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Colonial India

British versus Indian Views of Development

Bipan Chandra

Two divergent theories of economic development were evolved by the British and Indians during the last quarter of the nineteenth century. The two had divergent, rival perceptions of the nature of economic changes taking place in colonial India. While according to the British, India was undergoing the process of rapid economic development, the Indians came to hold that India was economically underdeveloping. They argued that India's economic backwardness was not a carry-over from its precolonial past but a consequence of the colonialization of the Indian economy. They therefore set out to analyze the nature, the economic mechanism, and the basic features of British colonialism in India. Consequently, the measures that the British and Indians suggested for overcoming India's economic backwardness were also different from and often in opposition to each other. The measures suggested by the Indians would have cut at the very roots of colonialism. During the 1930's and 1940's, both the British and Indians continued to function within the framework evolved in the nineteenth century, except that the Indians evolved another feature-commitment to planning, the public sector, and social justice.

The key period in this respect was the last half of the nineteenth century. The positions then developed underwent only minor changes until the 1930's, when the needs of mass mobilization in the struggle against imperialism, the impact of the Soviet Union and the Great Depression, and the emergence of a powerful left

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wing within the national movement led to a certain radicalization of the nationalist prescription for economic development. We will, therefore, firstly, and in the main, deal with British and Indian ideas on economic development in the key period of 1858 to 1905.

PART I

I

Among the British, and even more so among the Indians, ideas on economic development were developed and propagated by non-professionals. On the British side, the task was undertaken mostly by British Indian officials, though some of the general guidelines were to be found in the writings of John Stuart Mill. The Indian writers on economic problems–Dadabhai Naoroji, M. G. Ranade, G. V. Joshi, G. Subramaniya Iyer, R. C. Dutt, and numerous others–were politically active nationalist intellectuals who were, however, well versed in contemporary economic writing and analysis.

The two sides shared the common assumption that economic development constituted the heart of a society's development, the chief measure of its health and progress, and the most important goal of government policy. (For the British, see Strachey & Strachey [1882]; Grant Duff [1887b: 192; 1891: 328]; for Indians, Chandra [1966: 5-7, 24-27]).

The broad context for the discussion of the problems of economic development was provided by rival perceptions of the existing economic situation and the nature of economic changes, both quantitative and structural, taking place in India during the nineteenth century.

The British writers denied that India was economically stagnating and becoming backward and that Indians were poor or growing poorer. They saw India as a country that was in the midst of a process of rapid economic development, comparable to that of any European country. A few representative quotations may suffice. Henry Sumner Maine wrote as follows of India's progress from 1859 to 1887:

> taking the standards of advance which are employed to test the progress of Western countries, there is no country in

> Europe which, according to those criteria, and regard being had to the point of departure, has advanced during the same period more rapidly and farther than British India.... [There has occurred] a process of continuous moral and material improvement which in some particulars has attained a higher point than has yet been reached in England (Maine, 1887: 486, 494, 518, 524).

And the scholarly W. W. Hunter, the compiler of the first series of the *Imperial Gazetteers of India*, wrote in 1880 that the figures of growth of foreign trade and industries "are so great, and the material progress they indicate is so enormous, that they elude the grasp of the imagination" (1903: 123). In 1887, he compared India's economic growth with that of the United States: "The progress of India during the past fifty years has been not less wonderful, and, considering the lower level from which India started, in some respects, even more rapid" (1903: 4). (See also Temple, 1881: iv, 93 ff., 493-95; Mangles, 1864: 96; Anonymous, 1870: 51; Lee-Warner, 1879: 386-87, & 1881: 58, 63, 74; Campbell, 1882: 68; Grant Duff, 1887a: 12-13; Lyall, 1884: 9, 1889: 421, & 1895: 17; Dilke, 1890: 21; Strachey & Strachey, 1882: Ch. I; Strachey, 1894: 301, 303; Chesney, 1904: 394; Elgin, 1899: 360-61.) And in 1904, Lord Curzon, the Viceroy, asserted that India was "exhibiting every mark of robust vitality and prosperity," and in 1905 that the economic progress of India was "without example in previous history of India and rare in the history of any people" (Curzon, 1904: 389, & 1906: 212; also 1900: 158; 1902: 165, 288-90; 1904: 148-49; 1906: 36-37, 211-12).[1]

By the 1890's, a large number of officials even felt that perhaps the British had tried to modernize and develop India too fast and that it was time that the process was slowed down to suit Indian conditions (Lee-Warner, 1881: 74-75; Temple, 1881: 447, 450; Lyall, 1893: 316, & 1897: 12-13; Prothero, 1895: 440; Keene, 1897: 358-59). In any case, there was deep optimism regarding the

[1] Even Alfred Marshall said in 1899 that though India had not been able "to keep pace with the West, or even with Japan ... when one complains of the slow progress of India, one must recollect that there is scarcely any other old civilization in the same latitude, and with the same difficulties, that has made progress to be compared with that of India" (1926: 289).

future. Firm foundations for economic growth having been laid, an era of rapid development was foreseen by nearly all British writers.

II

In the first half of the nineteenth century, Indian intellectuals too started out with an optimistic view of British economic impact on India. Contact with and rule by the most advanced economic nation of the time, they hoped, would lead to India becoming an economic replica of Great Britain. But as the inner contradictions of colonialism grew and surfaced and their own consciousness developed with time, their evaluation of current economic reality underwent a drastic reversal. During the last three decades of the nineteenth century, they increasingly put forward the view that India was economically regressing, the visible manifestation of this regression being the deep and ever-deepening poverty—"the wretched, heart-rending, blood-boiling condition"—of the Indian people.[2] Moreover, they tried to relate this poverty to the impact and nature of British rule. They saw this poverty not as inherent and unavoidable, but as man-made and in fact a direct consequence of British rule (Naoroji, 1901: 216–17; 1887: 368; n.d.: 225, 228, 396; Joshi: 785–86, 818; Dutt, 1897: 144; 1901 & 1903: Prefaces; Indian National Congress, 1891: Resolution III; Indian National Congress, 1892: Resolution IX). Consequently, this fundamental problem of the extreme poverty of the people became the starting point of their analysis of colonial economic policies. In trying to discover the causes of this poverty and the needed remedies, Indian intellectuals evolved their ideas on economic development and the nature and the economic mechanism of British colonialism in India and its relationship to India's economic backwardness.

More scientifically, they pointed to the unbalanced character of the Indian economy as a result of changes brought about by British

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[2]As early as 1871, Dadabhai Naoroji began to refer to the "continuous impoverishment and exhaustion of the country" (1887: 28). His views were presented in a more organized form in 1876 in his work, *The Poverty of India* (1901: 1–142). Nearly all Indian writers of the period expressed themselves strongly on the question. See Bipan Chandra (1966: 1–40).

rule (Ranade, 1898: 183; also 66, 185; Joshi, n.d.: 780).[3] Because of an economic policy that subordinated the Indian economy to Great Britain's, India had been subjected to a process of deindustrialization without modern industrial transformation taking place. (For example, Chandra, 1876: 5; Joshi, n.d.: 652, 738, 753, 778–79, 789; Iyer, 1903: 218, 247; Ranade, 1898: 185; Dutt, 1901: viii; 1903: vii).[4] This had disrupted the balance between industry and agriculture that had traditionally existed, though at a lower level of development (Dutt, 1901: vii–viii, 256, Ch. XIII; Joshi, n.d.: 780, 784–85; Gokhale, 1916: 52; Iyer, 1903: 258). The destruction of indigenous handicrafts had, moreover, created unemployment for millions, forcing them to fall back, in the absence of the rise of modern industry, more and more upon agriculture, and this led to the increasing pressure of the population upon the land and to the ruralization of the economy (Joshi, n.d.: 785, 835; Ranade, 1898: 27; Dutt, 1901: viii–ix; 1903: viii, 345; 1897: 129; 1904b: 181; Wacha, 1901).

The Indian nationalists also pointed to the backwardness of Indian agriculture, its overcrowding due to deindustrialization, its failure to modernize and use modern techniques of production, the declining trend in its productivity (Joshi, n.d.: 227, 333, 753, 832–36, 841–44, 852, 871, 874; Gokhale, 1916: 19; Iyer, 1903: 218; Ranade, 1898: 66; Nundy, 1898: 109, 120–121; Mudholkar, 1898: 45, 47; Pal in INC, 1898: 159), and the vast unemployment and underemployment in the rural sector (Joshi, n.d.: 790–92, 804, 849–52). They took note of the limited modernization represented by the development of foreign trade and railways. But these two, they said, had precisely become instruments not for the development but the underdevelopment of Indian economy. (See Section VII below.) They also pointed to the exploitative character of British rule as well as to the foreign domination of Indian economy, both through foreign trade and direct foreign control of Indian industries and plantations, and to its subservience to the needs of British

[3]Joshi and others brought out this unbalanced character by discussing the unbalanced occupational distribution of the working population (n.d., 780–86).

[4] R. C. Dutt in his two-volume *Economic History of India* and in innumerable articles and P. C. Ray in his *The Poverty Problem of India* dealt at length with this aspect.

industries.[5] The overall result of colonial rule was that, far from developing into a modern industrial economy, India had become an exporter of raw materials and foodstuffs and an importer of manufactures; or, as Ranade put it in 1893, "a Plantation, growing raw produce to be shipped by British Agents in British Ships, to be worked into Fabrics by British skill and capital, and to be re-exported to the Dependency by British merchants to their corresponding Firms in India and elsewhere" (1898: 99; also 18, 183; Chandra, 1874: 99, 100; 1876: 14–15; Joshi, n.d.: 675–76; Gokhale, 1916: 52; Dutt, 1904b: 42–43, 108, 113; 1901: viii, 276; 1903: vii, 114, 129, 518; Iyer, 1903: 116–17, 123–25, 518; *Hindu*, 16 Jan. 1885; Banerjea, 1902: 691–92).[6]

The underdevelopment of Indian economy was, moreover, seen not as a carry-over of the past but as of recent origin. Indian economy, the nationalists said, was on a world scale not less developed, until the eighteenth century, than other contemporary national economies. It was therefore under British rule and as result of this rule that Indian economy had become backward and underdeveloped in the contemporary context and Indian people subjected to increasing impoverishment (*ABP*, 22 May 1884; INC for 1899–1904; Dutt, 1901: vii–viii; 1904b: 79, 106; Nundy, 1898: 103–5, 122; Banerjea, 1902; Iyer, 1903: 242, 258, Ch. XVI & XVII; Naoroji, 1901: 577 ff.).

III

What constituted economic development? Most of the British officials and writers used the phrase "development of resources," but they used it rather vaguely. While the phrase included the con-

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[5] Ranade, for example, said in 1890: "The Industry and Commerce of the Country, such as it was, is passing out of our hands, and, except in the large Presidency Towns, the country is fed, clothed, warmed, washed, lighted, helped and comforted generally, by a thousand Arts and Industries in the manipulation of which its Sons have every day a decreasing share. Foreign Competition . . . is transferring the monopoly not only of wealth, but what is more important, of skill, talent, and activity to others" (1898: 183–84). See also Joshi (n.d.: 756, 780 ff.); Iyer (1903: 131–32, 266); Dutt (1903: 518; 1904: 42). For an early articulation of this view, see Chandra (1873: 110). For exploitative character, see Section VIII below.

[6] This result had moreover been brought about by the deliberate policy of the rulers, said the nationalists.

cept of some industrialization and the use of modern technology, most of these writers implied by this phrase, so far as India was concerned, the development of agriculture and foreign trade.[7] It is therefore not difficult to identify factors, which, in their view, were leading to rapid economic growth in India.

The nationalists developed an integrated approach towards economic development and refused to treat advances in isolated sectors, such as finance, transport, foreign trade, and areas under cultivation, as in themselves constituting development. All these were to be seen in their relationship to the economy as a whole. Within this integrated framework, they held that the core of economic development, if not its sole criterion, lay in rapid industrialization on the basis of modern science and technology. This commitment to the complete economic transformation of the country on the basis of modern industries is brought out by M. G. Ranade's exhortation to his countrymen:

> This is the practical work which Providence has set down for us to learn under the best of teachers.... We have to improve our Raw Materials, or Import them when our Soil is unsuited to their production. We have to organise Labour and Capital by cooperation, and Import freely Foreign Skill and Machinery, till we learn our lessons properly and need no help. We have rusticated too long; we have now to turn our apt hands to new work, and *bend our muscles to sturdier and honester labour. This is the Civic Virtue we have to learn, and according as we learn it or spurn it we shall win or lose in the contest....* I feel sure it will soon become the creed of the whole Nation, and ensure the permanent triumph of *the modern spirit in this Ancient Land* (1898: 119–20; emphasis added).[8]

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[7] The dominant view was that India was not destined to be a basically industrial country and that its natural role as a tropical country lay in producing raw materials and foodstuffs. *The Report of the Indian Industrial Commission, 1916–1918* noted the wide prevalence of this view (2), as also did Vera Anstey (1946: 210). Even Curzon, who saw himself as a champion of industrial development of India, said in 1903 that "the vast majority of them [Indians] have been trained to agriculture, are only physically fitted for agriculture, and will never practise anything but agriculture" (1904: 133).

[8] Earlier, in 1873, Bholanath Chandra had appealed to his countrymen that industrialization was a subject "to which their attention ought to be diverted from all other channels—which should be 'the ocean to the rivers of all their thoughts' " (1873:

It was, moreover, a question not of increasing the total national wealth "measured in exchange value, independently of all variety of quality in that wealth," but of "the full and many-sided development of all productive powers" (Ranade, 1898: 19; also Iyer, 1903: 131). G. V. Joshi (n.d.) also wrote that what was wanted was "*a reconstruction of our industrial system on the basis of a 'diversity of occupations'*" (805, emphasis added; also 751) and to effect "a change from the vicious and ruinous one-industry system [i.e., agriculture] to one resting on the basis of varied, coordinate industries" (667).

In India, the nationalists said, industrialization had to constitute a basic feature of economic development for a few other reasons. According to the nationalists, economic backwardness or underdevelopment characterized a society in which industry played a minor role in the total economic life and most of whose labor force was devoted to agriculture (Ranade, 1898: 22, 25–27; Joshi, n.d.: 642, 827–31, 851–53; Dutt, 1901: Preface; 1904a: 24–5; Ray, 1895: 97; Iyer, 1903: 266).

Agriculture was incapable of bearing the burden of this labor force, which consequently suffered from unemployment and disguised underemployment. Most of the arable land in India had already been brought under cultivation, and the limits of agricultural expansion had already been reached. Agriculture was, moreover, subject both to the uncertainties of weather and to the law of diminishing returns. Industry was the only agency through which the pressure of the population on the land could be eased, rural unemployment and underemployment reduced, and the peasants' condition improved (Ranade, 1898: 25–26, 207; 1881: 42; Joshi, n.d.: 368, 642, 667, 751, 804–5, 851–53, 868; Ray, 1895: 97–98; Iyer, 1903: 64–65; *Mahratta*, 23 Jan., 19 June, 4 Sept. 1881, 1 Jan., 12 Feb. 1882). Industrial development was therefore a precondition for economic development.

India also needed industrialization, the nationalists believed, for cultural, social, and political reasons. Industrialism, wrote Joshi, rep-

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111). See also Ranade (1898: 96, 121–22); Anonymous (1893: 6, 13); Joshi (n.d.: 753, 804–5, 816, 974); Ray (1895: 106–7); Iyer (1903: 64–65, 85, 131), and INC (122, 124, 127); Resolutions XII, IX and III of INC, 1896, 1897, 1902 respectively; Banerjea (1902); *Mahratta*, 13 Feb. 1881; *Native Opinion*, 25 May 1884; Charlu (1901: 283).

resented "a superior type and a higher stage of civilization" (616; Chandra, 1876: 2; Telang, 1877: 51–53). It led, wrote Ranade, to greater diffusion and the development of culture, character, and intelligence in the country (1898: 19; Anonymous, 1893: 22–23; Iyer, 1903: 266, Appendix 3). Factories and mills could "far more effectively than schools and colleges give a new birth to the activities of the nation" (Ranade, 1898: 96). Modern industry was also necessary if the diverse people of India were to be united into a single nation on the basis of common interests (*Bengalee*, 18 Jan. 1902; 6 July 1900; *ABP*, 16 July 1874).

Consequently, the nationalists examined all policies relating to other fields—foreign trade, transport, currency and exchange, tariffs, finance, and foreign capital—in their relationship to the paramount aspects of industrialization and the process of the colonialization of Indian economy.

A close link was, of course, seen between the development of agriculture and industry. But it was the industrial development that was seen as crucial, and was even thought to be a precondition for the development of agriculture. The increasing crowding of agriculture had to be relieved through absorption of its excess labor in industry, otherwise agricultural development would be impeded (Ranade, 1898: 25–26, 207; Joshi, n.d.: 368, 642, 667, 751, 804–5, 851–53, 868; Ray, 1895: 97–98; Iyer, 1903: 64–65; *Mahratta*, 23 Jan., 19 June, 4 Sept. 1881). For example, so long as there was excessive competition for land, the rack-renting of tenants, the sub-division of land, and the absence of the motive to improve land on the part of the cultivator would continue (Joshi, n.d.: 350, 352, 870–72). The reverse was also of course true—development of agriculture was necessary for industrial development (Ranade, 1881: 53; *Mahratta*, 4 Sept. 1881).

The nationalists, of course, denied that geography, climate, and culture had designed India to be in the main an agricultural country, a producer of raw materials for the industrial countries of Europe (Ranade, 1898: 24–26; Chandra, 1873: 557; Telang, 1877: 34–35; Joshi, n.d.: 641–42, 668, 742; Iyer, 1903: 258, 274–75). Instead, to bolster their claim of and hopes for a bright industrial future for India, they pointed to India's past achievements in manufactures, its capacity to produce the needed raw materials, and the abundance among the Indian people of the qualities needed for industrialization, such as natural aptitude, intelligence, skill, energy, self-reliance, the capacity to work hard, and thrift (Chandra, 1873: 560–617; Ranade, 1898: 24, 120, 159–60; Ray, 1895: 82–84, 109; Iyer, 1903: 145–49, 258, 275, Ch. XVI–XVIII; Dutt, 1904b: 79, 106). What was needed was the removal of certain man-made obstacles from the path. The existing international division of labor was not natural. "So far as India and Britain are concerned, Britain has done it, and done it in a manner so beneficial to her," wrote G. S. Iyer. India would show that it possessed the "natural" advantages needed for industrialization, "if only British exploiters allow it to pursue its development unhampered and untrammelled" (Iyer, 1903: 258, 274).

Though strong champions of modern technology-based industrialization, the nationalists believed that for a long time to come the traditional or indigenous handicraft industries would play an important role in the economy, especially in providing employment for the millions. They therefore made their protection, rehabilitation, reorganization, and modernization an important part of their economic program. However inevitable the process of the ultimate decay of these industries might be, they wanted it to be so adjusted as to cause the least possible dislocation, so that the transition to large-scale industry was made a relatively painless process (Chandra, 1876: 2; Joshi, n.d.: 368, 680, 738, 753, 785; Ray, 1895: 98, 145; Iyer, 1898: 193, 1903: 171; Dutt, 1903: 163, 519, 528, 612, 1904b: 128; INC, 1896, 1897, 1899, 1902: Resolutions XII, IX, XIII, III respectively).

Satish Chandra Mukerjee, the editor of the journal *The Dawn* in Calcutta, was the only nationalist intellectual to raise his voice against large-scale, modern capitalist industry. His position is of some historical importance, mainly because of its resemblance in some respects to that of Gandhi, on the one hand, and to the corporate system, on the other. He faulted modern industry on two grounds: it produced a small but highly organized class of capitalists who reduced the millions of workers into mere human machines and wage-slaves; and it led to huge labor organizations which posed a permanent social and political danger. The remedy lay, firstly, in organizing most of the industries on a family-handicraft basis, confining large-scale capitalist industry to such things as engineering, mines, and railways, which were essential for the family-handicrafts; and, secondly, by organizing society on the principle of a "corporate ethical life" "by giving to each class a fixed recognized and independent place in the social organism but all cooperating in such ordered coordination as to work for the advantage of the whole, as to further the spiritual evolution of each ascending grade and of the whole of Indian society" (1900: 265-66).[9]

The competitive and acquisitive character of capitalist societies was indicted by several other Indians for destroying all social cohesion and forcing man to live "by himself and for himself." According to the anonymous writer of the article "The Exigencies of Progress in India" in the *Journal of the Poona Sarvajanik Sabha*, April 1893:

> Not all the hardships of past tyranny can compare in intensity with the colossal misery occasioned by the unequal distribution of the necessaries of life, by the concentration of wealth and property, the legalised slavery of labor to capital, the squalor and suffering from insufficient sustenance, the numberless deaths due to starvation, and the unrecorded suicides brought about by despair and disappointed ambition (8–9; Iyer, 1903: 297–99).

