The Great Divergence: Evidence from Eighteenth Century India

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Over the last decade or so, there has been a renewed interest in the question of the Rise of the West versus the Rest in the course of the eighteenth and the nineteenth century. There is, however, no semblance of a common ground emerging and participants in the debate have often taken polar opposite positions. David Landes in his influential 1998 book *The Wealth and Poverty of Nations: Why Some are so Rich and Some so Poor*, for example, has taken an unabashedly Eurocentric position. The countries of the West, according to him, prospered early through the interplay of a vital, open society focused on work and knowledge, which led to increased productivity, the creation of new technologies, and the pursuit of change. Europe's key advantage lay in invention and know-how, as applied in war, transportation, generation of power, and skill in metalwork. Landes is quite categorical in asserting that in terms of dynamism and growth potential Europe was unique. Europe was the cradle of modernity long before the Industrial Revolution. It became the first industrial region of the world and thereby the first region to experience modern self-sustaining economic growth. Also that this was due predominantly to its own efforts and to resource endowments typically European. In his emphasis on the centrality and uniqueness of Europe, Landes goes to the extent of asserting that "until very recently, over the thousand and more years of this process that most people look upon as progress, the key factor – the driving force – has been

western civilization and its dissemination: the knowledge, the techniques, the political and social ideologies, for better or worse"[1]T. It is not that Landes does not talk about Asia – he indeed does discuss major Asian societies such as China, Japan and India. In relation to China, for example, he draws attention to the remarkable burst of invention that occurred there from the beginning of the second millennium onward. Paper, printing, the wheelbarrow, the compass, gunpowder, the stirrup, the rigid horse-collar, porcelain, spinning machines and the blast furnace were all invented there. But these did not lead to a scientific and industrial revolution, Landes argues, because progress was simply against the interests of the ruling class. Keeping things quiet and stable was much more important than increasing the productivity of workers, for any group that started to grow rich, or to trade with the outside world, might form a rival power group. It was essentially in response to this concern, according to Landes, that the Chinese authorities took an entirely negative attitude towards the maritime trading activities of its merchants. But Landes cannot ignore the fact that in Asia Japan did indeed manage to industrialise. This, he argues, was because Japan had some real advantages even over Europe: (a) two hundred and fifty years without war or revolution; (b) cheaper and more accessible water transport; (c) a single language and culture; (d) the abolition of old trade barriers and the prohibition of new; and (e) the development of a common merchant ethic. Elaborating on the last, Landes writes, "Japan did not have Calvinism, but its businessmen adopted a similar work ethic. The key lay in the commitment to work rather than to wealth. The Zen monk Suzuki Shosan (1579-1655) saw greed as a spiritual poison;

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[1] David S. Landes, *The Wealth and Poverty of Nations, Why Some are so Rich and Some so Poor*, London, 1998.

but work was something else: 'All occupations are Buddhist practice; through work we are able to attain Buddhahood [salvation]'. One does not have to be a Weberian Protestant to behave like one"[2]. One might well ask why the Zen Buddhist work ethic worked only in Japan and not elsewhere in the Far East and parts of Southeast Asia where Buddhism had also been the dominant religion.

The year 1998 also witnessed the publication of Andre Gunder Frank's *ReOrient: Global Economy in the Asian Age*, where, as opposed to Landes, the orientation was entirely Asia-centric. According to Frank, Europe indeed rose in the centuries preceding the Industrial Revolution, but only compared to its totally marginal past and it did so "climbing up on Asian shoulders"[3]. Subsequently, Europe could rise only because Asia declined. The 'Decline of the East' can thus be seen as a conditioning factor, if not as the precondition for the 'Rise of the West'[4]. Frank indeed did have a point in arguing for a reorientation in historiography to assign its due role to Asia in the rise of the early modern world economy. But by grossly overstretching his point and making unsustainable claims in the matter of Asia being at the centre of the world economy in the early modern period, Frank lost credibility. The absence of both analytical rigour as well as of reliable and comparable quantitative data further added to the book's overall weakness.

