an attempt to look at the economic impact of colonial rule through the lens of recorded empirical evidence. I use data collected in my research on Indian living standards covering several centuries.

The book presents empirical evidence, old and new, based on the agricultural statistics from the nineteenth century and trade and production statistics for industry to discuss deindustrialization in the nineteenth century and the rise of modern industry. I have used primary sources of the data and evidence from secondary sources for my own research to put forward an evidence-based perspective. I also borrow from the research of others over the last decades to understand different aspects of India's long run development.

In the following chapters I use insights from research based on the empirical evidence to assess the response of economic agents to the process of colonization, the role of institutions in creating unequal access to resources, and the factors that shaped economic policy. The approach will be to study how economic agents in different sectors (farmers, labourers, entrepreneurs, and traders) responded to the changing environment of policy making. I evaluate the modernization of the economy through investment in physical and social infrastructure such as the railways, irrigation, and education, and the impact of integration into the global network of the British Empire. The book covers a long span of history from the time of Emperor Akbar to the reign of the East India Company and the period of Crown rule and, finally, Nehru's vision of a new India and the policies of regulation and subsequent economic reforms in independent India. The choice of dates is determined by the availability of data for long run comparisons. It ends roughly in 2000 as the consequences of history become less relevant given the momentous changes in Indian economic policy and outcomes. The chapters are organized thematically and traces the historical origins of different aspects of economic development.

1.2 Defining India over the Long Run

In this book, India is not the same unit over time. Mughal India covers the boundaries of the Mughal Empire. British India includes the modern states of India, Pakistan, and Bangladesh. 'India' after 1947 refers to only one country. Most historical discussions on economic change cover the area now included in India, Pakistan, and Bangladesh. The two long-lasting empires, the Mughal and the British, unified large parts of the

I.4 The Timeline of Empires

5

country under one political entity. The term ‘India’ will be used to refer to the political entity at a given point in time. Therefore, the borders and the area termed ‘India’ will not be the same as I move through centuries. Mughal India, British India, and independent India will form the changing contexts and geographic boundaries.

The Indian subcontinent is diverse in geography, the people that inhabit this region, the languages they speak, their religious practices, and the cultural heritage they own. In political terms, neither the Mughal nor the British Empire ruled over the entire region of today’s India. Parts of Southern India remained outside the Mughal Empire and the princely states in British India were ruled by local elites, remaining outside the political boundary of the British Empire. In the year 2000, India, Pakistan, and Bangladesh were three separate countries. India after independence lives the shared history of the region. An analysis of post-independence economic changes in Pakistan and Bangladesh remains outside the scope of this book.

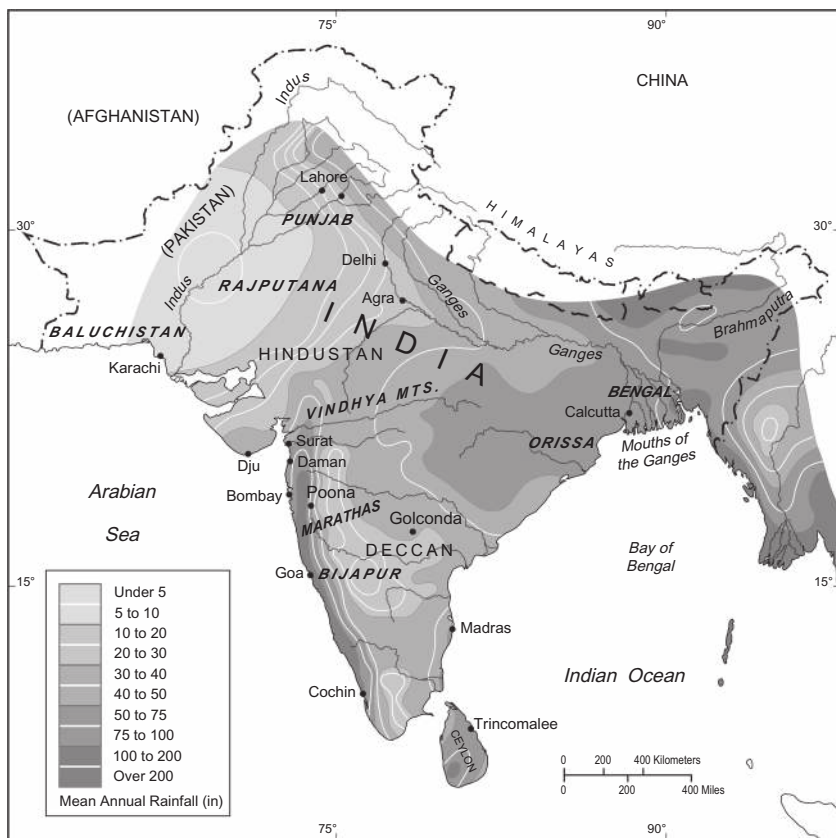
I.3 Geography

Geographically, the region can be divided into four zones – the Himalayas, the Indo-Gangetic Basin (the floodplains of the Ganges and the Indus), the arid or semi-arid areas of north-west-centre and south, including the Deccan Plateau, and the littoral (Gupta and Roy 2017). The southern part of South Asia has a tropical climate, while the northern part is more continental. The region depends on the south-west and north-east monsoon rains, which provide water for agriculture. Map I.1 also shows the regional variations in rainfall and highlights the extensive dry regions in the north-west and on the Deccan Plateau.

I.4 The Timeline of Empires

The Mughal Empire was established by Babur in 1526. The territory expanded under the reign of Humayun (1530–1540, 1555–1556), Akbar (1556–1605), Jahangir (1605–1627), Shah Jahan (1627–1658), and Aurangzeb (1658–1707), when it reached the largest geographical boundary (see Map I.2). After the death of Aurangzeb, the Empire began to crumble. The eighteenth century brought wars and conflict over territorial control, disrupting economic activity. The peak in prosperity in this Empire was reached during the reign of Akbar.