This indictment did not, however, lead the critics to reject industrialism as such. They argued that not only did the balance of advantages and disadvantages lie with industrialism, but, what was just as important, the choice no longer lay with India. It had already become a part of the world-system of capitalism—the choice of keeping aloof from it was no longer available. It was far better "to accept the inevitable and adapt ourselves to the demands of the time and fall in line with the onward march of civilization" (Anonymous, 1893: 11–12; Iyer, 1903: 300; Ray, 1895: 110–11).

IV

What were the obstacles to economic development? And what factors promoted it? The British and Indian answers were once

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[9] The quotation is from the April issue, 265–66. For a different interpretation of Satish Chandra Mukerjea, see Ganguli (1977: Ch. IV).

again different and often opposite. Since the British officials and writers had an optimistic view of the current economic development, they posed the first question in a dual manner: What was retarding the rate of growth and why were the benefits of development not being reflected in the greater prosperity of the common man?

The British saw the rapidly increasing population, "multiplying beyond the number which the soil is capable of sustaining," as a major negative factor (Dufferin, 1889: 240–41; also Hunter, 1903: 4, 42, 99, 133–34, 138 ff., 146–47, 184–85; Giffen, 1904: 18, 20, 230, 238; Maine, 1887: 518 ff.; Lee-Warner, 1881: 55 ff.; Prothero, 1882: 449; Govt. of India Resolution, 1888: Appendix A; Chesney, 1904: 395). Another was India's financial weakness, or its incapacity, because of its poverty, to raise enough revenue to finance adequately both administration and different agents of growth (Temple, 1881: 447, 450; Hunter, 1903: 167, 176, 182; Marshall, 1926: 290 ff.). A third was the shortage of internal capital or the inadequate capital formation within the country. John Stuart Mill and Professors Henry Fawcett and Alfred Marshall fully subscribed to this view, as did British officials (Mill, 1926: 189–90; Temple, 1881: 93 ff.; Anonymous, 1868a: 222–23; Lee-Warner, 1881: 61, 78; 1883: 248, 250; Grant Duff, 1887: 15). But this was seen more as a weakness in the past, for, as we shall see, the import of the British capital was thought to be making up, or at least capable of making up, this deficiency.

Many of the British writers said that the rate of Indian economic development appeared to be slow, and the standard of living of the Indians was by absolute standards low, because of the extremely low economic base from which the British had to initiate the process of development (Hunter, 1903: 135 ff.; Adye, 1880: 89; Anonymous, 1887: 999–1001, 1004; Curzon, 1906: 37). Many, though not all, saw Indian customs, habits, and social institutions as another obstacle to development. For one, there was the tendency to marry early and produce a large number of children, which led to faster population growth (Hunter, 1903: 146; Maine, 1887: 519; Smith, 1886: 70–71). Then there were among the people habits of thriftlessness and extravagance, one of whose expressions was the tendency to spend recklessly on marriages and other social occasions. This not only impoverished the people, but led to low capital formation (Marshall, 1925: 225; Govt. of India Resolution, 1888: Appendix A; Govt. of India Resolution, 1902: para 31; Dufferin, 1889: 240; Curzon, 1904: 149; Moral and Material Progress Report, 1894: 434; 1903: 354). Peasants had a tendency to take frequent recourse to law courts (Curzon, 1902: 166; Government of India Resolution, 1902: para 31). Moreover, Indians had few wants, were apathetic and spiritless, and lacked ambition and an "aspiring spirit"; this led to lack of incentive to work hard and develop economically (Temple, 1881: 100; Anonymous, 1888: 348). But the situation was not depicted as unchanging. There was hope: Old social values and patterns were breaking down and social life was made more modern or amenable to development under the impact of railways, modern education, British administration, and British rule in general (Anonymous, 1862: 121; Lee-Warner, 1881: 62–63; Hunter, 1903: 32 ff.; Temple, 1881: Ch. VII).

The unscrupulous moneylender with his ruinous rates of interest and sharp practices was seen by many as responsible for the failure of Indian agriculture to develop (Dufferin, 1889: 240; Chesney, 1904: 395; Curzon, 1900: 124; 1902: 166; Lee-Warner, 1879: 380–92; Hunter, 1903: 146; Temple, 1881: 221–22; Broadfoot, 1897; Thorburn, 1902: 9 ff.; Anonymous, 1901; Rees, 1901: 9). Lastly, nature shared a large part of the blame; poverty, famines, and the consequent agricultural depression, the failure of rains and the consequent droughts and famines were the consequence of "a visitation of nature" which no human agency could control or deflect (Curzon, 1900: 313–14; 1904: 160-61; Elgin, 1899: 345; Strachey, 1894: 210; Hamilton, 1902: 108–9; Moral and Material Progress Report, 1903: 332).

As is evident, none of the obstacles to economic development in India, as perceived by the British officials and writers, pertained to colonial economic or institutional structure, or to government policy. All of them were the products of the Indian peoples' inherited social, economic, and geographical weaknesses, which colonialism had failed to overcome despite its efforts to do so, and which in any case could be cured only by the Indians themselves (Hunter, 1903: 184-85, 191; Temple, 1881: 493). Not only was no responsibility attached to the rulers but, if anything, some British believed, they had been perhaps modernizing India too fast and should slow down the process to suit Indian conditions (Lee-Warner, 1881: 74–

75; Temple, 1881: 447, 450; Lyall, 1893: 316, 1897: 12–13; Prothero, 1895: 440; Keene, 1897: 358-59). In any case, the British had succeeded in creating conditions which had put India on the road to development. We will discuss British perception of these conditions or the factors promoting growth in the next section.

V

The British theory, or rather strategy, of the development of India was based on the adoption of policies aimed at (i) the provision of law and order, (ii) the promotion of private property rights in land, (iii) the development of foreign trade on the basis of the free trade principle, (iv) the promotion of means of transport, and (v) the investment of British capital.[10] The logic of private gain, individual enterprise, and the operation of the market would then take care of development. This strategy was obviously based on the classical economists' view of the desired policy for development.

Law and order, based on a modern judicial and police system, and security from external aggression guaranteed security of life and property to the citizen, and thus provided the most important prerequisite for economic development. Once the individual was guaranteed the fruits of his industry, private enterprise and competition and the operation of the market mechanism would guarantee economic growth, and thus overcome the one weakness which had, above all, prevented growth in the past. Because of continuous foreign invasions and internal political and administrative anarchy, property and the "fruits of labor" were not safe in India, and economic stagnation had been the inevitable result. (For example, Hunter, 1903: 99 ff., 106 ff., 113, 124–25; Strachey & Strachey, 1882: 11, 101–2; Maine, 1887: 501, 520; Anonymous, 1868: 5–6; Jennings, 1885: 504; 1886: 454; Channing, 1902: 121; Strachey, 1894: 159. For Adam Smith, see J. M. Letiche, 1960; for Ricardo, see Winch, 1965: 60, 91; for British economists and administrators in general, see S. Ambirajan, 1978: 221 ff.) The Indian civil servants had deeply imbibed this view from John Stuart Mill, whose writings

[10] The other aspect of the strategy was to make this development subservient to the needs of British economy. But that belongs to the theory of imperialism and is not discussed here.

had been the most influential in their training (1926: 18, 113–14, 121, 189, 701).[11] Henry Fawcett, Mill's pupil and the only contemporary British economist to take interest in the general problems of Indian economy, also provided the economic rationale of this view in his *Manual of Political Economy*. The security provided by British rule was basic to capital formation in India. It would lead Indians to save and thus increase their capital, as well as to bring into operation their hoarded capital and to employ it in the production of wealth (1883: 87, 453). Law and order, and the consequent security of person and property, would also promote growth by attracting foreign capital (most of the authors cited in the first reference in this paragraph made this point) and promoting foreign trade (Hunter, 1903: 97; Temple, 1881: 497; Dilke, 1868: 531; Bradley, 1890: 556; Lucas, 1891, liv).

The late eighteenth- and early nineteenth-century British administrators had remodelled Indian agrarian relations on the classical theory that the creation of private property in land in the hands of *zamindars* or *ryots* (peasant-cultivators) would lead to agricultural development. This would provide the necessary incentive to the landowners to accumulate capital and to improve agriculture by application of capital (and technology) and labor. Moreover, competition for land and the free salability and transferability of the ownership right would lead to the transfer of land from the improvident, ignorant, and lazy to those who were industrious and had the capacity to save and invest. Thus, gradually land would come under the control of "the improving landlord" and "the efficient farmer" (Ambirajan, 1978: 221, 238 ff.; also Mill, 1926: 189, 701).

By the end of the nineteenth century, this theory of agricultural development and agrarian relations was breaking down as the *zamindars* failed to invest in land and relied on rack-renting, while the peasant proprietors in *ryotwari* areas increasingly fell into the clutches of the moneylenders and lost control of their lands. Subinfeudation and tenancy increasingly dominated both the *zamindari* and *ryotwari* areas. What came into existence was a caricature of the

[11] Earlier McCulloch and James Mill had asserted that security of property was a basic requisite for economic development. See Ambirajan (1978: 231).

early designs. Sensing political danger and moved by certain humanitarian urges, the Government made several attempts to protect the *ryot* from oppressive landlords and grasping moneylenders. But despite some questioning on the grounds of "the peculiar and exceptional constitution of Indian society" (see Ambirajan, 1978: 123 ff.), the basic theory of agricultural development remained the same, and the implications of the developing pattern of agrarian relations in terms of economic development evaded British attention. Such ameliorative steps as were suggested, with the aim of protecting tenants or indebted peasants, were justified on administrative and humanitarian grounds. The "acknowledged principles of political economy" were not questioned, and the economic framework of policy-making remained the same as before. So far as possible, the rights of landowners were not to be obstructed, lest the application of capital to agriculture and its consequent development were checked. The ameliorative measures were confined to minor aspects of agrarian relations. For example, tenancy legislation was seen as a transitory step in the painful but inevitable march of the modern economic forces—private ownership of land in the hands of enterprising classes, such as rich landlords and capitalists and "frugal, industrious peasants," competition, the investment of capital, and the improvement of agriculture (Lyall, 1884: 28–34).[12] Similarly, anti-moneylender steps, particularly restrictions on the free transfer of land, were seen primarily as a political and humanitarian measure (Lee-Warner, 1879: 337 ff.; Thorburn, 1902: 88; Lyall, 1884: 33; Broadfoot, 1897: 558–59; Prothero, 1895: 446 ff.; Ashburner, 1898: 65–66; also Ambirajan, 1978: 133 ff.);[13] otherwise the village moneylender was seen as

[12] A. C. Lyall was a major confidant of Lord Dufferin during whose Viceroyalty, 1884–1888, the pattern of tenancy legislation was laid down. He was a member of India Council from 1887 to 1902. See also Hunter (1903: 224 ff.); Strachey (1894: 262, 333); McMunn (1890: 82 ff.). One reason for agrarian conservatism was the belief that zamindars and other landowning classes were an essential political base of British rule (Lyall, 1884: 32; Hunter, 1903: 24; Temple, 1881: 115; Prothero, 1895: 446). See also Ambirajan (1978: 114–18, 126–29, 138–39).

[13] Lansdowne, the Viceroy, said in 1894 that interference with free transfer of land was "no doubt wrong from the purely economic point of view, but we have to deal with a serious political danger and I see no way out of it but this" (quoted in Barrier, 1966: 34; see also 96 ff.; Rivaz, 1899: 318–20, 325–27; Curzon, 1900: 124–25; 1902: 28–29, 34).

performing a necessary and useful economic function. Such steps should also, therefore, only be ameliorative and remain confined to the regulation of interest rates, to checks on the unscrupulousness of the moneylenders, and to the reform of judicial procedures (Lee-Warner, 1879: 396 ff.; Lyall, 1884: 33; Broadfoot, 1897: 558–59; Curzon, 1902: 29; Rivaz, 1899: 325–26; Hamilton, 1901a: C.113). Moreover, the transfer of land to those with capital was continued to be seen as essential for agricultural development, for it would lead to growth of capitalist agriculture (Lee-Warner, 1879: 380, 383–84, 391, 394–96, 401; also Lyall, 1884: 32–33; Hunter, 1903: 162). On the other hand, it was held that restrictions on money-lending would make the peasant creditless, or force him to borrow under worse conditions, and also check all fresh application of capital to land. Indian agriculture would thus remain permanently underdeveloped (Lee-Warner, 1879: 39, 395; Anonymous, 1880: 196; Indian Famine Commission Report, 1880: Section IV, 130; Temple, 1881: 116–17; Broadfoot, 1897: 559; Channing, 1900: 456).[14]

The British officials and writers saw the promotion of foreign trade as another major instrument for India's development. Here again, John Stuart Mill provided the basic economic reasoning. The Indian peasantry did not produce more, despite its capacity to do so, because it could not dispose of the surplus produce in the absence of a large town population. "The few wants and unaspiring spirit of the cultivators" in turn prevented them from purchasing town products. The best way of breaking this vicious circle and initiating economic development was to promote the export of India's agricultural produce. This would, on the one hand, create a market for foodgrains within the villages and, on the other, create a rural market for manufactures, both foreign and indigenous. Thus the process of growth would be initiated (Mill, 1926: 121–22). This reasoning was echoed in one form or another–usually in the form of the assertion that increase in the foreign trade of India was a proof of its economic growth–in British writing (Strachey & Strachey, 1882: 312, 316–17, 324, 329, 429; also Mangles, 1864: 100–101; Anonymous, 1870: 50–51; Maltby, 1866: 207; Hunter,

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[14] For similar views during the 1850's, see Ambirajan (1978: 139). For details of controversy on the subject, see Ranade (1898: 294–324).

1903: 122 ff.; Temple, 1881: 91, 309, 311, 316; Anonymous, 1880: 136; Lee-Warner, 1881: 61; Strachey, 1894: 146, 155, 186, 304; Maine, 1887: 521; Chesney, 1904: 328, 394; Curzon, 1900: xxv; 1902: 298; Moral and Material Progress Report, 1894: 433; Hamilton, 1901b: C.1212-3; and 1902: C.110). A few writers also put forward the theory of comparative costs and the consequent international division of labor under conditions of free trade, and thus said that foreign trade was enabling India to maximize the use of economic resources by producing and exporting goods, namely, agricultural products, for which it was best suited (Temple, 1881: 91; Grant Duff, 1887: 17–18; also Ambirajan, 1978: 54, 215–16). Surprisingly, none of the British writers on India reflected the contemporary questioning by many of the British economists of the absolute value of free trade for unindustrialized countries such as India, especially on grounds of the infant-industry protection principle (Mill, 1926: 922; Sidgwick, 1883: Ch. V; Marshall, 1925: 465; Edgeworth, 1894; Ambirajan, 1978: 56–57). Nor did they at any stage comment on the impact of the existing pattern of foreign trade on the pattern of economic development in India. This was perhaps because of their belief that India should develop primarily as an agricultural country as a part of the international division of labor promoted by free trade.

The role of railways as an active agent of economic development had been exhaustively discussed in the pre-1858 period (Thorner, 1950; Ambirajan, 1978: 247–49), and was universally accepted by British writers and officials of the last half of the nineteenth century (Strachey & Strachey, 1882: x, 3, 7, 86, 105, 401–2, 429; Mangles, 1864: 118 ff.; Marshman, 1866: 77; Maine, 1887: 491–92; Fawcett, 1883: 61; Marshall, 1925: 225; Elgin, 1896: 345; Curzon, 1902: 280; Bell, 1894; Parliament Select Committee of 1884, cited in Sanyal, 1930: 146). But this role was seen primarily in the context of the impact on foreign trade and agriculture (Parliament Select Committee of 1884, cited in Sanyal, 1930: 146; Chesney, 1904: 343–44). None of them examined the relation of industrial development to railways or to the strategy of their construction. Many of them also emphasized the development of irrigation as a means of improving agriculture (Strachey & Strachey, 1882: 105 ff.; Hunter, 1903: 98–99, 159; Maine, 1887: 491; Temple, 1881: 263; Strachey, 1894: 171 ff).

Increasingly, after 1858, British writers and officials relied on the investment of British capital for the development of India (Anonymous, 1862: 136–38; Mangles, 1864: 96 ff., Anonymous, 1870: 63–65; Temple, 1881: 496; Taylor, 1881: 476; Lucas, 1891: 1; Curzon, 1904: 134.[15] India, it was said, had plenty of land and water and other resources and labor, but it lacked capital, which was, however, to be found in plenty in Britain. Once British capital was invested in India on a large scale, India's development would be assured. Once again, John Stuart Mill had given the lead. Since lack of internal capital was a major deficiency of an Asian country, one of the basic requirements of economic development there was "the importation of foreign capital, which renders the increase of production no longer exclusively dependent upon on the thrift or providence of the inhabitants themselves" (Mill, 1926: 189–90). Professors Fawcett and Marshall reiterated this view. Others were to accept this view as one of those economic dicta which was beyond all questioning and give it expression in exuberant terms.[16] It may be pointed out, parenthetically, that a corollary of this view was the belief that to attract and secure British capital, British rule over India would have to be permanent.[17]

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[15] See Mill's views regarding export of capital in general (1926: 724–39). For Bentham, Wakefield, and Torrens, see Winch (1965: 33, 77–81, 87).

[16] Thus an anonymous writer declared in 1868: "And if English capital, English intelligence, and English enterprise were applied fully to develop the untold and inexhaustible treasures of this teeming land which has been given into our hands, the imagination fails to realize the wonderful results which might be achieved" (1868a: 222–23). William Lee-Warner wrote in 1881: "The resources of the country in raw material and labour are enormous, and nothing is wanted but capital to develop new industries. As soon as English capitalists can realize the field of profitable investment which India offers, a turning point will be reached in Indian history" (61, 78). See also his article of 1883 (248, 250). In 1887, M. E. Grant Duff, Governor of Madras, described British capital investment as "the first condition necessary for improving a country which is, after all, only half-civilized" (1887a: 15). And, in 1899, Curzon, the Viceroy, said that foreign capital was "a *sine qua non* to the national advancement (of India)" (1900: 34). See also Mangles (1864: 98); Anonymous (1862: 138); Strachey (1882: 404, 425); Temple (1881: 106); Elgin (1899: 489).

[17] This view was very widely expressed. Richard Temple, for example, wrote in 1880: "England, then, must keep India ... because a vast amount of British capital has been sunk in the country, on the assurance of British rule being, humanely speaking, perpetual" (1881: 47). See also Marshman (1868: 48); Anonymous (1870: 64–65); Haggard (1883: 267); Goldwin Smith (1884: 526); Baden Powell (1886: 499); Grant Duff (1887a: 15); Maine (1887: 486); Mayo, the Viceroy in 1869 (cited in Gopal, 1975: 120–21).

VI

Indian nationalists invariably refuted and rejected British ideas on what obstructed and what promoted economic development in India as inadequate, unsatisfactory, and wrong. Instead, they put forward their own list of obstructions and of the policies needed to open the path of development.

They denied that India was overpopulated, or that the rate of growth of its population was high, or that the size of its population was responsible for India's poverty or underdevelopment (Naoroji, 1901: 216–17; n.d.: 620; Joshi, n.d.: 771; Iyer, 1900; Chandavarkar, 1911; Banerjea, 1902; Dutt, 1897: 132; 1904a: 26; 1901: vi; *Hindu*, 6 July 1898).[18] What appeared to be over population was in fact the result of India's economic underdevelopment under British rule. In 1890, in a major article on the "Economic Situation in India," G. V. Joshi provided the economic rationale of this view. The problem lay, he wrote, "not so much in the fact of an alleged over-population as in the admitted and patent evil of underproduction." To give his full argument:

> There is always a normal ratio between population and production which determines the average standard of life of every community. When both population and production advance at an equal and normal rate, the ratio is maintained and there is no disturbance of the national standard of living. When, however, population multiplies at an abnormal rate while production keeps up its normal level, there is properly speaking the evil of *overpopulation*. But when production falls off while population is advancing at its normal rate, we have what we may call the evil of *underproduction*. The capitalist Political Economy of the West, looking only to one term of ratio, confounds the two evils–in their nature so different, and styles them as *overpopulation* in either case. In India, as we have seen before, population is not increasing beyond its

[18] Moreover, they said, population density as well as rate of growth of population in Europe was higher (being less than 1% in India) (Joshi, n.d.: 772–73; Naoroji, 1901: 620–21; Ray, 1895: 168–69, 197; Dutt, 1897: 132).