That brings me to Kenneth Pomeranz's *The Great Divergence: China, Europe and the Making of the Modern World Economy* published in 2000 and by far the most sophisticated book in the field to appear in a long time. Pomeranz argues that "a series of balanced comparisons show several surprising similarities in agricultural, commercial and proto-industrial (i.e.

[2] David S. Landes, *The Wealth and Poverty of Nations*, p 363.
[3] Andre Gunder Frank, *ReOrient*: *Global Economy in the Asian Age* (California, 1998), p. 277.

handicraft manufacturing for the market rather than home use) development among various parts of Eurasia as late as 1750"[5] thus denying the uniqueness of Western Europe for eventual industrialization. Indeed, the explosion of growth in Western Europe alone during the nineteenth century needs specific explaining which Pomeranz does essentially in terms of the easing of Europe's land constraint during her industrialization process through the growing trade relations with the New World which absorbed an ever growing volume of her manufactured exports in exchange for land - intensive products. The true significance of the Atlantic trade indeed lay "not in terms of financial profits and capital accumulation, nor in terms of demand for manufactures – which Europe could have probably generated enough of at home – but in terms of how much they relieved the strain on Europe's supply of what was truly scarce: land and energy"[6]. No other major region of Eurasia, including China, was similarly able to overcome the ecological obstacles to industrialization.

In Asia, Pomeranz is concerned overwhelmingly with China though he often moves between China in its entirety and its core regions, especially the Lower Yangzi delta. Outside of China, Pomeranz also talks in a limited way about Japan, Southeast Asia and India. At times, this even leads him to write as if he were comparing Europe with Asia as a whole. China has traditionally enjoyed a place of pre-eminence in analyses comparing Europe and Asia to the relative neglect of other major Asian regions. This reflects in part the distinctly more abundant availability of original source material – particularly in the agrarian sector and specifically in the quantitative domain – in the early modern period. But what is frequently lost sight of is the fact

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[4] Andre Gunder Frank, *ReOrient*, p.264.

[5] Kenneth Pomeranz, *The Great Divergence, Europe, China and The Making of the Modern World Economy*, Princeton, 2000, p.8

that China was not exactly Asia and that conclusions based entirely or even largely on comparison between China and Europe (whether only Britain, or Western Europe or Europe as a whole) are unlikely to be sufficiently representative of the actual situation. This is particularly so because if one is looking for a possible association between formal colonialism and imperialism on the one hand and the growing disparity between the West and the Rest from the late eighteenth century onward, then India is clearly by far the most important case that merits a close study. The relative shortage of original source material on a whole range of areas and the consequent absence of detailed high quality research in those areas is something that one has to live with till more work gets done. The best one could do for the present is both to look for new evidence as well as to have a fresh look at the kind of evidence already available in a new interpretive framework.

As is well-known, in addition to major developments in the domain of enlightenment, religion, and culture, the transition from the late medieval to the early modern world was marked by equally epoch-making changes in the field of economics. Probably the most wide-ranging of these was the rise of an early modern world economy facilitated by the two great maritime discoveries of the closing years of the fifteenth century – the discovery of the Americas and of the all-water route linking Europe and Asia via the Cape of Good Hope. An important element in the rise of this economy was the integration of the Indian Ocean into the larger framework of world trade on a scale unimaginable before. Not only were the three principal segments of the early modern world economy – the New World, Europe, and Asia – now drawn into the vortex of world trade but there emerged also an organic and

[6] K. Pomeranz, *The Great Divergence*.

interactive relationship across the three segments whereby the growth of trade in one direction became critically dependent on the growth of trade in the other. The critical link was provided by the silver of South American origin, the growing availability of which to Europe became a precondition for the growth of the Euro-Asian trade. This was the earliest, if somewhat limited, incarnation of globalization.