6 Introduction



Map I.1 Rainfall map of 1908

The European trading companies began to arrive in India in search of spices and other exotic products. The Portuguese, British, Dutch, French, and Danish monopoly trading companies entered into trading contracts with the local rulers and set up trading posts in various parts of the country. The trading posts dotted the western and eastern littoral and various spots along the river Hooghly in Bengal. The companies bought textiles in India and exported them to Europe and other markets.

In 1757, the ruler of Bengal was defeated by the English East India Company and thus began the Company's rule of Bengal. From a trader, the Company transitioned into a fiscal consolidator and expanded its reign to other regions of India. By the middle of the nineteenth century, it looked more like a ruler than a trading firm. Map I.3 shows the timeline of the conquest by the Company. In 1858, India came under

I.4 The Timeline of Empires

7



Map I.2 Mughal India

Crown rule. The transition to Crown rule integrated India into the economic project of the British Empire. The princely states were ruled by local princes and coexisted with British India although they remained outside its political control (see Map I.4).

The independence of India came at the cost of a partition of the country. The movement for independence had been led by the Congress party under the leadership of Mohandas Gandhi, Jawaharlal Nehru, and Vallabhbhai Patel. The Muslim League, formed in 1906, came to see a separate state for the Muslims as their political goal. By the 1940s their support had grown and the colonial government accepted the demand for a two-state solution for independence.

The political boundaries of India and Pakistan were drawn in an arbitrary fashion. Cyril Radcliffe, a British barrister, was assigned the task

8 Introduction



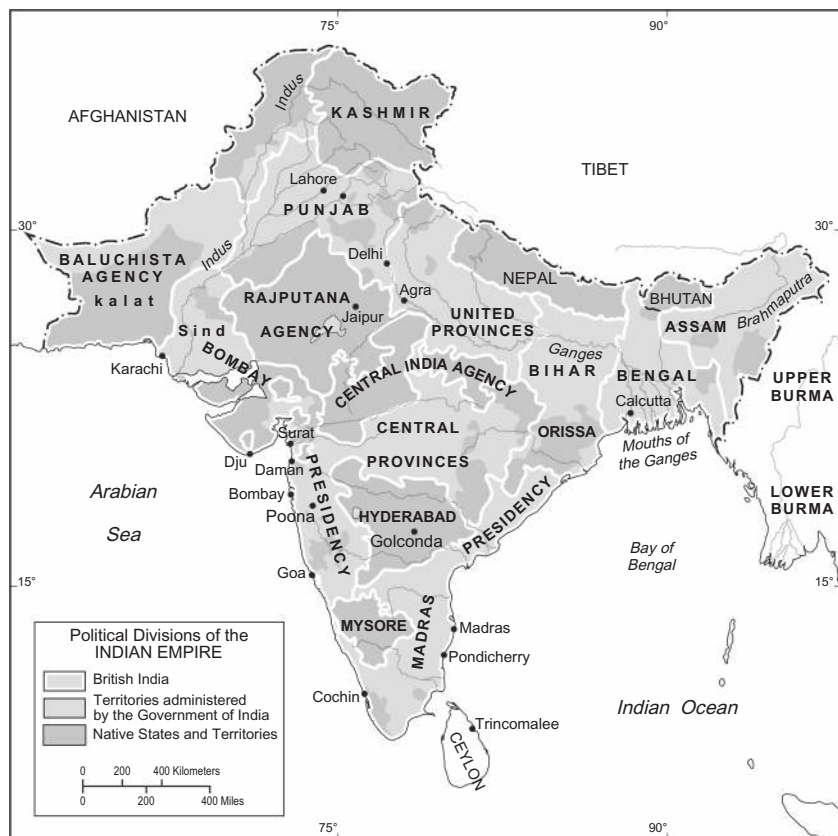
Map I.3 Political conquest by the East India Company

of drawing the dividing line. This was his first visit to the country and he had five weeks to do the job. On the western side the region of West Pakistan and on the eastern side East Pakistan were carved out to form the new state of Pakistan. British India was partitioned on lines of religion and its end was one of the bloodiest episodes in the history of the subcontinent. Map I.5 shows the partitioned state of British India and the presence of the two largest religious groups, Hindu and Muslim. In 1971, East Pakistan became the independent country of Bangladesh. At the time of independence, the numerous princely states became a part of India. In 1952, the newly independent state of India became a republic.

Jawaharlal Nehru, the first Prime Minister, adopted policies that were very different from the path followed by the colonial government of the

I.4 The Timeline of Empires

9



Map I.4 British India

British Empire. Colonial India had been a part of a globally connected economy. India after independence became one of the most inward-looking economies in the world. The Nehruvian policies of state that directed development have come under much criticism. However, any evaluation of the policies after independence without considering the policies under colonization and their implication for the economy ignore the context in which the post-independence policies were made and how their impact should be evaluated. By taking a historical perspective, this book will look at economic outcomes before and after 1947 and reflect on the continuity and departure from the past. The book will end with a comparison with the East Asian economies of South Korea and Taiwan that gained independence from Japanese colonization around the same



Map I.5 Partition of India

time in order to understand the historical differences that may explain their differences in economic performance as independent countries.

I.5 A Narrative of Colonial Underdevelopment

In this book, I have used empirical evidence to understand the economic outcomes in pre-colonial and colonial India. My analysis differs from much of the existing literature in the following aspects. First, I argue that the role attributed to colonial policy on the decline of traditional industries and lack of development of a modern industrial capability need rethinking. Second, the stagnation in colonial India was not because of developments in industry but because of the stagnation of the main