> normal rate, and if the total production of the country does not come up to the level of its requirements, where there is such a wealth of material resources, we have clearly not what Political Economists call the evil of *overpopulation* to deal with, but the evil of *underproduction*, which they do not recognise (n.d.: 774–75; also *ABP*, 5 Aug. 1886; Naoroji, n.d.: 391; Iyer, in Welby Commission: Vol. III, Qs. 187333-6).[19]

The answer to the so-called overpopulation problem was therefore faster industrialization (Joshi, n.d.: 852; Ranade, 1898: 207; Wacha, 1901).

Indians denied that paucity of public funds was retarding Indian economic development. It was the lopsided character of their utilization which was responsible for the lack of development—the massive unproductive military expenditure and the unbalanced allocation of funds to administration and railway development, that is, "the diversion of resources to purposes in no way connected to our safety or our welfare" in place of expenditure on economic development and welfare (Joshi, n.d.: 203–30; Gokhale, 1916: Speeches on the Budget, 1902 to 1912; Dutt, 1903: 210 ff., 371 ff., 553 ff., 592 ff). Both G. V. Joshi and G. K. Gokhale linked the existing financial weakness of the Government of India to the imperatives of a colonial economy and the needs of British imperialism.

The nationalists accepted that the paucity of capital was a major obstacle to India's economic development (Naoroji, 1887: 105; Ranade, 1898: 22, 91–92; Joshi, n.d.: 666, 741, 745–46, 793; Iyer, 1903: 145, in Welby Commission: Vol. III, Qs. 18675, 18690–1; Gokhale, in Welby Commission: Vol. III, Q. 18140; Rai, 1907: 39–41; Wacha, 1901).[20] But this was not seen primarily as an inherent characteristic of Indian economy. There was, of course, scarcity of accumulated capital due to the absence of peace and security in the immediate past (Joshi, n.d.: 666, 741–42, 745, 793, 803; Ranade, 1898: 22, 91). But, basically, there was plenty of potential capital in

[19] This position was also taken when the nationalists argued that overcrowding of agriculture was the result not of overpopulation but the unplanned destruction of India's handicraft industries, itself a result of British domination (Naoroji, 1901: 217). See also Section II above.

[20] The national critique of Indian finance is presented at greater length below.

the country; the problem was how to mobilize and utilize the scattered capital (Ranade, 1898: 40–42, 188; Iyer, 1903: 146). The social institutions of Hindus encouraged "sub-division and not concentration of wealth" (Ranade, 1898: 23). The moneyed classes lacked mutual confidence in working together as well as the spirit of enterprise and the willingness to take risks (Joshi, n.d.: 740, 746; Ranade, 1898: 22, 91; Iyer, 1903: 150; Rai, 1907: 142). The princes and zamindars and other rich persons hoarded their wealth instead of investing it (Ray, 1895: 126–27; Ranade, 1898: 91, 188). There was the want of credit organizations through which small savings could be mobilized (Joshi, n.d.: 666, 746, 793, 797–99; Ranade, 1898: 91). Above all, the heavy state taxation cut into the savings of the people and hampered the process of capital formation (Joshi, n.d.: 795; Ranade, 1898: 91),[21] while the economic drain of wealth carried away to Britain a large part of the potential savings and capital of the country (Ranade, 1898: 22).[22]

As I have shown above in Section II, Indians did not accept that India was starting its economic development from an economic base poorer than that of the contemporary developed countries. If anything, Indian economy was, until the eighteenth century, more advanced than theirs. Nor would they agree to blame nature for the prevailing poverty, famines, and economic backwardness. It was not the caprice of nature but human failings which were responsible. It was not failure of crops which produced poverty, it was poverty, "the decreasing power of resistance," the lack of money with which to purchase foodgrains, which transformed scarcity into famines (see Chandra, 1966: 46 ff.). Similarly, India was, they said, very well endowed by nature. It possessed unequalled material resources "most favourable to material progress" (Joshi, n.d.: 752; also Mudholkar, 1898: 35).

Most of the nineteenth-century nationalists agreed that existing social institutions, such as the caste system and the joint family, religious ideals, customs, and traditions had a negative impact on economic development, since they led to a relative lack of the spirit of enterprise and weakened the spirit of cooperation and mutual trust, social consciousness, the spirit of enquiry, independence of

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[21] Joshi calculated that of the net national savings of the country, the Government took away 50% as taxes to be spent largely under non-productive heads.

[22] For Naoroji and others and for details, see Section VII below.

thought and action, courage and self-confidence, and "the will to do and the heart to dare." The caste system hampered the mobility of labor and capital. Religious ideals preached contentment, opposed "the ardent pursuit of wealth," emphasized individual salvation, and weakened social consciousness (Ranade, 1898: 23, 122, 187; Anonymous, 1893; Iyer, 1903: 133, 149–51, 216, 234; Joshi, n.d.: 740, 801–2, 826; Pal, 1907: 175, 179–80, 186). A smaller number of nationalists disagreed, and, while emphasizing the need for social reforms and habits of mind and action which would promote trade and industry, argued that basic Indian social institutions, religions, and traditions were quite compatible with modern economic development (Tilak, cited in Pradhan & Bhagwat, 1958: 50, 63, 96; Chandavarkar, 1911: 75; Rai, 1907: 73, 99, 114–28).

Indian nationalists would not, however, accept the charge that Indian agriculture was backward because the Indian peasant was by nature improvident or thriftless. On the contrary, they argued that there was "not a more abstemious, a more thrifty, a more frugal race of peasantry on earth" (Dutt, 1903: vi; also Dutt, 1899; 1903: xiii; 1904c: 17; Ranade, 1881: 55; Joshi, n.d.: 778; Ray, 1895: 194–95; Mehta, 1905: 663–64). Living beyond one's means, said Joshi, was a relative concept. It did not mean that Indians spent more than what they earned; it meant they earned less than what they needed. "The evil does not lie in our overspending propensities, but in those conditions of industrial life in this country which keep our earning so low" (Joshi, n.d.: 775; also Wacha, in INC, 1886: 61). The Indian peasant could also not be accused of indolence; he was one of the most industrious and hard-working of workers in the world (Ranade, 1881: 55; Naoroji, 1887: 368; Joshi, n.d.: 773; Dutt, 1903: xiii, 611; Chandavarkar, 1900). Moreover, to the extent to which he suffered from improvidence, lack of spirit to improve, etc., these were not the causes but the results of unsound agrarian relations which left him no incentive or opportunity to improve his lot (Ranade, 1898: 52–53, 256; Joshi, n.d.: 347, 362, 852, 870, 905; Ray, 1895: 190).

VII

Correlating the factors which British writers believed were leading to economic development with the actual course of the economy, the nationalists argued that, far from doing so, most of these factors were playing a negative role. Consequently, they completely rejected the colonial model of economic development. They had not much to say on the role of law and order and security from external aggression in promoting economic growth. Obviously, there could be no growth if administrative anarchy prevailed. But most of them denied that the Mughals or Marathas had not succeeded in maintaining law and order. Nor did law and order guarantee growth. It all depended on what it was used for. Dadabhai Naoroji's comments in this respect echoed the feelings of most of them. Regarding security from invasions, Naoroji said that British rule itself was "an everlasting, increasing, and every day increasing foreign invasion" that was "utterly, though gradually, destroying the country" (1901: 224; also 211–12, 225). Regarding security of life and property, he said that while people "were secure from any violence from each other or from Native despots," "from England's own grasp there is no security of property at all, and, as a consequence, no security for life" (1901: 224–25; also n.d.: 228). Regarding law and order, Naoroji said: "Under the British Indian despot, the man is at peace, there is no violence; his substance is drained away, unseen, peaceably and subtly–he starves in peace and perishes in peace, with law and order" (n.d.: 389).

While not denying the general benefits of international trade, Indian nationalists denied that the growth of foreign trade in itself constituted economic development, or could lead to economic development. That might be so for commercially independent nations, but was not true of a country whose economy was dependent on and subordinated to another country (Naoroji, 1887: 114; Chandra, 1873: 85; 1874: 310–11; Ranade, 1898: 184; Dutt, 1897: 127; 1903: 348, 535–36; Mudholkar, 1898: 43; Nundy, 1898: 112; Iyer, 1903: 352, 357; Tilak, quoted in Gopal, 1956: 145). What was germane in this respect was not the volume of foreign trade but its origin, nature, and effect on the general welfare of the people, its pattern–the nature of goods internationally exchanged–and its impact on national income, industry and agriculture, employment, and foreign economic exploitation (Joshi, n.d.: 641, 680, 696; Iyer, 1903: 131; 1898: 188; Dutt, 1903: 536). Moreover, the expansion of India's foreign trade had not been "natural," a result of its "normal" economic development, but was forced and artificial and therefore "economically unsound" (Naoroji, n.d.: 323; Dutt, 1903:

127, 348, 534, 536; Joshi, n.d.: 617; Mudholkar, 1898: 43; Iyer, in INC, 1901: 126; *Hindu*, 21 Apr. 1884, 16 Jan. 1885; Mahratta, 25 May 1884). Seen in this light, in India's case increasing foreign trade and its pattern were both an index and an instrument of its underdevelopment. Increasing imports did not supplement and aid indigenous manufactures, helping create "a new and effective demand" and consequently new industries; under the conditions of free trade, imports displaced indigenous manufactures in their own market and prevented the rise of new industry. International exchange did not supplement domestic exchange; it substituted for it. It had led to the destruction of a "varied and well-balanced national economy," resulting in ruralization of the economy and the narrowing down of the sources of national income and forcing millions of artisans and handicraftsmen to fall back upon the "single and precarious source" of agriculture (Joshi, n.d.: 611, 643, 650–51, 680–83, 696; Ranade, 1898: 183, 185; Ray, 1895: 93–96; Dutt, 1897: 127; 1901: viii, 276, 1903: 101–3, 344–45; Iyer, 1903, 355, 357; Gokhale, 1916: 51–52; *Mahratta*, 25 May 1884; Chandra, 1873: 90, 115).

Nor were increasing exports of foodstuffs and raw materials contributing to development. They represented payments for imports of manufactured goods, which were harmful in their economic impact (nearly all the Indians made this point; see, for example, Dutt, 1897: 127; 1901: 296; 1903: 132, 163); and, even worse, they increased drain of wealth or the unilateral transfer of funds. In other words, a large part of exports was unrequited. India was compelled to export to maintain an ever-growing export surplus so that the profits of British merchants and capitalists in India and the savings and pensions of the British civil servants could be exported, and so that the government of India's "Home Charges" or expenses in Britain were met.[23] In other words, increasing exports represented the ruralization of India and its economic exploitation. Nor did the benefits of the export of agricultural products reach the peasant, for the profits were skimmed by the foreign export merchants and their middlemen, merchant-moneylenders, landlords, and the state (Wacha, in Welby Commission: Vol. III, Qs. 17509–

[23] See Section VIII below.

10, 17516, 17525-7, 17529; Iyer, 1898: 192; 1901a: 352; 1901b: 445, 1903: 223-6; Dutt, 1903: 348-50; Joshi, n.d.: 658). On the other hand, the large number of small peasants and agricultural laborers were net losers as a result of the increase in prices (Joshi, n.d.: 658; Iyer, 1898: 192; 1903: 223-26).

The heavy bias of exports towards raw materials and of imports towards manufactured goods thus meant that through the instrumentality of foreign trade India was being gradually reduced to the status of a mere agrarian appendage and a subordinate trading partner of Britain (Dutt, 1903: 101, 105, 108, 161-64, 345-48, 529-32; Ranade, 1898: 99-101, 183-84; Joshi, n.d.: 620-23, 641 ff.; *Hindu*, 21 Apr. 1884; Tilak, quoted in Gopal, 1956: 145; Mudholkar, 1898: 41; Iyer, in INC, 1901: 126; Gokhale, 1916: 52). The nationalist economists also moved towards an understanding of the phenomenon of unequal exchange. To the theory of comparative costs and international division of labor they counterposed the theory of international trade on an unequal footing, that is, on the basis of "unequal exchange." One side of this critique was based, as we have already seen, on the assertion that the division of labor between Britain and India was not based on the endowment of natural resources. The manufacturers embodied, because of use of machinery and higher productivity, less labor but higher paid labor, while agricultural products embodied, because of lower technology and lower productivity, more labor and lower paid labor. Thus, India was being shifted from a higher to a lower form of economic activity, from thriving industry to "less remunerative agriculture," "rendering its labour less productive" by "compulsory transfer ... from fields of *skilled* labour to fields of unskilled labour" and, consequently, undergoing "enormous losses in wages and profits" (Joshi, n.d.: 611, 645, 651, 682). In 1888, Joshi made a rough statistical calculation of this loss "on account of our trading position" and came up with an estimated loss of 58 crores (580 millions) of rupees (645-47).

Another negative feature of foreign trade was its control by foreign merchants, who reaped the lion's share of its direct profits, as well as the indirect profits, through the control of the machinery of trade—shipping, banking, insurance, and even a large part of the internal carriage of goods (Chandra, 1873: 82, 85-89; Joshi, n.d.: 611, 622, 624-25, 631-33, 666, 784, 786-88; Ranade, 1898: 66, 185–86; Mudholkar, 1898: 41, 46; Ray, 1895: 321–26; Naoroji, n.d.: 341; Dutt, 1903: 536; *New India*, 19 Aug. 1901).

Furthermore, most of the staples of export trade, such as tea, indigo, coffee, and jute textiles, were the products of the application of foreign capital; therefore, all the profits of their manufacture and export were reaped by foreign capitalists, with Indians having only the poor wages as their share (Joshi, n.d.: 657; Chandra, 1873: 86; Ranade, 1898: 184; Naoroji, n.d.: 596; Mudholkar, 1898: 42; Wacha, 1901; *New India*, 19 Aug. 1901; Iyer, 1903: 353).

Indian nationalists denied that the railways automatically led to economic development. They insisted on evaluating their impact in the context of the peculiar politically and economically dependent condition of India (e.g., Iyer, 1903: 266–67). They acknowledged the usual potential benefits of the railways—the provision of cheap and quick transport, the promotion of national cohesion, the opening of new markets and employment opportunities, the expansion of trade, the prevention of famines, the stimulation of agricultural production, the demonstration effect on the process of industrialization, the direct encouragement to engineering industries and workshops, and the enlargement of the spheres of enterprise in general (Naoroji, 1887: 122–23, 132; 1901: 193; Banerjea, 1880: 179, 1895; *Hindu*, 9 Jan. 1885; Joshi, n.d.: 671; Ranade, 1898: 87; Iyer, 1898: 182, 191, in Welby Commission: Vol. III, Qs. 18963, 18984; Dutt, 1897: 130; 1904a: 98–101; 1904b: 76; Wacha, n.d.: Appendix 22). But they also noted the difference between the possible and the real, the potential and the actual, and they came to the conclusion that the actual impact of the railways on the Indian economy had been on balance negative. Railways had not promoted industrial growth and had, instead, proved "very detrimental to the varied growth of the nation's industrial activity" and prevented "a healthy material advance on normal lines" (Joshi, n.d.: 671, 701; also Naoroji, 1901: 193; Wacha, n.d.: Appendix 22; Iyer, 1898: 188; Dutt, 1904b: 44; Tilak, quoted in Gopal, 1956: 145; Ranade, 1898: 97).

In the absence of a simultaneous industrial revolution, the railways had only introduced a commercial revolution and further colonialized the Indian economy. By ruining the existing carrying trade and facilitating the penetration of the Indian market by foreign goods, the railways had only helped destroy Indian handicraft industries, inhibited the growth of modern industry by "paralyzing national activity at its centre," promoted the export of foodgrains and raw materials, increased dependence on agriculture, led to further exploitation of India, and helped transform India into an agricultural colony of Britain (Joshi, n.d.: 670–71, 675–77, 687, 689; Ranade, 1898: 86, 90; Iyer, 1898: 181, 188, 193; 1903: 110–11, 260, 262, 271, 276; Dutt, 1897: 81; 1903: 174, 546; 1904a: 98; Gokhale, 1916: 21–22, in Welby Commission: Vol. III, Qs. 18140–1, 18155–6; Wacha, n.d.: Appendix, 22; 1901; *Hindu*, 23 Jan. 1885).[24] Railway rates policy had further accentuated this result by freight rates to and from ports being fixed at a lower level than between inland trading and industrial centers, thus promoting the export of raw materials and the distribution of imported goods (Joshi, n.d.: 630–31; Iyer, 1890: 188; 1903: 260, 270–71).

Railways had not developed into "pulsating arteries of productive activities" in India because they had directly encouraged steel and machine industry, not in India, but in Great Britain; while the indirect benefit from the widening internal market of India had also mostly gone to British and not Indian manufacturers (Joshi, n.d.: 675, 684, 687–88, 693; *Native Opinion*, 9 Sept. 1883; and the authors cited in previous paragraph). In fact, G. V. Joshi remarked that guaranteed interest on railways should be seen as an Indian subsidy to British industry (684, 687–88). According to Tilak, it was like "decorating another's wife" (quoted in Gopal, 1956: 145). Side effects in terms of investment had also gone to Great Britain, since railways had been built with British capital (Naoroji, 1901: 193–95; Joshi, n.d.: 695; Wacha, n.d.: Appendix, 23; Dutt, 1897: 143; 1903: 605; Iyer, 1898: 190–92; 1903: 267–70). Nor had India gained in terms of fallout effects in the form of acquisition of technical and managerial know-how (Joshi, n.d.: 688–89; 801–2; Iyer, 1898: 190; 1903: 266). Thus, the nationalists were fully well able to articulate, to use more recent terminology, that railways served as a social overhead not for Indian but British industry and that their external economies were being exported back to Britain.

As an alternative policy, the Indians said that railway development should be coordinated with the economic needs of India. This

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[24] Joshi noted that Indian experience in this respect had been different from that of the U.S. where railways had helped push forward the industrial revolution (670–71).

meant above all subordinating it to the industrial and agricultural needs of India (Joshi, n.d.: 671, 676, 696; *Native Opinion*, 25 May 1884; Iyer, 1898: 182, 188; 1903: 271; Wacha, 1901; Ranade, 1898: 88; *Hindu*, 23 Jan. 1885). Consequently, they demanded that a large part of the financial resources of the state should be diverted from railways to industrial development and irrigation, or even education. (For railways, see Joshi, n.d.: 671, 688–89; Ranade, 1898: 87–89; Iyer, 1903: 264, 272; *Native Opinion*, 20 Dec. 1885. For education, see Gokhale, in Welby Commission: Vol. III, Q. 18409. For irrigation, see Chandra, 1966: 207 ff.).

Why were the British, then, building railways in India at a breakneck speed, asked Indian nationalists? Railways, they said, were being built under the pressure of British merchants, manufacturers, and investors to assist in the exploitation of Indian resources. The purpose was to open the Indian market in the interior to British manufactures, to facilitate the export of raw materials and foodstuffs, to provide an outlet to the steel and machine industry of Great Britain, to provide lucrative employment to innumerable Englishmen, from directors to ticket collectors, and to serve as a channel for the safe and profitable investment of surplus British capital (Joshi, n.d.: 670, 674–76, 684–93; Iyer, 1898: 180–81; 1903: 263, 272–73; Gokhale, 1916: 21, 1157, 1194, in Welby Commission: Vol. III, Qs. 18150, 18407, 18410-4; Dutt, 1898: 53; 1900: 305; 1901: 312; 1903: 174, 357, 546; 1904a: 98, 102; 1904b: 37, 44, 60, 77; and numerous newspapers cited in Chandra, 1966: 190, nn. 56–63).