The arrival of three Portuguese ships under the charge of Vasco da Gama at Calicut on the southwest coast of India marked the inauguration of a new era in the history of Euro-Asian contacts in general and of trade between the two continents in particular. In keeping with the traditional composition of the Asian imports into Europe, the principal item sought by the Portuguese Crown in Asia was spices – overwhelmingly pepper – though some other goods were also procured. Their early occupation of Malacca (1511) notwithstanding, the overwhelming bulk of their pepper procurement was done in the Malabar region (and later Kanara as well) on the southwest coast of India. In addition to Euro-Asian trade, private Portuguese merchants operating under the protection of the Estado da India also engaged in a fair amount of trade within Asia from their base in Goa.

The early years of the seventeenth century marked a sharp discontinuity in the volume and the value of the seaborne trade between Asia and Europe. This was the direct outcome of the successful challenge by the Dutch and the English of the Portuguese monopoly of this trade. Between themselves, the seventeenth and the eighteenth centuries witnessed not only a tremendous expansion in the volume and the value of Euro-Asian trade, but also an enormous diversification in the composition as well as the origin of the cargo arriving from Asia into the ports of north-western Europe. Traditionally, pepper and other spices such as cloves, nutmeg and mace had accounted for an overwhelming proportion of the total

Asian imports into Europe. The last quarter of the seventeenth century, however, witnessed an almost revolutionary increase in the European demand for Asian textiles and raw silk, leading to a remarkable shift in the composition of the Asian imports into Europe. In the case of the Dutch East India Company, for example, the second half of the century was marked by an increase in the share of these two items in the total imports from a mere 14 percent to as much as 55 per cent. In so far as India at this time was without any doubt the largest and the most cost-competitive producer of textiles in Asia and a major producer of raw silk, an important implication of the shift in the European pattern of demand was a significant enhancement in the relative role of India in Euro-Asian trade. Indeed, the principal Indian region supplying these goods, namely Bengal, by itself now accounted for as much as 40 percent of the total Asian imports by the Dutch and the English East India Companies into Europe. For the Indian subcontinent as of whole, this figure was as high as 95 percent at this time in the case of the English East India Company.

The key position of India in the trading operations of the European corporate enterprises functioning in the Indian Ocean in the early modern period was a reflection and in many ways a continuation of the key role that India had played in the successful functioning of Asian trading networks in the Ocean over many centuries. In part, this indeed was a function of the midway location of the subcontinent between West Asia on the one hand and South-East and East Asia on the other. But perhaps even more important was the subcontinent's capacity to put on the market a wide range of tradable goods at highly competitive prices. These included agricultural goods, both food items such as rice, sugar and oil as well as raw materials such as cotton and indigo. The real strength of the subcontinent, however, lay in the provision of large quantities of manufactured goods, the most

important amongst which was textiles of various kinds. While these included high value varieties such as the legendary Dhaka muslins and the Gujarat silk embroideries, the really important component for the Asian market was the coarse cotton varieties manufactured primarily on the Coromandel coast and in Gujarat. There was a large scale demand for these varieties both in the eastern markets of Indonesia, Malaya, Thailand, and Burma as well as in the markets of the Red Sea, the Persian Gulf, and East Africa. While it is impossible to determine precisely what proportion of total domestic demand for mass consumption textiles in these societies was met by imports from India, the available evidence would seem to point in the direction of this not being altogether insignificant. India's capacity to manufacture these textiles in large quantities and to put them on the market at highly competitive terms made it in some sense the 'industrial' hub of the region surrounded by West Asia on one side and South-East Asia on the other. At the root of this industrial capability was the availability in the subcontinent of a sophisticated infrastructure of institutions and services which rendered the system of production and exchange highly efficient, dynamic, and fully market responsive. The principal constituent elements of this infrastructure were things such as a high degree of labour mobility and the existence of labour markets, merchant groups capable of collective defence and good organization, development of accountancy skills, highly developed and price-responsive market systems and a sophisticated monetary and credit structure.