Starting with Dadabhai Naoroji in the early 1870's, by the end of the nineteenth century almost all the Indian nationalists, with the exception of Ranade (1898: 105, 186),[25] had come to oppose foreign capital rather vehemently and worked out a comprehensive understanding of the role of foreign capital in India (Chandra,

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[25] For Naoroji's earlier support for foreign capital, see 1887 (39–40, 102, 104, 106, 127, 130–31, 135). For Raja Rammohan Roy's support in the 1820's and 1830's, see Ganguli (1978: 34, 41, 44, 47). For others, see Banerjea (1880: Vol. I, 190, and 1895; *Hindustan*, 21, 23, 24 Aug. 1888, 12 Nov. 1898, 8 Oct. 1899; *Amrita Bazar Patrika*, 15 July 1893, 8 Feb. 1895, 6 Jan. and 15 Oct. 1900, 17 March 1902, 10 Aug. 1903; *New India*, 12, 19, Aug. 1901). The few supporters of foreign capital emphasized its role as a supplement to scarce internal capital and as an example and stimulant to indigenous enterprise.

1966: 95 ff.). They took note of the fact that India's foreign trade, railways, banks and insurance companies, mining, plantations, and most of the modern industries were under foreign ownership and control (Joshi, n.d.: 787–89; Chandra, 1966: 106). Their objectives to foreign capital rested on the following grounds:

(i) Foreign capital was basically anti-national, because instead of helping and encouraging Indian capital it was replacing and suppressing it; it was blocking Indian capital and driving out Indian capital from field after field, preempting its future growth, and making further growth of Indian capital even more difficult (Joshi, n.d.: 682, 700, 742, 756, 779, 789; Naoroji, n.d.: Appendix, 55–56; 1901: 227–8; Iyer, 1903: 257, Appendix 2, in Welby Commission: Vol.III, Q. 18664; *Hindu*, 23 Feb. 1900: Wacha, 1901).[26] Moreover, it was not as if foreign capital was growing on its own economic strength and on the basis of fair or equal competition with Indian capital; its growth was being artificially promoted by active support of the colonial regime through all sorts of concessions, such as guarantees of profit, free or cheap land, and various administrative and legislative measures (Joshi, n.d.: 699–700, 786–825; Naoroji, n.d.: Appendix, 57; *Bengalee*, 10 June 1901; Iyer, 1903: 119–22, 132, 160–65; *Indian People*, 27 Feb. 1903).

(ii) Foreign capital led to further economic dependence and foreign economic domination (*Bengalee*, 1 June 1901; *Mahratta*, 30 Jan. 1881; Joshi, n.d.: 673).

(iii) Because of the peculiar economic and political condition of India, Indian gains from foreign investment were marginal. Foreign capital appropriated all of the profits arising from additional wealth. The foreigners monopolized nearly all the high salaried posts in the construction and operation of the foreign enterprises. Moreover, a large part of these salaries was remitted abroad, thus depriving India of a major source of capital accumulation. In addition, part of the new employment was created not in India but

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[26] Moreover, whenever in the future Indian capitalists were in a position to mobilize capital and enter the industrial field they would find it already under foreign occupation. The present generation did not have the right to alienate permanently the field and thus sacrifice the future interests of the nation (Joshi, n.d.: 673, 700, 739-40, 746; Gokhale, in Welby Commission: Vol. III, Qs. 18140, 18145; Iyer, 1903: 123, 127, and in INC, 1901: 74).

in the home establishments of the foreign enterprises. The employment monopoly of foreigners, who eventually left India, in the technical and managerial posts meant that India did not as a byproduct acquire modern know-how (Naoroji, 1901: 54, 194, 228; n.d.: 133, 240, 382, 397–98, Appendix, 7; Joshi, n.d.: 699–700, 756, 779; Ray, 1895: 322, 324; Gokhale, in Welby Commission: Vol. III, Qs. 18140, 18156, 18171, 18176; Iyer, in *INC*, 1898: 107; 1903: 132–33; Wacha, in *INC*, 1899: 59; *Hindu*, 13 June 1904). The only gain was in terms of some additional employment opportunities as coolies and unskilled laborers. But most of the latter were paid abysmally low wages. This virtually amounted to the reduction of Indians to the status of "slaves" and "drawers of water and hewers of wood to the British and foreign capitalists," "a race of coolies under white masters" (Naoroji, n.d.: 398, 614, Appendix, 7; Ray, 1895: 322–24; Joshi, n.d.: 70, 757; Naoroji & Gokhale, in Welby Commission: Vol. III, Q. 18170; Iyer, in *INC*, 1901: 121, 1902: 83; *New India*, 26 Aug., 2 Sept. 1901; *Hindu*, 23 Feb. 1900).

(iv) Foreign capital drained India of its capital and wealth, since the foreign enterprises sent out of India all their profits and not merely interest on capital (Naoroji, 1901: 38, 54, 567–68; n.d.: 250–51, 397–98, 595–96, 614, Appendix, 7–8, in *India*, 2 Sept. 1904; *Mahratta*, 30 Jan. 1881, 7 Dec. 1901; *Hindu*, 6 Oct. 1885, 23 Feb. 1900; Joshi, n.d.: 756–57; Ray, 1895: 126; Gokhale, in Welby Commission: Vol. III, Qs. 18140, 18142, 18170, 18176; Iyer, in *INC*, 1898: 107, in *INC*, 1901: 121; 1903: 128, 133; Wacha, in *INC*, 1899: 59; *Bengalee*, 25 May 1901; *New India*, 18 Nov. 1901).

(v) All this criticism led Indians to conclude that foreign capital in India's peculiar conditions represented an economic danger; it led not to the development of India but the further "despoliation" and "exploitation" of its resources (Naoroji, 1901: 34, 226–27, 568–69; n.d.: 196, Appendix, 7, in *India*, 10 May 1901 & 20 Mar. 1903; Joshi, n.d.: 756, 779–80, 787–88; Gokhale, in Welby Commission: Vol. III, Qs. 18140–1; *Hindustan Review*, Feb. 1903: 193; *Bengalee*, 25 May 1901; *Indian People*, 23 Feb. 1903; *New India*, 12 Aug., 18 Nov. 1901). Its constant growth was not an indicator of economic progress but a cause of its further impoverishment (Naoroji, 1901: 38; n.d.: Appendix, 13; Joshi: 756–57; *Bengalee*, 25 May 1901; Iyer, in *Hindustan Review*, Apr. 1903: 318; *New India*, 12, 19 Aug., 18 Nov. 1901). In any case, foreign vested interests "operated to the detriment of those of the people" (Iyer, 1903: 265; also Joshi, n.d.: 689, 693).

(vi) Foreign capital also posed a serious political danger. It created foreign vested interests which invariably came to wield an increasing domination over the state. "Where foreign capital has been sunk in a country," wrote the *Hindu* on 23 September 1889, "the administration of that country becomes at once the concern of the bondholders." And Ranade said in 1890: "Commercial and Manufacturing predominance naturally transfers political ascendancy" (1898: 186; also Joshi, n.d.: 673, 700, 740; *Bengalee*, 10 June 1901; *New India*, 12 Aug. 1901). This danger was all the greater in countries like India where there already existed foreign political domination. Foreign capitalist interests, then, stood in the way of national political emancipation. If, wrote the *Hindu* on 23 September 1889, "the influence of foreign capitalists in the land is allowed to increase, then adieu to all chances of success of the Indian National Congress, whose voice will be drowned in the tremendous uproar of 'the empire in danger' that will surely be raised by the foreign capitalists" (see also *Bengalee*, 10 June 1901; *Madras Standard*, 28 May 1901). And when Curzonian reaction manifested itself at the turn of the century, many Indians ascribed it to the predominance that foreign capital exercised over the Indian Government.[27]

Indians were, of course, aware that the reverse was also true; it was foreign rule which made foreign capital unacceptable. If India was a free country; if it was free of the drain of wealth and free to evolve its economic policies; and free to replace foreign capital once it had served its purpose, then it could use foreign capital selectively to supplement indigenous efforts, as other free countries like the United States were doing (Naoroji, 1901: 34, 135, 567–68; n.d.: 322, Appendix, 55–56; Iyer, in Welby Commission: Vol. III,

[27] Thus B. C. Pal's *New India* on 11 Dec. 1902: "It goes without saying that it is foreign capital that rules the roost not only in poor Bengal but in the whole continent of hapless India." And the *Bengalee* of 14 Feb. 1903 commented that the Government of India was "in the hands of the Chamber of Commerce like the clay with which the potter manipulates." See also the *Bengalee* of 10 June 1901; *Indian People*, 27 Feb. 1903; *New India*, 4 Nov. 1902; *Hindu*, 6 March 1899; *Madras Standard*, 28 May 1901; Iyer (1903: 120–22). Even Ranade remarked in 1890 that foreign economic domination had made foreign political domination "more invidious" (1898: 66).

Qs. 19636, 19640–1, 19644, in INC, 1901: 121–12; Gokhale, in Welby Commission: Vol. III, Q. 18170; *Madras Standard*, 28 May 1901).

Seen in this light, said the nationalists, foreign capital posed a serious economic and political danger, not only to the present generation, but also to future generations, and had, therefore, to be guarded against most carefully (Joshi, n.d.: 673, 700, 739–40; also Naoroji, 1901: 227).

Four other aspects of the nationalist position on foreign capital are significant. Unlike in other countries, foreign capital did not represent an addition to scarce internal capital. The investment of foreign capital did not result in any transfer of fresh foreign funds or of capital accumulated abroad. Rather, Indian capital was first drained out through trade, banking, and administrative mechanism, and then returned, only in part, as foreign investment-capital (Naoroji, 1901: 38, 227, 567–59; n.d.: 250, 382–83, 397, 615, Appendix, 7, in *India* 20 Mar. 1903, 2 Sept. 1904; Iyer, 1903: 127–28, 166, 268, in *Hindustan Review*, Apr. 1903: 318–19; *New India*, 18 Nov. 1901; *Madras Standard*, 28 May 1901: *United India*, 24 Feb. 1903). Through a study of India's balance of trade Dadabhai Naoroji showed that India imported no real funds from abroad. India, he pointed out, had a net export surplus after all the foreign loans and investments had been accounted for in the net imports (n.d.: 382–83; also Naoroji, 1901: 133).

Indians also refused to accept that India could not be industrialized without foreign capital (Iyer, 1903: 124). In fact, they said, genuine economic development was possible only when Indian capitalists undertook the task (Iyer, in INC, 1901: 121–22; Joshi, n.d.: 757; Wacha, in INC, 1899: 59; Dutt, 1904b: 82; *Kesari*, 22 June 1897; Ghose, 1903). Many of them would rather postpone industrial development than let the industrial field be occupied by foreign capital (*Bengalee*, 1 June 1901; Naoroji, quoted in Masani, 1939: 448).

Lastly, they believed that even if foreign capital was needed, the foreign capitalists were not. They underlined the difference between loan capital and entrepreneurial capital. The former was entitled only to a fixed interest, while the latter carried away all the profits and monopolized and appropriated "the whole field." In time, the former could also be repaid. Consequently, the nationalists argued that it may be necessary to borrow foreign funds and employ foreign technicians to promote Indian enterprises, but no direct foreign investment, no direct proprietary operations should be permitted (Naoroji, 1901: 228–29; Joshi, n.d.: 673, 739, 746–47; *Mahratta*, 30 Aug. 1891; *Madras Standard*, 28 May 1901; *Bengalee*, 25 May 1901; Iyer, in *INC*, 1901: 121–22, Ranade, cited in Karve, 1942: xxix).

We may, then, also point out that the point of view of the compradore was more or less entirely absent in the nationalist thinking of the period under study.

VIII

Having argued that India's underdevelopment was of recent origin, and having rejected British theories regarding the obstacles to economic development and the factors which were promoting development, Indian nationalists came out with their own ideas regarding both the obstacles and the needed remedies. Basically, they argued, the cause of India's underdevelopment lay in foreign economic and political domination, that is, the subordination of the Indian economy to the needs and interests of British trade, industry, and capital.

The nationalists saw public finance or the system of financial management as a major negative feature of colonial policies as well as a major cause of India's poverty and underdevelopment. It bore, they said, little relation to the needs of Indian agriculture or industry.[28] Taxation in India was oppressive and beyond the capacity of the people and the country (Joshi, n.d.: 203 ff.; Chandra, 1966: 503 ff).[29] Moreover, some of them argued, high taxation hampered the process of capital formation by further reducing "the low margin of [private] savings" and interfering "with the growth of the wage fund and rise of wages." There could, therefore, be no "greater

[28] For detailed discussion, see G. V. Joshi's seminal article on "The Present Financial Position," published in 1896 (203 ff.). See also Chandra (1966: Ch. XI).

[29] Indians also criticized the taxation system for being highly regressive, bearing more heavily upon the poor than upon the rich (Naoroji, n.d.: Appendix 127; Joshi, n.d.: 89, 91, 100, 142, 149, 152, 164–65, 185; *Swadesamitran*, 18 and 25 Feb. 1888; Ray, 1895: 261, 274).

economic evil than such a heavy drag upon our industrial progress" (Joshi, n.d.: 185, 793–95; also Joshi, n.d.: 824, 1136; Gokhale, 1916: 13; Banerjea, 1902).

The nationalists correlated the level of taxation with the manner of its utilization. The evil of high taxation, they said, was compounded by the pattern of public expenditure, which was more or less non-productive and unsuited to and unconnected with the true needs of the people and the development of the economy (*ABP*, 30 Mar. 1882; Mehta, 1905: 152, 350, 451, 456–58; Joshi, n.d.: 199–200, 220; Naoroji, n.d.: 361; Iyer, in Welby Commission: Vol. III, Qs. 18567, 18917, 18963, 19048, and in *New India*, 18 Dec. 1902; Gokhale, 1916: 1156–59, 1168–69). Above all, the high social surplus extracted from the people was wasted through high, unnecessary, and unproductive military expenditure (see Chandra, 1966: 581 ff.). India's military expenditure did not, moreover, serve India's needs. It represented a diversion of India's revenues for imperial purposes and was therefore a form of colonial surplus appropriation (Naoroji, n.d.: 250, 340–41, 352: Joshi, n.d.: 1156–57; Ray, 1895: 287, 293, 305–6; Gokhale, 1916: 21, 26–27, 106–7, 1156, 1205: INC, 1903: Resol. VIIa; INC, 1904: Resol. XIIc). But above all, Indian revenues were not used for promoting internal economic development or welfare.[30]

A major complaint of Indians was that a large part of Indian revenues was spent outside India for imperial purposes and was taken out of the Indian economy through the process of economic drain (Chandra, 1966: Ch. XIII), or as R. C. Dutt put it graphically, "the moisture raised from the Indian soil now descends as fertilising rain largely on other lands, not on India" (1901: xii). In this respect, employment of highly paid Europeans in the administration was also seen as a form of social surplus appropriation and a drain of wealth.[31]

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[30] More specifically, they asked for increasing outlays of public money on the industrialization of the country, irrigation, agricultural development and provision of agricultural banks, primary, high, and technical education, medical and sanitary facilities, and administrative reforms such as the separation of executive from judicial functions and the improvement of the police system. For these purposes, they were even willing to support fresh taxation. See, for details, Chandra (1966: 617 ff.).

[31] Basing themselves on a Parliamentary return of 17 May 1892, the Indians calculated that Europeans getting salaries of Rs. 1,000 or more per year appropriated

The nationalists saw the policy of free trade, or the absence of tariff protection, as a major obstacle to economic development. They pointed out that this policy had already, during the first half of the nineteenth century, destroyed the balanced character of Indian economy and, by ruining its traditional handicraft industries, led to underdevelopment (Chandra, 1966: 55 ff.). This policy was now increasingly hampering the rise of modern factory-based industries.

The Indian critique of colonial tariff policy was developed at two levels. They criticized specific official measures–from the removal of cotton import duties during 1878-1882, which made Indian ports freer than those of Great Britain, to the imposition of counterveiling excise duties on Indian textiles in 1894 and 1896 to balance the custom duties on the import of textiles–as part of a conscious policy of retarding India's industrial development and subordinating it to the needs and demands of British industry (Chandra, 1966: Ch. VI).[32]

On the theoretical plane, starting with K. T. Telang's long essay in 1877 on *Free Trade and Protection–from an Indian Point of View*, they criticized the doctrine of comparative costs and the international division of labor through free trade on several counts. Firstly, in reality, in India's situation, free trade represented an unequal relationship. Free trade, as the theory would have it, could exist only among equals; between India and Great Britain it was something like "a race between a starving, exhausting [*sic*] invalid, and a strong man with a horse to ride on" (Naoroji, 1901: 62; also Telang, 1877: 65; Iyer, 1903: 103, 350; Ray, 1895: 66, 70-73). In fact, free trade meant giving protection to Great Britain, the stronger

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as salaries and pensions nearly 30% of the total net revenue of the Indian Government (Malaviya, n.d.: 515-16; Naoroji, n.d.: 134, Appendix 6, 89-90; Dutt, 1901: 427n; 1904a: 178; Gokhale, 1916: 1187-88; Wacha, 1901). Interestingly, they did not object to the employment of foreign technicians in Indian factories or of qualified teachers in Indian universities. And they campaigned actively for increasing expenditure on the education of Indian students abroad (Naoroji, n.d.: Appendix 47; Gokhale, 1916: 62; Iyer, 1903: 98). See also Chandra (1966: Ch. II, nn. 118, 121).

[32] To give two examples: Pherozeshah Mehta said in the Imperial Legislative Council in 1894: "That principle and that policy are that the infant industries of India should be strangled in their birth if there is the remotest suspicion of their competing with English manufactures" (1905: 390). Or, as the *Mahratta* wrote on 17 Mar. 1895: "The manufacturer of England wants that India should remain agricultural, or that we should always remain producers and England should continue to be the manufacturer."

party (Telang, 1877: 68–69; Joshi, n.d.: 684; Ray, 1895: 39; Iyer, 1903: 104, 329). Secondly, as far as the cost to the consumer was concerned, the long-term benefits of a fall in prices, an increase in wages and employment, and a general growth of national income would far outweigh the cost (Telang, 1877: 10–11; Ray, 1895: 136–37; Iyer, 1903: 244–45). Thirdly, in India, protection would not lead to the diversion of capital from its natural channels, but would instead help mobilize the country's idle hoards (Telang, 1877: 14–24).

Fourthly, the Indians denied that free trade led, through the working of comparative costs, to the most efficient geographical division of labor. There was, they said, something drastically wrong with any division of labor that would consign India forever to be a producer and exporter or raw materials and importer of manufactured goods (Telang, 1877: 34–35; Ranade, 1881a: 54–55; 1898: 24–25; Iyer, 1903: 257–59, 274–75, 329–30). India, they asserted, was, by its history, geography, and resources, eminently fitted to be a great manufacturing country (Ranade, 1898: 25; Telang, 1877: 12–13; Iyer, 1903: 274–75). A fair and mutually beneficial international division of labor could occur only after the full capacities of every nation were known and developed. At the moment, a universal free trade would stereotype the existing pattern of international division of labor and benefit those countries which had developed earlier, for they would forever remain industrially advanced while others, such as India, would be permanently reduced to an agrarian status (Telang, 1877: 34–35; Ranade, 1898: 25–26; *Mahratta*, 12 June 1881; *Hindu*, 23 Mar. 1885). In this context, K. T. Telang also warned against a country being reduced to a single-industry country, since any change in international demand would threaten it with disaster (1877: 36–37).

Several Indians put forward the case for protection along the lines of the infant industry argument, citing the authority of John Stuart Mill (Telang, 1877: 67; Ranade, 1898: 25; Ray, 1895: 45–46; Dutt, in *India*, 27 Nov. 1903).[33]

Indians also appealed to history, pointing out that not only were all the free nations of Europe, the United States, and Great Brit-

[33] In fact, some of the Indians claimed to be free traders in principle who favored protection for India as a special case (Joshi, n.d.: 822; Wacha, n.d.: 422; Naoroji, 1901: 62).

ain's own colonies, such as Canada and Australia, giving protection to their own industries, but that Britain too had protected its modern industries during the last decades of the eighteenth century and the opening decades of the nineteenth century (Telang, 1877: 65, Ray, 1895: 53–66; Ranade, 1898: 25; Iyer, 1903: 104–5, 109, 244–45, 328; Dutt, 1901: 302, and in *India*, 27 Nov. 1903; *Mahratta*, 11 Apr. 1897). It should be noted that although Indians argued against the doctrine of free trade, they were more in favor of an independent tariff policy than a policy of protection *per se* (Dutt, 1904b: 127; *Mahratta*, 5 July, 22 Nov. 1903; Joshi, n.d.: 822; Ray, 1895: 65; Ranade, 1881a: 56; *Tribune*, 1 Apr. 1902; *Hindu*, 27 Nov. 1903; *Hindustan Review*, Nov. 1903: 442; *Bengalee*, 13 Feb. 1904).

The subtlety and discriminating character of their position emerged clearly when, in the context of the demand for Imperial Preferences, they warned against any grant of protection, which would lead to a large scale influx of foreign capital, which would be able to use protection to dominate and monopolize industry in India (*Hindustan Review*, Nov. 1903: 441; *Hindu*, 13 Oct. 1903; *Indian People*, 16 Oct. 1903; Gokhale, 1916: 514–15).

Indian nationalists accepted the contemporary idea that "the magic of property" and the secure possession of land would lead to the self-interest of the peasant as "the one effective motor force" of agricultural development (Ranade, 1881: 57–58; 1898: 256–57; Joshi, n.d.: 870). In India, they said, agriculture was stagnant, and even decaying, precisely because the colonial Government's policy of levying highland revenue took away such a large part of the peasant's surplus, and even his subsistence, that he had neither the capacity to save and invest in land and improve it, nor the incentive to do so. This policy, which amounted to confiscation of private property and drained the countryside of its capital, hindering capital investment in land, was therefore a major obstacle in the path of agricultural development (see Chandra, 1966: 397 ff.).[34]

In this context, Ranade and Joshi questioned the official theoretical framework of land revenue administration. They refuted the

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[34] Ranade pointed out as early as 1879 in the first of the essays cited above that whatever capital flowed into agriculture at the time was meant for personal and unproductive purposes and was therefore in the nature of usury-capital rather than investment capital.

dominant official view that in India the state was the ultimate owner of soil, and that, consequently, land revenue was in the nature of rent and not a tax (for the official view, see Indian Famine Commission, 1880: Part II, Section VII, para. 2; Strachey & Strachey, 1882: 14–15; Curzon, 1900: 128; Govt. of India Resolution, 1902: para. 9). Rather, they held that the Indian landholder was as much a private owner of his land as a landholder in any other part of the world (Ranade, 1884: 45; Joshi, n.d.: 547–48, 573–74, 824, 886 ff.; Mandlik, 1896: 466, 488, 514–15; Mehta, 1905: 680–82; Dutt, 1900: 94 ff.; 1901: 372–74, 381–82; 1903: 140, 321–22). They also attacked the Ricardian basis of the Indian system of land revenue. Underlying the official view and practice was the assumption that the landowner in India, as a tenant of the state, was a capitalist farmer who paid economic rent. Accordingly, the state as the landlord could absorb the whole of the economic rent as land revenue without raising the cost of production, and without affecting prices or wages, which were determined by the cost of production on the marginal land. (See Stokes, 1959: Ch. II.) Ranade and Joshi denied that the Ricardian theory of rent was applicable in India. Ranade's objection was that the colonial state in India, having become the sole landlord, was in a position to charge monopoly rent encroaching upon the profits and wages of the cultivator (Ranade, 1881: 54; 1898: 30). Joshi's objection was more fundamental. The Indian cultivator was more in the nature of a cotter tenant than a capitalist farmer. There were, he said, two basic factors in the situation. The immediate objective of the cultivator was sheer subsistence and not profit on capital invested; and there was increasing competition for land among the cultivators because of the growing population, the gradual disappearance of cultivable wasteland, and the ruin of traditional handicraft industries. Consequently, the cultivator, driven by "cruel economic necessity" and in order to keep possession of land, his only means of subsistence, agreed to any terms imposed by the state or the private landlord, even if it meant living below subsistence, so long as it did not "involve starvation" (Joshi, n.d.: 892–94, 900–901). Ranade and Joshi also criticized the theory of the unearned increment (Ranade, 1898: 29–30; Joshi, n.d.: 363, 894–96, 901–902).

In contrast to the state-peasant relations, the landlord-tenant relations were not seen by many of the nationalists as a major problem affecting development. There was, of course, a great deal of criticism of the zamindari system because of its oppressive and exploitative character. (See Chandra, 1966: 422–24, 431–42, 449 ff.) But Joshi was one of the few who criticized landlordism, both in the zamindari and the ryotwari areas, on the grounds that the insecurity of tenure, and the rack-renting accompanying it, acted as an obstacle to agricultural development (Joshi, n.d.: 870–94, 900–905).

The epitome of the colonial exploitative relationship and of the underdeveloping character of colonial rule was put forward by the nationalists in the theory of the economic drain. The high priest of the drain theory was Dadabhai Naoroji, who hammered at it year after year after 1867. The intricacies were perforce worked out by only a few, but in its broad outline it came to be propagated by nearly all and became the central feature and current coin of nationalist ideology in its heyday as an explanation of India's poverty and backwardness. It did not represent just one aspect of the colonial relationship but was a part of the nationalist assessment of the official policies towards industry, railways, foreign trade, foreign capital, currency and exchange, land revenue, labor, and taxation and expenditure, which were all seen as geared to the mechanism of the drain. The nationalists used the drain theory to bring into focus the entire nationalist critique of colonialism and colonial economic policies and to explain the basic features of colonial economy. Moreover, the political implications of the theory were immense, for it laid bare and enabled the Indians to arrive at the chief contradiction of colonial India, namely, the contradiction between the Indian people and British imperialism.

In the nationalist critique (for details, see Chandra, 1966: Ch. XIII; Ganguli, 1965), the drain was defined as the net unilateral transfer of funds from India, or as that part of the transfer of wealth or commodities from India to England for which India got back no equivalent economic, commercial, or material returns in any form, in the present or in the future. The drain was the excess balance of trade or export surplus which created no claims for the future; it was the unrequited part of India's exports. According to Indians, the constituents of the drain were: those parts of the salaries, incomes, savings, and pensions which were remitted by English civil, military, and railway employees, lawyers, doctors, etc.; profits of private foreign capital invested in trade or industry in

India; Home Charges of the Government of India or the expenditure incurred by it in Great Britain as payment of interest on the Indian public debt and the guaranteed railways; the cost of military and other stores supplied to the Government of India; the civil and military charges paid in England on account of India. Naoroji also often included half of the invisible service charges on foreign trade, re-banking, shipping and insurance, and the profits of export and import trade, since in an equal trade India would have shared these charges half and half.

Nearly all the economists among the nationalist leaders tried to compute the exact amount of the drain. These estimates differed from person to person and year to year, since the gap between exports and imports was growing continuously. For the end of the nineteenth century, calculations of the drain varied between £20 to 30 million a year (Naoroji, 1887: 50, 115; 1901: 34, 566; n.d.: 318–21, 667; Joshi, n.d.: 639–40; Wacha, 1901; Dutt, 1903: xix, 528–29). More significantly, the drain, it was calculated, constituted nearly one-half of India's net annual revenue (Dutt, 1904b: 21, 48, 85; 1901: xiii; 1903: 613).

On the popular plane, the drain was seen to be reducing the national product and impoverishing the country in general terms. (See Chandra, 1966: 653 ff.) More specifically, the drain was seen by nationalist economic thinkers to be underdeveloping the country in two ways. Firstly, the spending abroad of a certain portion of national income had an adverse effect on employment and income within India (Dutt, 1903: xiv, 213–14; Naoroji, n.d.: 129–30, 296, Appendix, 13–14; Malaviya, n.d.: 251–52). This point was stressed to make a basic distinction between the old despotic rulers of India and the British. Thus, Surendranath Banerjea told the Congress delegates in 1902 that, unlike the British, "the conquerors of old soon made the conquered country their own, and returned to the people money which they had wrung from the people. Thus they stimulated the springs of domestic industry and contributed to the material prosperity of the people" (1902: 707).[35]

[35] Dutt too pointed out that the worst of the Afghan and Mughal rulers were better than the British in this respect. He wrote: "The gorgeous palaces and monuments they built, as well as the luxuries and displays in which they indulged, fed and encouraged the manufacturers and artisans of India." Thus, "under wise rulers as under foolish

Secondly, and above all, the drain was quite distinctly seen more as loss of capital than as loss of wealth. The drain was harmful precisely because it denuded India of its productive capital. Dadabhai Naoroji, for example, kept this aspect uppermost in his analysis; in fact, it formed the core of his drain theory (n.d.: 152–53, 196, 382, 595, Appendix, 18–21, 24, 52, 181; 1887: 101; 1901: 38, 56, 59, 64, 135, 225). G. V. Joshi too looked upon the drain primarily as a loss of capital. Adding another dimension, he suggested that the drain should be seen not as a proportion of the annual gross national product, though this proportion was high enough, but as a proportion of the annual net potential surplus or saving. Thus, he wrote, while the drain constituted 6% of the gross national income, it constituted nearly one-third of the net social surplus. This loss, he said, "goes a long way to account for the small accumulations of capital it [India] has to show" (793–94; also 683). Several other nationalist economists and other writers also expressed similar opinions (Chandra, 1873: 93; *Mahratta*, 19 June 1881, 13 Apr. 1884; Wacha, in INC, 1886: 61–62, in INC, 1889: 104, and 1901; Iyer, in Welby Commission: Vol. III, Qs. 18675, 18702, 1903: 125). The corollary followed: The drain, by producing shortage of capital, hindered industrial development (Naoroji, 1901: 55–56, 64, 135, 217, 659; n.d.: Appendix 9; Joshi, n.d.: 793–94; Wacha, 1901; Iyer, in Welby Commission: Vol. III, Q.18702; *Bengalee*, 19 Jan. 1895; Gokhale, in Welby Commission: Vol. III, Qs. 18168–9). Some of the Indians also pointed out that, while the drain had been a source of loss of capital to India, it had been a major source of capital accumulation to Great Britain, where it had "fructified" and helped in the rapid industrialization of the country (Naoroji, 1887: 101; n.d.: 232; Iyer, 1903: 243; Banerjea, 1902). A few also grasped that the compulsion of producing an unrequited export surplus worsened India's terms of trade with the rest of the world (Naoroji, 1887: 101; Joshi, n.d.: 641; Wacha, in INC, 1898: 105; Ray, 1895: 36; Nundy, 1898: 125; Iyer, 1903: 357–58; *ABP*, 17 July 1892).

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kings, the proceeds of taxation flowed back to the people and fructified their trade and industries" (1901: xi–xii). See also Dutt (1901: 100, 426; 1903: xiv); Naoroji (n.d.: 117, 668, Appendix 5; 1901: 184); Ghose (1903).

IX

Given their belief that India was extremely poor, was growing poorer, and was economically stagnating and underdeveloping, Indian nationalist economists put forward distinct and radically different sets of alternative economic policies which would open up the road to development.

Negatively, they demanded an end to colonial exploitation and to policies promoting exploitation and underdevelopment. Such were, for example, the demands for the following: the ending of the drain through Indianization of the services, the greater use of Indian capital, borrowing in India, and, in general, the ending of exploitative colonial relationship (Chandra, 1966: Ch. XIII); lower taxation in general and land revenue and salt tax in particular (Chandra, 1966: Ch. IX, XI); reduction of military expenditure and the ending of the use of Indian resources for imperialist purposes (Chandra, 1966: Ch. XII); retrenchment in civil expenditure, especially by the reduction of high salaries (Chandra, 1966: Ch. XII); and slowing down railway construction (Chandra, 1966: Ch. V).

More positively, they emphasized the need for tariff protection for India's nascent industries (Chandra, 1966: Ch. VI, XIV). They argued for a falling rupee so that imports would become costlier and Indian industries would get indirect protection (Chandra, 1966: Ch. VII). They also demanded changes in financial, (Chandra, 1966: Ch. XI, XII), labor (Chandra, 1966: Ch. VIII), and railway policies in favor of Indian industries (Chandra, 1966: Ch. V).

Above all, they advocated active and direct state support to industry and agriculture, without which the economic situation would not improve. Among them, Ranade and G. V. Joshi were perhaps the most vocal supporters of this policy (Ranade, 1898: Ch. III, VI, VII; Joshi, n.d.: 738 ff., Ch. 39, 40, 41; also Chandra, 1966: 113 nn. 91, 92). The nationalists delineated the role of the state with a degree of originality. State aid, they said, could take the following forms:

1) The Government could make up the lack of adequate capital in the hands of Indian entrepreneurs in two ways: (a) by helping mobilize scattered indigenous capital through the development of state-aided, guaranteed, directed or controlled joint-stock banks and other similar credit institutions (Joshi, n.d.: 797, 812, 826; Ranade,

1898: 91–92, 190, 193; Iyer, 1903: 155, 163–65); (b) by advancing low interest loans under proper supervision to private capitalists. The Government might borrow money for these loans or depend upon savings deposits (Ranade, 1898: 89, 92–93, 95, 178, 193; Joshi, n.d.: 797).[36] One channel for this purpose could be special financial corporations created by the Government or the local bodies which would borrow money at low rates of interest from the Government and advance loans to prospective industrialists (Ranade, 1898: 95–96).

2) The Government could make up for the insecurity, hesitation, and "shyness" of the Indian capitalists and help them overcome the initial difficulties of the "periods of birth and infancy" by extending subsidies, bounties, and grants-in-aid (Joshi, n.d.: 648, 680, 689, 747–48, 810, 826; Ranade, 1898: 89, 189, 193; Iyer, 1903: 155; Ray, 1895: 143; Resolution of the Second Industrial Conference, in *Mahratta*, 11 Sept. 1891; *Hindu*, 23 Mar. 1885; *Mahratta*, 30 Mar. 1902). The Government could also provide security by giving guarantees of a fixed minimum interest to Indian investors similar to those it had given to the British railway companies in India (Ranade, 1898: 89, 168–69, 177, 179, 189; Joshi, n.d.: 809–10; Resolution of the Second Industrial Conference, in *Mahratta*, 11 Sept. 1891; Iyer, 1903: 264).[37] The Government could also help Indian capitalists in borrowing in foreign markets on the basis of a government guarantee, as in the case of railways (Joshi, n.d.: 746; *Mahratta*, 9 Aug. 1885). In return for this official aid, the Government might assume the power to supervise and control the aided industrial enterprises and even to share the profits at a later stage (Joshi, n.d.: 747; Ranade, 1898: 137)[38]

3) Where local private capital was not in a position to venture into a field because of the difficulties inherent in the starting of new industries, the Government should pioneer these industries on its own so as to "test their practicability and remunerative charac-

[36] It was even suggested that the Government might borrow in Britain and lend in India. See *Indian Spectator*, 26 Oct. 1884.

[37] This guarantee was particularly needed for an industry like the iron and steel industry with a long gestation period and where a capitalist would, therefore, hesitate to venture (Ranade, 1898: 168–69).

[38] Joshi noted that in practice state help and subsidy were being extended not to Indian but foreign enterprise (825).

ter," overcome the initial difficulties, chart out the path and thus pave the way for private enterprise to later take up the task (Joshi, n.d.: 743, 813, 819–20; Ranade, 1898: 32–33, 193; *Hindu*, 21 Apr. 1902; *Mahratta*, 6 June 1886). The Government should also manufacture its own defense and other stores whenever they were not available in India (Ranade, 1898: 189, 193; Joshi, n.d.: 810; *Mahratta*, 14 Feb. 1886). Joshi and Naoroji also suggested Government ownership and operation of those industries which needed enormous foreign capital but from which foreign capitalists had to be kept out. Thus, to take advantage of foreign capital without having to suffer its harmful economic and political consequences, the state should borrow money abroad at low rates of interest on the security of its revenues and employ it to develop public works, mining, industries, etc. (Naoroji, 1901: 228–29; Joshi, n.d.: 672–73, 746; also *New India*, 16 Dec. 1901; *Bombay Samachar*, 18 May 1880).

4) The Government could help Indian industry by purchasing government and railway stores, such as equipment for the army and police, water, gas and sewage systems, hospital equipment and medical stores, steel and cement and other materials required for docks, bridges, buildings and roads, telegraph and telephone equipment, stationery and other materials consumed by the administration, and, the largest of them all, tracks, bridges, rolling stock and building materials for the railways (INC, 1887: Resol. VII; Ranade, 1898: 178, 189–90, 193; Ray, 1895: 39–40; newspapers cited in Chandra, 1966: 118 n. 116).

5) Since the Indians saw lack of trained workers and engineers as a major obstacle to development, they urged the Government to undertake the responsibility of promoting technical education within India and of sending Indians abroad for higher technical education.[39]

6) The Government was also asked to collect and disseminate industrial and commercial information (Ranade, 1898: 177; Joshi, n.d.: 743; *Mahratta*, 22 Sept. 1895).

7) To promote agriculture, the Indians demanded greater expenditure on irrigation (see Chandra, 1966: 207 ff.) and organiza-

[39] Resolution of the INC in 1887 and almost every year thereafter. Most of the Indian newspapers and political leaders made this demand.

tion of state run and financed agricultural credit banks (Ranade, 1898: 61, 63; Joshi, n.d.: 359-60, 366; Ray, 1895: 224; Gokhale, 1916: 332-33; *Hindu*, 29 Dec. 1884; *Mahratta*, 8 Nov. 1903; *Hindustan Review*, Mar. 1904: 302-3).

In this context, the leading nationalist economists vigorously challenged the *laissez-faire* theory of the functions of the state. The state should, in this respect, act as the collective organ of the national will for national purposes (Ranade, 1898: 32; Joshi, n.d.: 671-72, 748, 809; Iyer, 1903: 155, Appendix 6; Gokhale, 1916: 54-55). In an economically backward country like India the state had the special obligation to assume the task because its people had to be helped to overcome inherited weaknesses, their own inertia and their inferior position vis-á-vis powerful foreign competition (Ranade, 1898: 87; Joshi, n.d.: 672, 746, 748, 785-86, 808; Iyer, 1903: Appendix 6).

In this respect, Ranade pointed out that the colonial state had not in practice, as opposed to its theoretical posture, followed a *laissez-faire* policy. The Government had taken a direct and active part in pioneering and promoting industrial and commercial enterprises and granting special privileges to British capitalists in India. Clear-cut examples were cinchona, tea, and coffee plantations, coal mining, the iron industry, and, above all, railway construction (Ranade, 1898: 32-33, 86-89, 91, 94, 96-97, 165 ff.; also Joshi, n.d.: 699, 743, 747, 800, 809).

The nationalist demand for an active state role in industrial development was, however, not to be confused with the advocacy of socialism or even state capitalism. Their purpose was to make up the deficiencies of private enterprise in a backward country, to provide an impetus to Indian private enterprise, to prepare it for assuming independent responsibility, and to redress the balance in the unequal struggle between the weak Indian capitalists and the "powerful and go-ahead foreigner." None of the Indians saw state intervention or ownership of industries as socialism. Joshi explicitly repudiated any suggestion of socialism "as was attempted with fatal ill-success by the Provincial Government [of France] in 1848." Industrial development, he said, was the function and prerogative of private enterprise. And in no case, he added, should the state undertake any work which private Indian enterprise was capable of being trained to assume. Even the necessary recourse to state enterprise was to be a short-term measure. Once Indian enterprise had developed to the desired extent, state enterprise might be handed over to the native capitalists (673–74, 698, 746–50, 753, 808, 819–26, 861–62). This was also the basic thrust of Ranade's writings (1898: 33, 89–90, 169, 190, 193–94).

X

In the agrarian field, the nationalists concentrated on the peasant-state relationship and demanded permanent fixity of a low land tax so that the peasant would have security of tenure vis-á-vis the state, and thus acquire a sense of private property in land, and thus the incentive as well as the means of developing agriculture (Chandra, 1966: 408 ff.). They also emphasized the need to provide the cultivator with access to cheap and assured credit (Chandra, 1966: 483 ff.).