While the early modern period did indeed witness a tremendous increase in the value and volume of Euro-Asian trade and a major diversification in the package of Asian goods in demand in Europe involving a substantially expanded role for India, the central characteristic feature of this trade remained unaltered over the centuries. The Asian goods

consumed in Europe had always been paid for overwhelming in terms of precious metals, a pattern of trade that I have elsewhere described as “bullion for goods”. This pattern of trade was essentially an outcome of the inability of Europe to supply western products with a potential market in Asia at prices that would generate a large enough demand for them to provide the necessary revenue for the purchase of the Asian goods. This obliged the Europeans to import the bulk of the purchasing power they brought to India and other parts of Asia in precious metals, mainly silver. Given the relatively small volume and value of Euro-Asian trade until the discovery of the all-water route via the Cape of Good Hope, the domestic output of precious metals in Europe was adequate to meet the demand for them to pay for the Asian goods. Given the declining or at best stagnant output of these metals in Europe from the fourteenth century onward, the new vistas of the growth of trade between the two continents opened up by the discovery of the new route involving the overcoming of the transport-technology barrier ran the risk of being frustrated. The coincidental simultaneous discovery of the New World with its enormous deposits of precious metals, however, prevented the emergence of the supply of precious metals as a constraint on the growth of Euro-Asian trade and the progressive rise of an early modern world economy.

The working of the Spanish/American silver mines, instrumental in the phenomenal growth in the world supply of precious metals in the early modern period, however, introduced an altogether new element into the overall situation. This was the abandonment of a market-determined exchange relationship between the Spanish/Portuguese authorities and the New World in the matter of the availability of New World silver to Europe. The terms under which the newly mined silver was obtained were essentially coercion based ensuring a great deal of unearned differential advantage to

the Spanish/Portuguese authorities. Dennis Flynn and Arturo Giraldez have suggested that in the period prior to 1640 (when Philip II ceased to be the king of both Spain and Portugal) the Spanish and Portuguese kings' share in the silver shipments was even legally as high as 27.5 percent and could in practice be much as 40 percent. Even after these percentages underwent a reduction to minimize smuggling, they remained quite high. Another major authority in the field, Michel Morineau, put this figure at 10 to 20 percent of registered output[7]. Forced labour quotas resulting in a lowering of the cost of mining represented another form of coercion. Though the direct beneficiaries of these quotas, which increased the output possible at any given price, were mining entrepreneurs resident in the New World, a part of the gain was necessarily transmitted to the Europeans who were the principal buyers of the silver and gold[8].

The coercion based differential advantage available to the European corporate enterprises in the matter of the terms at which precious metals were available to them for investment in Asia was compounded to a certain extent by the extraction of corresponding differential privileges in Asia in the matter of the terms at which the Asian goods were procured again based on the exercise of coercive power. To begin with the Portuguese Estado da India, its attempt at monopolizing the spice trade between Europe and Asia was unambiguous. It called for a total exclusion of Asian shipping from the Persian Gulf and the Red Sea. The instrument used to implement this policy was the *cartaz*, a safe conduct that all Asian ships were obliged to carry on pain of seizure in the event of non-compliance. The measure indeed represented an institutional constraint on the freedom of navigation on the

[7] Dennis Flynn and Arturo Giraldez, "China and the Spanish Empire", *Historia Economica* 14:2, Spring 1996, pp 309-38; Michel Morineau, *Incroyables Gazettes et Fabaleux Metaux*, Cambidge, 1985; K. Pomeranz, *The Great Divergence*, p.269

high seas. However, the dislocation in the spice trade proved only temporary because of the financial priorities and compulsions of the Estado da India. Attempts to monopolize the procurement of pepper on the Malabar and the Kanara coasts of India similarly proved largely abortive because of the inability of the Portuguese regime to successfully prevent the diversion of the pepper produced to alternative buyers.