On the other hand, the failure to examine critically the relations between the cultivator and the landlord was perhaps the weakest link in nationalist economic thinking. With the exception of a few, most of the nationalists failed to suggest any major changes in the structure of agrarian relations. Many, of course, expressed a vague humanitarian solicitude for the tenantry and the debt-ridden peasantry (Chandra, 1966: 439 ff.). Some suggested positive legal steps for the protection of the tenants and the indebted (Chandra, 1966: 442, 448 ff., 453, 457, 469 ff.). A few Indians attacked the zamindari system (Chandra, 1966: 441–43). G. V. Joshi dealt critically with both the zamindari system and the emerging landlordism in the ryotwari areas (351–52, 411, 870–94, 900–905). Ranade was an exception. He opposed the existing semi-feudal agrarian structure; but also argued that tinkering with it through tenency legislation would not solve the problem, though such legislation was to be supported as a short-term remedy to protect tenant interests. Such legislation only perpetuated the existing pattern of agrarian relations. Instead, he advocated the complete restructuring of agrarian relations on capitalist lines as had just been done by the Prussian land legislation. His model of capitalist agriculture was two-pronged: The majority of the cultivators must be independent, small peasant proprietors, while at the top there should be a large class of capitalist farmers who would be, unlike the zamindars, complete owners of their land on the model of British landlords or the German junkers. Therefore, he advocated that the future development of agrarian relations in India should be based on the creation of two basic agrarian classes which would live side by side: (a) a large petty peasantry which would be free of all encumbrances, whether of the state of the landlords, and which would be bolstered by a permanent and low land tax and the provision of cheap credit through agricultural banks; and (b) a large class of capitalist farmers and landlords who, being unhampered by any tenancy right, etc., would be in complete possession of their land and in a position to invest capital and utilize the latest advanced techniques of agriculture. This last class was to be brought into being by the transformation of the existing zamindars into capitalist landlords and by enabling the upper strata of the peasantry to acquire land and rise to the new status (1879, 1881, 1898: Ch. XII).[40]

G. V. Joshi, on the other hand, favored small peasant farming which would be maintained by vigorous tenancy legislation in both the ryotwari and the zamindari areas, giving protection and permanent tenure to the actual cultivator, availability of cheap credit, and a permanent and low land tax (356 ff; also 870 ff.).

Some of the prominent Indian nationalists also emphasized the close and vital link between the development of agriculture and the development of modern industry. The two must occur simultaneously; otherwise no effort towards mere agricultural development could succeed. The increasing pressure of the population on agriculture would negate all such efforts. For example, so long as there was excessive competition for land, no amount of legislation could protect the land-hungry tenants from rack-renting. Industry alone could siphon off the excess agricultural population and create conditions for agricultural development (Ranade, 1881: 42, 53; 1898: 25-26, 207; Ray, 1895: 97-98; Joshi, n.d.: 350-52, 367-68, 642, 849-52, 870-72; Iyer, 1903: 64-5; *Mahratta*, 23 Jan., 13 Feb., 17 July 1881, 1 Jan. 1882, 25 May 1884; *Kesari*, 18 June 1901, 11 Nov. 1902).

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[40] Opposition to capitalist farming came from Satish Chandra Mukherjea on the ground that it would create unemployment and lead to loss of self-respect on the part of the peasant (*Dawn*, Apr. 1900: 268).

XI

Gradually, the Indian nationalists came to grasp that there was a close connection between state power and economic policy, and that economic development required a political system conducive to it. They linked nearly every important economic question with the politically dependent status of the country. In debating each and every economic issue, they asked the question: Why were the rulers not following correct, developmental policies? And the answer invariably was that British economic policies in India were being guided by the interests of the British capitalist class, that India's industrial and agricultural growth was invariably subordinated to the interest of British trade, industry, and capital, and that the fundamental purpose of British rule was to enable the economic exploitation of India. (See Chandra, 1966: 61 ff. for the ruin of handicrafts, 108 ff. for foreign capital, 121–22 for industry, 146–47, 166 for foreign trade, 190–93, 201, 212–13 for railways and irrigation, 228 ff., 234 ff., 239–40, 244 ff., 259 ff. for tariffs, 293, 301 ff., 305 ff., 313 ff. for currency and exchange, 337 ff., 350, 375 ff. for labor, 557 ff., 589 ff., 598 ff., 628 ff., for public finance, 636, 689 ff. for the drain and Ch. XV in general).

Ending colonial economic exploitation, especially ending the drain and the policy of free trade, the nationalists came to believe, required the ending of colonial political domination. This was a demand which came to be raised by nearly all the prominent nationalist economic thinkers by 1905 (Gokhale, 1916: 805 ff.; Naoroji, n.d.: 65 ff., 671, and his speech to the International Socialist Congress in 1904, in *India*, 2 Sept. 1904).

XII

Overall, the Indian nationalists had gradually acquired a deep understanding of the structure and basic features of India's colonial economy and their relation to its underdevelopment and stagnation; and this at a time when British writers on India and, in fact, British economists as a whole were still thinking in terms of stationary and changing societies in general, and of the current economic transformation of India as rapid economic development in particular. The Indians grasped that India's economic backwardness or underdevelopment at the end of the nineteenth century was not a carryover of the traditional or precolonial past but a consequence of colonial rule, which had partially changed or modernized Indian economy, especially in the fields of trade and transport, to subserve British colonial purposes. Examining British policies issue by issue and putting forth their own alternative policies, they concluded that British policies sprang from the very nature and character of colonial rule, that is, its subordination to the interests of British trade, industry, and capital.

In this respect, they even made a basic advance in economic theory. While the British writers could see only two types of contemporary economic structure, the traditional and the modern, each bolstered by its own sets of economic and cultural values—and this is where a great deal of present-day economic and sociological theory is still bogged down—the Indian writers could clearly see that a third type of economic structure—the colonial economy—was coming into being; this colonial economy was as modern as industrial capitalism, was bolstered by its own ideology of colonialism in the realm of economic and cultural values, and was, at the same time, as depressing in its impact on economic life as the traditional economic and social structure.

The nationalists also brought out the basic contradictions and distortions of colonialism. To sum up their critique: Colonialism destroyed India's traditional industries and through manipulation of tariffs, hindered the growth of modern industries, which led to deindustrialization, an unbalanced economy, unemployment and underemployment, undue pressure on land, and a worsening land-man ratio; its land revenue policy led to excessive land tax and rack-renting, which prevented the development of agriculture; its efforts to restructure agrarian relations led to the growth of landlordism, moneylending and an unjust and non-developing agrarian system; railways served as social overhead not for Indian but for British industries and their external economies were exported back to Britain; its taxation policy starved India of savings and its agriculture and industry of capital; its financial policy starved developmental and welfare activities while financing imperialist wars and subserving the imperialist foreign policy of Great Britain and maintaining a top-heavy civil administration—both military and civil expenditures serving as forms of surplus appropriation or economic exploitation; India's industry was denied the necessary tariff and state assistance; the official tariff, trade, transport, taxation, currency, and labor policies obstructed the growth of industry; the growth of foreign capital in industry, trade, and banking deepened foreign economic exploitation and political domination; and, above all, the economic drain, the quintessence of colonial domination, starved India of its capital, leading to slow capital formation, low productivity, and falling per capita income, and by unilaterally exporting part of national income adversely affected national income and employment.

In more general terms, the nationalists analyzed colonialism—and the economic mechanism of colonial exploitation—in all its three forms: (a) the direct appropriation of social surplus through revenue appropriation, the crude tools of plunder and tribute, and the employment of "our boys"; (b) the more disguised, indirect, and complex mechanism of free trade and unequal exchange; and (c) the newly emerging form of investment of foreign capital in modern plantations, means of transport, mines, industries, banking, and the public debt.

The nationalists were also able to evolve a political economy of colonialism and point to the four basic features of the colonial structures which lie at the heart of recent Marxist analyses of colonial underdevelopment. In fact, we may go so far as to suggest that the recent analyses have made an advance not so much in content as in better conceptualization and terminological exactitude. These basic features were: (1) The integration of the colonial economy with world capitalism in a subservient position so that the basic issues of the colony's economy were not determined by its needs or the needs and interests of its dominant social classes, but by the needs and interests of the metropolitan economy and the metropolitan capitalist class. It is important to note that the subordination of the colony's economy was seen as the crucial or determining aspect and not mere linkage or integration with the metropolitan market. (2) The second feature is encompassed today by the twin notions of unequal exchange (Aghiri Emmanuel) and internal disarticulation of the economy and the articulation of its different disarticulated parts through the world market and imperialist hegemony and their integration with the metropolitan economy (Samir Amin and Hamza Alvi). The Indian nationalists emphasized the same features by pointing to a specifically colonial structure of production where-by the colony specialized in production of raw materials, exported to the metropolis, and the metropolis in manufactured goods exported to the colony; by pointing to the role of railways and foreign trade as subserving the interests not of the colony's trade and industry but the needs of metropolitan production; and by pointing out that colonialism led to a particular international division of labor by which the metropolis produced high technology, high productivity industrial goods, while the colony produced low technology, low productivity agricultural goods, thus making foreign trade an instrument of underdevelopment and exploitation. (3) The third feature of colonialism was the production of surplus in the colony but its accumulation and expanded reproduction in the metropolis through the drain or unilateral transfer mechanism. (4) The last basic feature of colonialism was foreign political domination, or the existence of the colonial state, which played a crucial role in the colonial structure. The colonial state not only brought into being and helped construct the parameters of the colonial structure, but the metropolitan ruling class commanded the colonial's social surplus, not primarily because it owned the means of production, but because it controlled the state power.

Thus, the nationalists gradually came to the conclusion that colonialism in its many forms and the political domination which made it possible were in the main responsible for India's economic stagnation and underdevelopment. Consequently, they demanded fundamental changes in the existing economic relations between India and Great Britain. The measures they suggested for overcoming India's economic backwardness would cut at the very roots of colonialism.

A few other aspects of nationalist economic thinking may be pointed out. Firstly, they were concerned primarily with the problem of economic development as a whole and not with the economic advance or growth in isolated sectors. Economic development, in turn, they believed, consisted primarily of rapid and all-out industrial development. They judged nearly all contemporary issues from the vantage point of industrial development. Economic policies in the fields of foreign trade, railways, tariffs, currency, labor, public finance, and even agriculture were to be brought into line with the needs of industrial development.

Secondly, though explaining theoretically the underdevelopment of India and the role of colonialism in it, that is, evolving a political economy of colonialism, the Indian nationalists did not evolve a distinct or consistent theory of economic development. In fact, they functioned within the framework of the existing, established economic theory. However, within this framework they made certain innovations. For one, while in tune with contemporary economic thinking in Europe and the United States they held that the same propositions of economics could not be applied to countries at different stages of economic development, and that for each country these propositions should be formulated in the context of the general economic needs of the country concerned. Moreover, they did give a consistent, integrated, and interrelated picture of Indian economy, its maladies and their relation to alien rule, and the remedies to be applied. Their economic thinking possessed a certain unity and continuity and clarity of perspective, a certain "cohesion and unity of design" (Ganguli, 1977: 4). In fact, we may go so far as to say that they tried to evolve some sort of political economy of growth in which developments in industry, foreign trade, transport, fiscal policy, and agriculture were closely intertwined with the objective of the rapid industrialization of the country. It is also important to keep in view that their economic thinking occurred in the context of, and as part of, a developing anti-imperialist movement. Conflict in the realm of economic ideas was the chief form of the ideological struggle between an entrenched imperialism and an emerging and later resurgent nationalism. The Indian nationalists were to bring out and highlight the chief contradiction of British rule in India and thus lay firm foundations for the emerging anti-imperialist struggle.

Thirdly, their entire economic thinking was done within the framework of a capitalist mode of production—partially because this was the only framework available to them and partially because they could not at the time, in the context of the colonial state, conceive of any agent other than the capitalist class for the realization of their major objective of rapid industrialization.

Perhaps their main failure in the realm of economic ideas lay in the tendency to underplay and even ignore the internal socio-economic structure and the internal contradictions as obstacles to economic development. As we have shown, with a few exceptions, this was true of their treatment of the agrarian structure. Moreover, despite a certain pro-poor orientation, they tended to ignore the specific class problems of factory labor—though not of plantation labor—and the vast mass of tenants and agricultural laborers. (See Chandra, 1966: Ch. VIII, X; for the beginnings of an opposite trend, see these chapters and 93 ff.)

PART II

During the 1930's and 1940's, both the British and Indians thought and wrote on economic development basically within the framework evolved in the nineteenth century, except that the Indians evolved two further features which I will discuss later in the paper.

I

Official as well as non-official British thinking increasingly focussed on individual economic issues and failed to raise any structural questions or evolve elements of a development theory. Thus, five major official commissions were appointed from 1916 to 1930 to deal with important economic questions, but each concentrated almost entirely on the question concerned.

The Industrial Commission, appointed in 1916 and reporting in 1918, recommended a wide variety of state aid to industries, including the setting up of Imperial and Provincial Departments of Industries to gather and provide commercial and industrial information and advice; the improvement of technical training and education; larger government purchase of its stores within India; and giving technical and financial aid to industries.[41] The Commission had been set up under the pressure of war-needs; with the end of the war the pressure eased and most of the paltry recommendations remained unimplemented (Anstey, 1946: 219–21).

The Indian Fiscal Commission recommended in 1922 a policy of highly selective and "discriminating" tariff protection under very stringent rules and under the rigid control of the British-Indian Government (*Indian Fiscal Commission Report*: Ch. VI, VII, XIV). The

[41] The Commission ascribed the existing industrial backwardness to lack of skill, lack of enterprise, lack of capital, lack of business ability and knowledge, and lack of an efficient labor force.

Royal Commission on Agriculture in India (1928) blamed the increase in population, disease, and the lack of the will to improve for the poor standard of living of the peasant. The main recommendations of the Commission related to the establishment of an Imperial Council of Agricultural Research to guide and advise all other agricultural bodies, legislation for promoting the consolidation of holdings, and measures for the improvement of the marketing of agricultural produce. The Royal Commission on Labour and the Central Banking Enquiry Committee (1931) also confined their findings and recommendations within narrow limits.

In general, British officialdom increasingly gave up the grand design of India becoming a replica of industrial Great Britain and a great industrial power, lived from hand to mouth on economic questions, and basically stuck to old ideas even while continuing to proclaim the modernizing role of colonial rule. Hardly any innovative policy regarding economic development was evolved or implemented. The British "vision of imperial economic development" was still largely confined to increasing India's capacity to export primary products, to purchase British manufactures, and to raise revenues to meet the "drain" as well as the needs of imperial "defense" (Tomlinson, 1979; Drummond, 1972: Ch. I).

The only new policy initiatives were confined to a rigidly controlled and narrow and ineffective policy of tariff protection, which was further attenuated in the 1930's with the introduction of imperial preferences, and greater purchases of government and railway stores within India (Datta, 1978: 145). It was only in 1945 that under nationalist pressure and the impending transfer of power the Government announced a more active industrial policy. But by the very nature of things, it was of little practical consequence. Moreover, it still did not incorporate any strategy or theory of economic development.

Surprisingly, no major—or even minor—British economist wrote on India. Nor, unlike in the pre-First World War years, did any British Indian official take up discussion of Indian economic development in a macro perspective. The only two major British works on India were by economic historians. L. C. A. Knowles in her work, *The Economic Development of the British Overseas Empire*, first published in 1924 and then revised in 1928, more or less summarized official publications such as *The Moral and Material Progress*

Reports and numerous other official apologia and reproduced the nineteenth century colonial thinking. Vera Anstey, in her *The Economic Development of India,* first published in 1929 and then revised in 1936, based her work on the reports of various official commissions and had consequently a less optimistic, though equally fragmented, view of Indian economy.

Both Knowles and Anstey assumed that the precolonial Indian economy and society were traditional or premodern; Knowles repeatedly described it as stationary (Knowles, 1928: 38, 295). Both held that colonial rule had ushered in a transition to a modern economy (Anstey, 1946: 7, 471; Knowles, 1928: 266, 295, 297, 313 ff.). The one major difference between the two was that Knowles stuck to the optimistic nineteenth-century view that India was being rapidly transformed since the 1850's, that agricultural and industrial revolutions had been ushered in India leading to rapid economic development (37, 274, 297; also 313 ff., 337, 457–58) and a rising standard of living (275, 466); while Anstey held that India's was a case of "arrested economic development" (5, 8, 471–72),[42] that "nothing worthy of the name of an 'industrial revolution' appears to be taking place" (227), and that "up to the end of the nineteenth century the effects of British rule on the prosperity of the people were undoubtedly disappointing" (5).[43] But Anstey too was optimistic about the future. For on balance considerable economic progress had been made until 1929. In fact it was "no less than remarkable" between 1900 and 1914 (Anstey, 1946: 469, 472–73). Above all, purely material and technical conditions for rapid economic advance had been created, including adoption of pro-development Government policies (473–74).

What were then the main or fundamental obstacles to rapid economic development? Knowles and Anstey were agreed on the answers. The most important obstacles were the religious ideas, social organizations, and customs and institutions, such as caste, joint family, and *purdah,* and the economic conservatism based upon them, which led to the prevalence of a static social ideal, a non-economic

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[42] Similarly, she said that the transitional stage from the medieval to the modern "has already been unduly prolonged" (1946: 5, 8).

[43] But Anstey also wrote that the condition of the masses improved until 1929 (1946: 7).

outlook, and a fatalistic attitude, a lack of economic enterprise and ambition, a weakness of "economic motive," and the absence of the ideal of progress and the desire to improve (Anstey, 1946: 3, 46 ff., 157, 474–76; Knowles, 1928: 267, 282–87, 417, 452–53, 459). Running close as an obstacle was the high rate of population growth (Anstey, 1946: 5, 46 ff., 157, 471, 474–76; Knowles, 1928: 231, 275–77, 286, 433). Climate and the physical characteristics of the country also contributed to improvidence and inertia among the people (Anstey, 1946: 3, 157; Knowles, 1928: 281). Other major obstacles were: the scarcity of capital and entrepreneurship within the country (Anstey, 1946: 209, 227, 231; Knowles, 1928: 440, 451);[44] India's limited and inelastic financial resources (Anstey: 1946: 399; Knowles, 1928: 247, 274–76); an inadequate supply of industrial labor (Anstey, 1946: 228–29; Knowles, 1928: 51, 451); the deficiency of technical and scientific experts (Anstey, 1946: 231); and the ill effects of the series of internal political (nationalist) movements (Anstey, 1946: 435; Knowles, 1928: 456).

Thus, both Anstey and Knowles argued that the problems that beset Indian economy and retarded its development were the result not of British rule or colonial policies but of its internal economic and social weaknesses. They not only failed to note any constraints on economic development due to the colonial structure or colonial policies; they explicitly denied that the latter shared any part of the blame or responsibility for any retardation of India's development. Thus wrote Anstey: "The present economic policy of the Government cannot be considered as an important factor in India's arrested economic development, or as fundamentally responsible for the unsatisfactory features of the economic situation" (1946: 473; also 437).[45] The remedies, containing some sort of a theory of development, were then obvious. As Anstey put it:

> India's economic future depends, in the main, not upon the inauguration of particular schemes of development, or the adoption of particular lines of policy, but upon more funda-

[44] According to Anstey, this weakness was to some extent made up by the availability of foreign capital (1946: 227, 232).

[45] On the contrary, the "progressive policy of the Government" had contributed to expansion of industries after 1900 (1946: 210–14). See also Knowles (1928: 435).

> mental social reforms and reorganization, directed towards controlling the size of the population, breaking up the existing over-rigid social stratification, stimulating enterprise and energy, promoting education, and replacing the forms by the spirit of religion. India is crying out for the persistent and unstinted efforts of her people—male and female—inspired by a clear vision of the potentialities of the future, unshackled by bitter and unavailing reflection upon the past, to help her to loosen the bonds of tradition, caste, and superstition. Thus and thus only will she at last attain her rightful position (1946: 487).

More specifically, so far as industrialization was concerned, wrote Anstey, it "can best be prompted by increased expenditure upon research, industrial and technical training, the collection and dissemination of information, the promotion of improved methods of marketing, and upon the improvement of transport and communications" (1946: 363; also 233).

Unlike Anstey, Knowles also frankly defended colonialism for being responsible for the development of India and denied any colonial economic domination or exploitation. India, she wrote, "is now in process of deciding her own type of economic life for herself.... [H]er government is practically as free as that of a dominion to direct the economic life of India.... She [India] settles her own tariff, her own industrial and commercial policy" (1928: 33, 51). Moreover, India's economic development was "inconsistent with any theory of exploitation" (Knowles, 1928: 393). In fact, Britain had been for nearly 150 years mainly preoccupied with the development of India for the benefit of the "native population" (Knowles, 1928: 45, 155–58, 204–5, 466, 510).

II

As pointed out earlier, Indian writers also did not make a basic advance over nineteenth-century Indian ideas of the political economy of colonialism or economic development, except in the three areas of planning, the public sector, and social justice. Before we take up the innovative thinking on these areas, a few preliminary remarks may be in order.

First, during the period 1920 to 1947, the nationalist economic ideology evolved by intellectuals during the last part of the nineteenth century—the comprehensive and sophisticated critique of colonialism and the colonial structure—became the hegemonic ideology—the current coin—of the mass anti-imperialist movement and was carried to the masses and made a living truth to them by the entire cadre of the movement.[46] Secondly, we are not taking up for discussion the Marxist stream for two reasons; it never became dominant, and it lacked originality. The Marxists either argued for socialism in general terms or pleaded for Soviet-type planning and development.

Thirdly, unlike in the last part of the nineteenth-century, professional economists made a full appearance during this second phase. But almost all the professional economic writings dealt with particular economic policies and failed to deal with or evolve any theories of economic development. Though often taking up nationalist positions, vigorously challenging colonial economic policies, Indian economists confined their research and analysis to specific issues, providing a great deal of empirical detail, usually based on Government reports, and imparting a certain theoretical rigor as well as current terminology, but without making wider connections or putting the empirical data or their analysis in a macro-framework.[47] In fact, except in one or two textbooks, there was less intermeshing of the issues, less passion, and lesser emphasis on the "drain" and the notion of exploitation than in the nineteenth-century writing of Naoroji and company. Even so far as economic history or critique of historical development of colonialism in India was concerned, not a single professional work came up to the level of R. C. Dutt's work. It was only after the Second World War that problems of economic development as such began to be studied by Indian economists. As Bhabatosh Datta's work shows, Indian economists did analyze, often with deep insight and professional

[46] See, for example, the Independence Pledge of 26 Jan. 1930, taken by nationalists all over the country on every January 26 thereafter (Sitaramayya, 1935: 615–16). The new in this phase of the national movement was the bringing in of workers and peasants within its ambit.

[47] The one exception was H. Venkatasubiah, *The Structural Basis of the Indian Economy*, which appeared in London in 1940 and was based on the standard contemporary Marxist theory of economic change.

competence, problems such as tariff, imperial preference, currency and exchange (especially the rupee-sterling ratio controversy in the 1920's), banking, foreign trade, population, national income, public finance, industry and industrial organization, public debt, labor, railways, and agricultural development. But these different aspects were seldom linked to one another.[48] As Bhabatosh Datta says, the failure to do so and thus deal with the wider problems of economic growth "was a common failing in those times" (1978: 54).

We may tentatively suggest a few reasons for this failure of the Indian economists. One reason was that the period before 1945 was a period of the critique of colonialism. Once it was believed, as in the nineteenth century, that colonialism and the colonial state were incapable of developing Indian economy, wider theories of economic development could be seriously taken up only when an end to colonialism and emergence of an independent state appeared on the horizon or became a certain reality, that is, after 1945. Another reason was that as economics no longer remained the preserve of the amateur and became an academic discipline it came under the influence of contemporary British economics dominated by Marshall and other neoclassical economists and their empiricist, fragmentationist, and non-macro or narrow micro tradition.[49] This was particularly so because nearly all the major Indian economists were trained in British universities.[50] And even those who were not had their Ph.D. thesis examined in Great Britain. Interestingly, as notions of planning and development came under vigorous discussion in Great Britain and the U.S. during and after the

[48] Even at the textbook level, the first such attempt was Wadia & Merchant, *Our Economic Problem*, which first appeared in 1943.

[49] "There was also the fact that the right atmosphere for research in theoretical analysis did not develop for a long time. The 'theories' that were taught in the universities were available, neat and ready-made, in the standard textbooks and Alfred Marshall was the leading light. And, for large numbers, the only content of economic theory was supposed to be micro-economics, and particularly the problems of price determination of isolated individual commodities in atomistically competitive markets. The problems of money, banking, business cycles and public finance were not recognised in their true macro-economic perspective" (Datta, 1978: 159).

[50] "It is interesting to note that a number of doctoral theses done in the British universities had a common trait, namely, an attempt to demonstrate that the difficulties of Indian industry were not so much due to exchange rates or to foreign competition as to factors internal to the economy" (Datta, 1978: 113).

Second World War, Indian economists began to take up the subject, but again within the framework developed in Great Britain and the U.S. One result was the First Five Year Plan of independent India.

Fourthly, whatever new ground was broken and innovations made in the realm of ideas of economic development were by left-wing nationalist activists and the spokespersons of the capitalist class who, moreover, imparted greater complexity even to a discussion of economic policies.[51] Moreover, these two groups continued to take up positions as political economists, refusing to delink economics from politics.

III

Before we turn to the new themes in economic development taken up by Indians, we may note that they continued to put strong emphasis on a few old themes. For one, the strong emphasis on modern industrialization continued (National Planning Committee [hereafter NPC]: 5, 37, 46, 50; Bombay Plan: 9–10, 29–30; Nehru, 1946: Ch. VIII).[52] Jawaharlal Nehru, for example, wrote, in the *Discovery of India*: "No country can be politically and economically independent, even within the framework of international interdependence, unless it is highly industrialized and has developed its power resources to the utmost. Nor can it achieve or maintain high standards of living and liquidate poverty without the aid of modern technology in almost every sphere of life" (Nehru, 1946: 356; also 354).[53] What was new here was the emphasis on heavy engineering and a machine-making industry without which independent economic development was seen to be impossible (NPC: 5, 35, 41, 46–

[51] The capitalist class developed a critique of colonialism and an alternative path of development which paralleled the economic thinking of the national movement. Apart from Aditya Mukherjee's writings cited in the references, see his forthcoming work on *The Indian Capitalist Class and Imperialism*, and *A Plan of Economic Development for India* (1944, 1945), by P. Thakurdas et al., popularly known and hereafter referred to as the Bombay Plan.

[52] While the Report of the NPC was published in 1949, all of its documents cited here belong to the period 1938–45.

[53] Nehru also emphasized, *à la* Ranade, the social and psychological aspects of industrialization. It "will change the static character of our living and make it dynamic and vital, and our minds will become active and adventurous" (1946: 357).

47, 59, 134–35; Bombay Plan: 9–10, 31–32).[54] Gandhi was an exception in this respect; but not only was he a lone voice, he also tended over the years to move towards the mainstream. In the 1930's, he repeatedly said that his position on modern industry had been grossly misinterpreted and that he was not opposed to modern large-scale industry so long as it augmented and lightened the burden of human labor and not displaced it and was owned by the state and not private capitalists (e.g., Gandhi, 1958: Vol. 68, 258–59). In turn, Nehru and others were also willing to accommodate Gandhi and declared that though "an attempt to build up a country's economy largely on the basis of cottage and small-scale industries is doomed to failure," cottage industries were to be protected and encouraged as a part of development strategy (Nehru, 1946: 352 ff.; NPC: 5, 35, 37, 41, 46, 63, 102, 143). The problem, according to the Note for the Guidance of the Sub-Committee of the National Planning Committee, was one of "coordinated growth in both directions." This was to be one of the functions of the National Plan (NPC: 46, 101–2, 143, 227; also Bombay Plan: 10, 33–34, 96).

Secondly, the strong opposition to foreign capital continued. While the nationalist political leadership reiterated its opposition even more stringently,[55] the fresh aspect was the strong opposition of the Indian capitalist class to any development based on the use of foreign capital.[56] Foreign capital, declared Walchand Hirachand, a leading Indian capitalist, had "stifled India's political aspirations, crippled her financial strength and contributed only to her economic subjection." The Indian capitalists pressed for the restriction and even elimination of foreign capital through government action and legislation. Investment of foreign capital should not ordinarily be permitted in the form of ownership and management in "industries of national importance." They demanded that certain key areas of the economy, such as banking, insurance, oil,

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[54] Throughout the colonial period, India was dependent on the world market for capital goods and technology.

[55] Where import of foreign capital becomes necessary on technological or financial grounds, it should be under strict Indian control. See, for example, Tendulkar (1969: Vol. 4, 241); NPC (236–37).

[56] This and the next paragraph are based on Aditya Mukherjee (1976, 1979); NPC (58–59, 158, 236–37); Bombay Plan (51, 53).

mining, machine-making, shipping, the automobile industry, aviation, and locomotive construction should be reserved for Indian companies (which already controlled iron and steel, cotton textiles, sugar, cement, paper, heavy chemicals, etc.). Even other industries should be started and controlled by Indian companies, which were defined as those 75% of whose capital was controlled by Indians and 75% of whose board of directors were Indians. During the Second World War, they demanded that industries specifically developed as part of the war effort should be under Indian ownership, management, and control. In particular, they agitated vehemently against the entry of American capital to develop war industries, which would lead to the creation of much stronger new foreign vested interests. They also suggested development by the state of basic industries and infra-structure, such as power and other utilities where large resources were needed which were beyond the capacity of Indian capital and which might lead to dependence on foreign capital, and the nationalization of existing foreign companies as measures of preventing foreign capital's grip over key sectors of Indian economy. From 1944 onwards they demanded the use of India's accumulated sterling credit to repatriate British investments in jute, rubber, oil, railways, and other high dividend yielding industries and utilities.

The capitalists recognized that some amount of foreign capital would be necessary because of "India's vast capital requirements in the coming years" and of the need to use advanced technology in basic industries which might not become available without foreign participation in ownership and management. Foreign capital should, however, be permitted only if "not accompanied by political influence or interference of foreign vested interests." But how to ensure this? The answer was to interpose the state between the Indian economy and foreign capital. First, so far as possible foreign capital was to be allowed only "in the shape of loans, or credits, raised by or through the State." Secondly, direct foreign investment was to be under the strict control and supervision of the state. In other words, the state was to be used to absorb foreign capital without allowing foreign domination. Working of foreign finance capital was to be limited by nationalization of the Reserve Bank, licensing of all banking business, and laying down the conditions that all the directors of banks registered in India had to be Indian while banks not registered in India would be prohibited from receiving any bank deposits or raising loans.

Thirdly, unlike in the nineteenth century, Indians took full cognizance of the inner contradictions of Indian society. Increasingly the cause of the peasants and the workers was taken up by the national movement as a whole and the left-wing nationalists in particular. The agrarian program of the movement was continuously radicalized. There was the growing spread of the ideas of socialism and social justice associated with the names of Nehru and Gandhi.[57] We will not, however, deal with this aspect here except to the extent that these ideas were related to ideas on economic development. But in one respect their impact was universal. The rejection of Western capitalist growth models was universal. No one, not even the capitalists, would suggest development along the lines of nineteenth-century Western capitalism.[58]

Fourthly, the active role of the state in economic development was not only reiterated but also imparted new dimensions, as I will discuss below.

IV

There was a general radicalization of economic thinking among Indians.[59] This radicalization sometimes, as in the case of Jawaharlal Nehru, Subhas Bose, and the Communists and Socialists, led to the advocacy of socialism. But the demand for socialism was invariably put forward on grounds of egalitarianism, anti-exploitation, and social justice. It was seldom linked to any detailed economic theory of development, except that the economic crisis of

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[57] The increasing socio-economic radicalization of the National Congress was embodied in its resolutions at its Karachi (1931), Lucknow (1936), and Faizpur (1936) sessions. For the growing radicalism of Nehru, see Chandra (1979), and for Gandhi, Chandra (1988), Gyorgy (1977), and Ganguli (1977: 248 ff.).

[58] One result was that a member of the U.S. House of Representatives described the Bombay Plan as socialistic and J. R. D. Tata, the biggest of Indian capitalists and the major force behind the Plan, as the "doyen of Indian communists" (quoted in Mukherjee, 1976: 70).

[59] For this and the following sections I have relied heavily on the published and unpublished work of A. Mukherjee.

the 1930's in the capitalist world and the rapid economic development of the Soviet Union during those very years was put forward as proof of the greater capacity of socialism to develop a country.

The two key developmental concepts developed during this period were those on planning and the public sector which gained increasing acceptance both among the nationalists and the capitalists. By 1945 nearly all major segments of Indian opinion were agreed that planning and the active role of the state in controlling different aspects of the economy were essential if economic development was to be initiated. The nationalists views, which also included the viewpoint of some of the capitalists, found expression in the proceedings of the National Planning Committee (and its various subcommittees), which was formed by the Indian National Congress in 1938 with Jawaharlal Nehru as the Chairperson.[60] The more strictly capitalist ideas of economic development were formulated during 1944–45 in "A Plan of Economic Development for India," popularly known as the Bombay Plan, by four of India's leading industrialists, J. R. D. Tata, G. D. Birla, Shri Ram, and Kasturbhai Lalbhai.[61] In this and the following section we will examine the role that planning and the public sector were expected to play in the economic development of India. This task is made easier by the fact that, despite many differences, the basic framework of economic ideas in the two plans was more or less the same. One reason for this was the inclusion of many capitalists and their ideologues in the NPC and its subcommittees and the necessity felt by Nehru and the left-nationalists to carry the capitalists along in evolving a consensus on planning and public sector.

[60] The membership of the NPC and its subcommittees consisted of political leaders and other public persons, academics, scientists and professionals, provincial government servants, capitalists and trade unionists, socialists and communists. Twenty-nine subcommittees were appointed to investigate and report on specific problems. More than 300 persons worked in the subcommittees. The NPC and its subcommittees worked until October 1940, when its Chairperson and many other members were arrested. But the NPC had already passed resolutions on the reports of a large number of important subcommittees. The work of the NPC was resumed in 1945 but the formation of the Interim Government made its further work infructuous and many of the controversial questions were left unsettled to be resolved later in independent India's five-year plans. Its final report was published in 1949.

[61] For the wider economic and political reasons why the Indian capitalist class opted for planning and public sector, see Mukherjee (1976, 1978).

Even though the idea of state planning was put forward in an elementary form as early as 1903 by G. K. Gokhale,[62] it was the example of the Soviet Five Year Plans which led to its catching on in the 1930's (Gopal, 1975: 245). (The Bombay Plan too made Soviet Planning a constant referent of its own ideas.) During the 1940's, Keynesian economics and the war popularized ideas of planning and active state participation in and control over economic processes the world over. The first work to put forward a plan was by a non-economist, M. Visvesvaraya, an engineer-administrator. In his book, *Planned Economy for India* (1934), Visvesvaraya held the "dependency status" of India to be mainly responsible for its backwardness. To remedy the situation and to ensure rapid advance in industry, agriculture, and commerce, reduction in unemployment, and "greater self-sufficiency and closer inter-dependence between the various parts of India," he proposed the implementation of a ten-year plan which would increase industrial production by 600% and agricultural production by 25 percent. His was however more a blueprint than a well-integrated plan.

Plans proper were to be put forward by the National Planning Committee and a group of capitalists in the Bombay Plan in the early 1940's.[63] The two plans—based on the widely shared conviction that piecemeal growth relying entirely on the market forces would not constitute economic development, which required integrated and all-sided development (see Mukherjee, 1978: 1517)—were to be remarkably similar in terms of ideas of economic development they embodied. In his guidelines to the NPC in 1939, its Chairperson, Jawaharlal Nehru, defined a plan as "a comprehensive programme of national development, each part fitting into the other," and planning as "an advance on all fronts" and, therefore, as "the technical coordination, by disinterested experts, of consumption, production, investment, trade, and income distribution

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[62] In his budget speech of that year, Gokhale said: "What the situation really demands is that a large and comprehensive scheme for the moral and material well-being of the people should be chalked out with patient care and foresight, and then it should be firmly and steadily adhered to, and progress made examined almost from year to year" (1916: 70).

[63] A few other plans were put forward during the war and after, including one by the Government. But their framers were politically lightweight and without any social base.

in accordance with social objectives set by bodies representative of the nation." Planning, moreover, must include "cultural and spiritual values and the human side of life" (NPC: 42, 45).

The basic objective of planning was to modernize and develop Indian economy to enable it to get out of the dependent colonial status and catch up with the industrialized countries without in the process becoming dependent on foreign capital or imperialism. The main objectives of a plan were to be:

(i) Independent economic development and self-sufficiency: The NPC defined the principal objective of planning as "the attainment of National Self-Sufficiency for the country as a whole, without being involved, as the result of such efforts, in the whirlpool of Economic Imperialism" (NPC Series: Vol. 25, 13–14). Nehru reiterated: Self-sufficiency "does not exclude international trade, which should be encouraged but with a view to avoid economic imperialism" (NPC: 47; also Nehru, 1946: 347).

(ii) To rapidly increase national income by a rate which would lead to an adequate standard of living for the masses and make a real dent in the poverty of the people in a measurable span of time:[64] According to the NPC this would require an increase in national income of 200 to 300% in ten years (47–48). The Bombay Plan envisaged a doubling of the per capita income and trebling of the national income within a period of fifteen years (9, 27–28).

(iii) Industrialization: The heart of planning and economic development was to be rapid industrialization. The resolution appointing the NPC in October 1938 stated: "The problems of poverty and unemployment, of National Defence and of the economic regeneration in general cannot be solved without industrialization. As a step towards such industrialization, a comprehensive scheme of National Planning should be formulated. This Scheme should provide for the development of heavy key industries, medium scale industries and cottage industries" (5; also 41, 46–47). This did not mean that agriculture was to be ignored (Nehru, 1946: 345); but the emphasis was on initiating a change in the structure of the economy. The Bombay Plan argued for a 500% increase in industrial output, a

[64] An adequate standard of living was defined as food-intake of 2,400 to 2,800 caloric value for an adult, 30 yards per capita per annum of clothing, and 100 square foot per capita of housing (NPC: 47–48; Bombay Plan: 13–15).

130% increase in agricultural output, and a 200% increase in services over the 1931 figures so that the contribution of industry, agriculture, and services to national income changed from the 17, 53, and 22% in 1931 to 35, 40 and 20% after fifteen years of planning (Bombay Plan: 9, 29–30). This would lead to a simultaneous change in occupational distribution. Agriculture would occupy 58% of the working population (72% in 1931), industry 26% (15% in 1931), and services 16% (13% in 1931) (Bombay Plan: 75).

Important elements of economic strategy on which planning was to be based were as follows:

(i) Both the NPC and the Bombay Plan emphasized that rapid industrialization and all-around economic development required the development on a high priority basis in the earlier years of power and key or basic industries (NPC: 59, 134–35; Bombay Plan: 31–32).[65] This was a particularly true of industry for the manufacture of heavy machinery. "Such a key industry is the foundation of all planning" (NPC: 134). The Bombay Plan was equally unequivocal: "Basic industries are the basis on which the economic superstructure envisaged in the plan will have to be erected" (31; also 9, 32, 58). Such primacy of the basic industries was also necessary in order to make the country relatively self-sufficient in capital goods in as short a period as possible, and thus reduce drastically its dependence on imports of capital goods from advanced capitalist countries (NPC: 59, 134–35; Bombay Plan: 9–10, 58). Consequently, the Bombay Plan allocated nearly 35% of its total plan outlay to basic industries (59).

However, learning from the Soviet experience—negative in this case—Indians advocated simultaneous development, though in a lower key, of essential consumer industries (Bombay Plan: 10, 58–60; NPC: 59–60).[66] Here, fullest possible use of small-scale and cottage industries was to be made. Besides providing greater

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[65] Basic industries, according to the Bombay Plan, included, among others, the following groups: power-electricity; mining and metallurgy—iron and steel, aluminum, manganese, engineering machinery of all kinds, machine tools, etc.; chemicals—heavy chemicals, fertilizers, dyes, plastics, pharmaceuticals, etc.; armaments; transport—railway engines and wagons, ship-building, automobiles, aircraft, etc.; cement (31). The NPC added fuel—coal and fuel wood, mineral oil, power alcohol, natural gases—to this list (84–85).

[66] According to the Bombay Plan, the ratio between capital outlay on basic industries and consumption goods industries over the plan period was to be about 3.5.

employment, this would reduce the use of expensive plants and machinery and therefore of scarce capital, and bring down the capital-output ratio in industry to the manageable size of 2.4 (Bombay Plan: 10, 33–35, 60–61).

(ii) Secondly, the Indian plans also postulated a basic restructuring of agrarian structure. The NPC accepted the objective of abolition of all intermediary rent-receivers such as talukdars and zamindars. The practice of sub-infeudation or subletting of land was also not to be permitted (NPC: 2–9). Collective farming on state lands and cooperative farming on privately owned lands was to be organized in order to provide for more scientific and efficient farming (NPC: 2–9, 222–23). At the same time, it was assumed that in large parts of the country cultivation through peasant proprietors would prevail (NPC: 224). A major innovation was to be the taxation of higher incomes from land on the progressive principle of Income Tax, with exemption from all taxation being given to small proprietors (NPC: 189, 224). All these recommendations were also accepted in the Bombay Plan, though in a slightly less assertive manner (Bombay Plan: 36–37, 80–83). In addition, both plans recommended government guarantee of minimum prices or fair prices to agricultural producers (Bombay Plan: 78; NPC: 57).

(iii) Several innovations were suggested in the financing of the plan. On two aspects both plans were agreed. The main reliance would have to be on direct taxation in the form of income tax, estate duties, death duties, etc., on a steeply graduated scale. This would also lead to the reduction of gross inequalities of income (NPC: 189; Bombay Plan: 86–87). Secondly, minimum reliance was to be placed on foreign capital for developing industries or for meeting the requirements of external finance. (See above).[67] The Bombay Plan also argued that while India would have to rely for some time on imported capital goods and technicians, it would have "no serious difficulty" in becoming self-sufficient in managerial ability "within a short time" (57).

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[67] Out of the total plan outlay of £7,500 millions, Bombay Plan provided for only £525 millions as foreign loans, primarily for import of machinery, technology, and technical personnel. Loans were to be raised in foreign capital markets provided they were "not accompanied by political influence or interference of foreign vested interests" (53–54).

In matters of finance, the Indian planners based themselves on two contemporary economic ideas. Undaunted by the "colossal dimensions" of the estimates of capital expenditure, they argued for getting rid of "orthodox financial concepts." "The real capital of a country," they said, "consists of its resources in materials and manpower, and money is simply a means of mobilizing these resources and canalizing them into specific forms of activity." This was particularly so in a planned economy where one had to think primarily in terms of commodities and services. Seen in this manner, the projected expenditure was "well within the limits of our resources" (Bombay Plan: 11, 56). The planners also advocated large-scale reliance on deficit financing, which would pose no economic danger; for when used for increasing productive capacity, it was "of a self-liquidating character." Far from leading to inflation, it would probably result in lower prices at the end of the plan period than at the beginning of the plan. In any case, so far as the intermediate period was concerned, one of the functions of the planning authority would be to bridge the gap between the volume of purchasing power and the volume of goods available and thus keep prices within definite limits. Deficit financing and the induced inflation were also likely to lead to inequitable income distribution. To prevent this, advocated the capitalist planners, "practically every aspect of economic life will have to be so rigorously controlled by government that individual liberty and freedom of enterprise will suffer a temporary eclipse" (Bombay Plan: 54–55).[68]

(iv) The NPC explicitly opposed export-led growth. "The principal objective of planning the national economy should be to attain, as far as possible, national self-sufficiency and not primarily for purposes of foreign markets." National production was to be primarily destined for the home market. The primary objective of exports was to meet the country's international payment obligations (NPC: 47). Apart from economic imperialism, too close a link or integration with the world market would pose other dangers, warned Jawaharlal Nehru: "To base our national economy on export markets might lead to conflicts with other nations and to sudden

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[68] Of the total plan outlay of £7,500 millions, deficit financing was to provide £2,550 millions or 34 percent.

upsets when those markets were closed to us" (Nehru, 1946: 347).

(v) Both plans advocated rapid expansion of scientific and technical research, technical education and training, and school and university education as essential parts of planning (NPC: 55, 118, 144; Bombay Plan: 44–48).

(vi) An important part of planning was to tackle regional imbalances in economic development, especially in the location of industries (NPC: 50, 54, 107, 139; Bombay Plan: 87–88, 99).

(vii) The NPC also advocated a complex population policy. Recognizing that population was a basic issue in economic planning, especially in terms of standard of living, it recommended a state policy of encouraging family planning. At the same time, it argued that the disparity between population and standard of living was caused by the absence of economic development. While efforts to limit population pressure were necessary, the basic solution to the problem also lay in economic progress.

(viii) Both plans accepted that planning should have an income distribution policy (NPC: 46, 48; Bombay Plan: 66–68). This was to be achieved by two sets of measures. The planning process must incorporate large-scale measures of social welfare, such as an employment policy based on the right to work and full employment, a guarantee of a minimum wage, greater expenditure on housing, water supply and sanitation, free education, social insurance to cover unemployment and sickness, and the provision of utility services such as electricity and transport at low cost through state subsidies (Bombay Plan: 70–87; NPC: 48–61, 79 ff., 154–67, 211 ff.). Above all, an important objective of the plan should be the removal of gross inequalities of income and productive assets among classes and individuals through various measures by the state, such as taxation and death duties and prevention of concentration of wealth and means of production (Bombay Plan: 66–70, 86–87; NPC: 189). In fact, one of the grounds on which the Bombay Plan justified the development of the public sector and state control was as a means of reducing inequality by reducing "the concentration of means of production" and preventing "an inequitable distribution of the financial burdens" involved in planning. It was not on philanthropic grounds alone that inequality was seen to be undesirable. It also tended to restrict the domestic market and therefore "retard the development of a country's economic resources. They prevent the needs of the vast majority of the population from exercising any influence on the volume of production, which has naturally to be restricted." Production was confined to "satisfying the well-to-do classes." Hence, "the large increase in production which is postulated in the plan would be difficult to achieve if the present disparities in income are allowed to persist" (Bombay Plan: 67-68, 90).[69]

(ix) A basic assumption underlying both the plans was the coming into being of an independent nation state which would also be fully independent in economic affairs. Not only was national independence seen as "an indispensable preliminary" to, and the very basis of, planning, but planning and the accompanying state control were seen as positively harmful if undertaken by a foreign government, for they would enable the foreign vested interests to further subordinate India's economy to their needs (Mukherjee, 1978: 1516-17, 1523; 1979: 126; NPC: 39-40, 54, 89, 120-21; Bombay Plan: 8, 89, 100; Nehru, 1946: 345).

(x) Both the plans also assumed that the state would play an active role in economic development not only through planning and overseeing all the sectors of the economy but also by participating in trade, industry, and banking, either directly through state ownership or the public sector or indirectly through exercise of control over them. But this aspect requires a fuller and therefore separate treatment.

V

A major advance over the late nineteenth-century economic ideas in terms of the role of the state in economic development was made from 1930 onwards. The state was not only to give active support to economic, especially industrial, development but was to

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[69] The objective was, however, to remove "gross" inequality. Some inequality "according to ability and productivity" was seen as desirable since it would "provide the necessary incentives for improvement in efficiency which is an important factor in the progress of a planned economy" (Bombay Plan: 69). The capitalists also saw the danger of gross inequalities leading to "social cleavages and disharmony" (Bombay Plan: 67). The framers of the Bombay Plan were determined to incorporate whatever was feasible in the socialist movement and to accommodate socialist demands without "capitalism surrendering any of its essential features" lest "the socialist movement assume the form of a full-fledged revolution." See Mukherjee (1986: 262).

undertake itself economic development by participating in the production process through the public sector and by exercising direct control over large areas of economic life. A very advanced position in this respect was taken by the left-wing nationalists and the NPC. But even the spokespersons of the capitalist class accepted that the public sector would provide a major thrust to the economy and the state would exercise extensive control over it. However, they assigned the public sector and state control far weaker roles.

The initial thrust in this respect was provided by the Karachi session of the National Congress in March 1931 when in a Resolution on Fundamental Rights and Economic Programme, it proclaimed that in independent India "the State shall own or control key industries and services, mineral resources, railways, waterways, shipping and other means of public transport" (quoted in NPC: 27).

It is clear that, incorporating as it did differing perspectives and class representatives, the NPC was riven with differences over the degree of state ownership and state regulation and control.[70] The NPC sought to overcome these differences through the method of consensus. Even so, it did on the whole adopt radical socio-economic positions, partially because both its Chairperson, Jawaharlal Nehru, and General Secretary, K. T. Shah, were votaries of socialism. The initial "Note for the Guidance of Sub-Committees of the National Planning Committee," circulated in 1939, suggested: "Defence industries should be owned and controlled by the State: Public Utilities could be owned or controlled by the State but there is a strong body of opinion which is in favour of the State always owning Public Utilities. Other key industries should be owned or controlled by the State" (NPC: 54; also 24). In a later meeting, in February 1940, the NPC decided that Public Utilities should be owned or controlled by some organ of the state, that is, by the Central or Provincial Government or a local board. On key industries, there was a difference of opinion: The majority wanted that

[70] This difference cropped up again when the Public Finance Subcommittee, with K. T. Shah as Chairperson, recommended that all key industries should be progressively nationalized. A. D. Shroff, industrialist, dissented. The NPC did not accept the recommendation and postponed it for future consideration (NPC: 188–89). Similarly, the Currency and Banking Subcommittee's proposal for eliminating private enterprise in the insurance business was deferred for future discussion (NPC: 159).

they should be state-owned while a "substantial minority" believed that state control would be sufficient (NPC: 101; also 168). In any case, decided the NPC, the control should be "adequate and effective" (101, 135). Moreover, the NPC decided that in the case of private industries aided or supported by the state, the measure of state control should be greater than in the case of unaided industries (101, 136).[71] But some degree of state-ownership or regulation and control was to be imposed on other large scale industries too, especially those which tended to be monopolistic in character, or came into conflict with the general policy of the state in regard to workers or consumers (NPC: 41, 124).[72] In particular, a system of licensing was to be used to control investment in new or even old industries. The second session of the NPC in June 1939 passed the following resolution: "No new factory should be allowed to be established and no existing factory should be allowed to be extended or to change control without the previous permission in writing of the Provincial Government" (107; also 136, 142). Rigid control was also to be exercised over any large-scale industry which might come into conflict with any cottage industry supported by the state (NPC: 102, 125). The NPC further and in particular recommended state control over foreign companies and "foreign vested interests" (136). Thus, as the Chairperson's memorandum of June 1939 pointed out, state ownership or regulation and control would on grounds of public interest extend to all large-scale enterprises (NPC: 41).

While the Reserve Bank was to be nationalized because it was "dominated by British financial interests," all other banking business was to be subjected to licensing, regulation, supervision, and control by the Central Banking Authority. Insurance companies and insurance funds were also to be brought under strict state control, while the state itself was to enter the insurance business (NPC: 159, 161). The state was also to control all import and export trade

[71] The control might take the form of state-appointed directors on the company concerned (NPC: 101).

[72] This recommendation was further amplified in the resolution on the recommendations of the Manufacturing Industries Subcommittee: "On principle we are opposed to monopolies in private hands; and, therefore, all monopolies which are injurious to public interests, or whose acquisition in beneficial to public interests, should be acquired by the State" (NPC: 140).

through a system of licenses. The entire foreign exchange business was to be conducted under the complete control of the nationalized Reserve Bank (NPC: 159; also Nehru, 1946: 348). The state was also to prevent profiteering by controlling price levels (NPC: 161). It is thus clear that state control was to be exercised over nearly every aspect of the economy.

In three instances, the NPC took up a very radical position. While coal mining was to be brought under state control, in more general terms it was laid down that "the exploitation of minerals and development of mining and mineral industries should be reserved exclusively to be carried on as public enterprise" (196). And again: "Agricultural land, mines, quarries, rivers and forests are forms of natural wealth, ownership of which must vest absolutely in the people of India collectively" (209). Similarly, radio broadcasting and communications, such as telephones, telegraphs, postal services, and radio communications, were to be public monopolies though run on commercial lines (191). The public sector was also to play an important role in protecting the economy from domination by foreign capital. Asserting that the investment of foreign capital in India had led to "the acquisition by foreign interests of a measure of control over India's economic and political life which has both warped and retarded national development," the NPC recommended that "foreign interests which now exercise a predominant control over certain vital industries in India, particularly those involving the utilization of scarce natural resources, should be acquired by the State on payment of reasonable compensation" (236–37).[73] Then there was the general and rather vague recommendation which was nowhere explained or amplified. "In order to prevent the growth of future barriers to planning, effort should be made to avoid the establishment of new vested interests" (101; also 124). In conclusion, we may point out that the advocates of the public sector felt strengthened by Gandhi's argument, despite his general anti-statism, that all large-scale industry should be state-owned (e.g., Gandhi, 1958: Vol. 68, 258–59).

While demanding active state aid for economic development

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[73] The resolution was drafted by John Mathai, economist and an employee of the Tatas. J. R. D. Tata was present on special invitation in the NPC meeting in which the resolution was passed.

along the lines advocated by the late nineteenth-century Indians, the Indian capitalists too favored a certain degree of state-ownership and control. They accepted that there could be no unrestricted and unregulated free enterprise (Bombay Plan: 91–93), and that "in executing a comprehensive plan of economic development, especially in a country where the beginnings of such development have yet to be laid, the State should exercise in the interests of the community a considerable measure of intervention and control.... [T]his would be an indispensable feature of planning" (Bombay Plan: 90).[74] But even while willing to accept an important role for the public sector, they were much more inclined towards state-assisted and therefore state-controlled private enterprise, though purely Indian. In the words of Aditya Mukherjee, so far as the capitalists were concerned, "after all, the motive of developing the public sector was to enable further rapid development of the private sector, not at all to create a competitor" (1978: 1520).[75]

Of the three forms of state intervention in the processes of production, namely, control, ownership, and management, the Bombay Plan said that the first was the more important, efficient, and desirable: "Mobilization of all the available means of production and their direction towards socially desirable ends is essential for achieving the maximum amount of social welfare. Over a wide field it is not necessary for the State to secure ownership or management of economic activity for this purpose. Well-directed and effective State control should be fully adequate." To enable the operation of such effective state control, capitalists were willing to accept "important limitations on the freedom of private enterprise as it is understood at present." They were also reconciled to the fact that "legal ownership would lose some of the essential attributes which are attached to it at present, especially in respect of the use and disposal of economic resources," and "the rights attaching to private property would naturally be greatly circumscribed" (94–95).

The capitalists defined the scope for state-ownership quite narrowly. According to them, state ownership would become necessary

[74] For details of the development of Indian capitalist thinking, see Mukherjee (1978: 68-69).

[75] For details of the capitalist reasoning vis-à-vis public sector, see Mukherjee (1976).

in two types of cases. To the first type belonged industries where public interest required state control but the nature of the industry was such that control would be ineffective unless it was based on state ownership. In such cases state ownership would be more or less permanent. The two examples cited were defense industries and manufacture of materials for vital communications, such as posts and telegraphs (Bombay Plan: 95–96). To the second type belonged essential industries, such as basic or heavy industries and social overheads, such as public utilities, which required large capital in initial stages; private entrepreneurs were not able to raise this large capital and therefore these industries required large-scale state financing. The Indian capitalists were also willing to support state-ownership of basic industries in order to avoid dependence on foreign capital or foreign suppliers of machinery. In case of these industries, suggested the capitalists, state-ownership might be replaced by private ownership whenever private capital was willing to take them over. The state should, of course, retain effective control over them (Bombay Plan: 95–96; Mukherjee, 1976: 68–69; 1978: 1520; 1979: 125–26).[76] As a further compromise between "considerations of efficiency" and "public welfare," the Bombay planners suggested that both state-owned and privately-owned units might function in several industries, among them public utilities and industries whose principal customer was the government (Bombay Plan: 97–98).[77]

While advocating a highly restricted role for state ownership, the Bombay Plan accepted a very large role for state control. The state should control public utilities, basic industries, monopolies, and industries using or producing scarce natural resources receiving state aid. State control could assume varied forms, such as the fixation of prices; the limitation of dividends; the prescription of conditions of work and wages for labor; the nomination of govern-

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[76] As Mukherjee has shown, the capitalists were vehemently opposed to state ownership and nationalization on grounds of "principle" or as substitute for private capital. Many capitalists were convinced that, given sufficient state support, private capital would be forthcoming even in the area of basic industries.

[77] "Moreover," said the planners, "the simultaneous operation of both systems in the same industry will provide a useful incentive and corrective to each system." For the last two propositions, they quoted the authority of G. D. H. Cole (Bombay Plan: 98).

ment directors on the board of management; the control of production through licensing of new enterprises and expansion of existing ones; the control of allocation and distribution of consumer goods, raw materials, semi-finished goods, and capital goods; the control of new capital issues; the control of trade and exchange; and efficiency auditing or cost accounting, which would protect public interest rather than only profitability (Bombay Plan: 96).

As in the case of planning, the capitalists as well as the left-nationalists made it clear that wide powers of ownership, direction and control by the state would be exercised only "through a national government responsible to the people" (Bombay Plan: 89, 100; NPC: 135; Mukherjee, 1979: 126). For that reason they vehemently opposed the nationalization and government control envisaged in the Government Plan of 1945, for the foreign government could use them to bolster foreign capital in India, tighten British control over Indian economy, and create foreign vested interests in post-independence India (Mukherjee, 1978: 1516–17; 1979: 126–27).

VI

Even though during the 1930's and 1940's different ideological trends were contending for hegemony over the national movement, and this contention also went on within the NPC with Jawaharlal Nehru, its Chairperson, and K. T. Shah, its General Secretary, committed to socialism, ideas on economic development were evolved on the basis of a broad consensus within the parameters of independent capitalist development. Within the NPC, for example, there were differences on the question of degree of state-ownership of industries and banking, but there existed a consensus both on the need for some state ownership and large state control over all the important sectors of the economy and a state policy of social welfare and institutional reforms and maintenance of capitalist production relations in the economy as a whole. Private ownership was to be restricted and regulated but still form the main agency of economic development. Thus, as A. Mukherjee points out: "No fundamental changes in production relations were thus envisaged, the limit being the partial introduction of some form of state capitalism"; and that in the economic positions taken by the left-nationalists and the capitalists "there was no structural difference" (1978: 1518–19).[78]

The capitalist Bombay Plan openly espoused the cause of capitalism and private enterprise and ownership even while recognizing its weaknesses; for example, in terms of "a satisfactory distribution of national income," or elements of "sluggish acquisitiveness," or tendency to seek "aggrandizement regardless of public welfare." These weaknesses were to be corrected and compensated through active state role and intervention (65, 66, 93–94). Going along with Pigou, it advocated the adoption of the general structure of capitalism and then its general modification (101).

The problem arose in the case of left-nationalists like Jawaharlal Nehru and K. T. Shah who were, on the one hand, open advocates of socialism and, on the other, aware that the anti-imperialist movement united diverse social classes and ideological trends and could not therefore be expected to become fully committed to socialism. In the end they had to compromise. The compromise was inherent in the political complexion of the National Congress, the chief vehicle and leader of the anti-imperialist struggle, and the need to maintain a broad national front against imperialism. As Nehru pointed out in a note to the NPC in 1938, while several Congress resolutions over the years indicated a general "approval of socialist theories," the Congress had not "in any way accepted socialism" (NPC: 35). Similarly, in his memorandum of June 1939 to the NPC, he laid down as the ideal of the Congress and "foundation of our Plan" not socialism but the creation of an egalitarian society in which all citizens had equal opportunities and "a civilized standard of life ... so as to make the attainment of this equal opportunity a reality" (NPC: 40; also 47–48).

Explaining this compromise with the socialist ideal, Nehru was to point out later that because of its composition the NPC could not have agreed upon or even debated principles of social organiza-

[78] Referring to the Karachi resolution of 1931, the programmatic basis of the public sector concept of the National Congress and later NPC, Nehru had written in 1935: "This was not socialism at all, and a capitalist state could easily accept everything contained in that resolution" (1936: 266). And in August 1940, he wrote: "Private enterprise has certainly not been ruled out but it has to be strictly controlled and coordinated to the general plan" (1978: 313).

tion without "splitting up." "Constituted as we were," he wrote, "not only in our Committee but in the larger field of India, we could not then plan for socialism as such." Another reason was the desire to avoid or minimize conflict in view of the imperative of unity in the anti-imperialist struggle and the likelihood of the emergence of "unstable conditions" afterwards. General consent for a plan was also seen to be of great value for its successful execution, even if it meant toning down its radical content somewhat (1946: 346–49). Also, in the specific, historical stage of development of India at that time, the capitalists were the only "agents" available for carrying forward a plan for the rapid transformation of the Indian economy. Without the capitalists' cooperation no plan at that time could succeed.

Still, Nehru also hoped that principles of social organization would develop out of practice, and that planning would gradually turn the face of the people and the economy towards socialism. In August 1940, he told the NPC that the general objective remained that of a "socialistic planned structure" and "a rapid increase in the socialization of national activities and state control" (1978: 313). Writing in jail during 1943–44, he expressed the hope that socialist principles of social organization would gradually develop out of the practice of planning. "So long as a big step in the right direction was taken, I felt that the very dynamics involved in the process of change would facilitate further adaptation and practice." In fact, he was quite optimistic: "Our Plan, as it developed, was inevitably leading us towards establishing some of the fundamentals of the socialist structure. It was limiting the acquisitive factor in society." He also hoped that political democracy would push the government in a socialist direction (1946: 346, 349).[79]

[79] At this time, referring to the Bombay Plan, he wrote that though it was "conditioned by the ways of thinking of big industry and tries to avoid revolutionary changes as far as possible ... revolutionary changes are inherent in the plan, though the authors may themselves not like some of them" (1946: 442).

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