This situation changed quite dramatically in the early years of the seventeenth century with the arrival of the Dutch East India Company established in 1602 on the scene. On the basis of its distinct and substantive maritime superiority over the small-time local kingdoms in the Indonesian archipelago, the Company managed to acquire effective monopsony rights in spices such as cloves, nutmeg and mace. The prices at which these spices were obtained from the producers were abysmally low affording to the Company gross profit amounting to 1000 percent and more on the sale of these spices in other the parts of Asia and in Europe. Among the earliest as well as the ugliest faces of coercion and colonialism in Asia was the Dutch Company's policy of large scale extirpation in the early years of the seventeenth century of the highly valuable clove shrubs in order to confine the growing of this spice to a well-defined territory from which smuggling by Asian and other merchants could be effectively controlled. The extension of the political control of the Dutch East India Company to Ceylon later in the century led to the adoption of similar coercive arrangements in the matter of the procurement of another valuable spice, namely cinnamon.

[8] K. Pomeranz, *The Great Divergence*, p 269

It is however, important to emphasize that the Indian subcontinent, with which this paper is primarily concerned, totally escaped a coercion based relationship with the Europeans until the second half of the eighteenth century. This, combined with the fact that India provided an overwhelming proportion of the total cargo the corporate enterprises imported into Europe in the early part of the eighteenth century, renders the subcontinent a particularly suitable case for an analysis of the macroeconomic implications of European trade and of the growing involvement of the Indian Ocean in world trade.

As far as the economy-wide implications of Euro-Asian trade for the Indian subcontinent were concerned, there was both a real output as well as a monetary component. In so far as a country in relatively more efficient in the production of export goods than in that of import goods, an increase in trade between nations is ordinarily to the advantage of both the trading partners, involving an increase in the value of the total output in each of the two economies. The 'gains from trade' tend to become much more substantial in special situations such as in the case of the Euro-Asian trade in the early modern period. This is because the decline in the domestic production of import – competing goods, which would usually accompany an increase in the output of export goods in an ordinary trade situation involving the exchange of goods against goods, would be avoided when the imports consisted not of goods but of precious metals (which in any case were not produced domestically in countries such as India). An increase in the output of export goods attendant upon an increase in trade would then involve a net increase in total output and income in the economy.

In the monetary domain, the import of large quantities of precious metals by the European companies into India on a continuing basis would have had certain consequences for the economy of the subcontinent. There

is a considerable body of literature that assigns an important role to the imported American silver in shaping the growth of a number of European economies in the early modern period. A similar response is sometimes denied in the case of Asia because it is held that while in the case of Europe, the imported silver involved an accretion to the supply of money in the system, in Asia this valuable asset was frittered away by being used for hoarding or jewellery.

I have argued elsewhere that there is reason to believe that such a clear- cut dichotomy between Europe and Asia is indeed quite untenable and does not conform to a wide body of evidence available to us. The argument that the imported silver did not become money is demonstrably false. In the case of Mughal India, for example, the treasure brought in by the European companies was intended for investment in Indian silk, textiles and other goods. In so far as foreign coins were not allowed to circulate locally, the very first step that would need to be taken by these companies in the matter of raising the necessary purchasing power would be the conversion of imported bullion into Mughal Indian rupees. This could be done either through professional dealers in money known as *sarrafs* or by recourse to one of the imperial mints in the empire. In either event, there would be an automatic and corresponding increase in the supply of money in the economy. It is, of course, perfectly possible that a part of the increased money supply might eventually have been hoarded or withdrawn from active circulation. But in the present state of our knowledge, it would probably be futile to surmise how significant or marginal this phenomenon might have been. Some observations might nevertheless be in order. In any society, hoarding of precious metals in the form of bullion or coins would be a function of the structure of asset preferences. Given the limited availability of deposit banking facilities in India, hoarding on a reasonable scale can

very well be interpreted as a perfectly legitimate and rational form of holding liquidity. The point is that the implied irrationality in the "Oriental penchant for hoarding" kind of story might in fact never have been there except perhaps at the margin.

It is also useful to remember that (a) the European corporate enterprises were not the only conduit through which the New World/European silver entered India and (b) that silver of Asian origin, mainly Japanese, constituted a major component of the growing availability of silver in the Indian subcontinent in the early modern period. The Middle East, which itself received the bulk of its supplies from Europe through trade, had traditionally been a major supplier of precious metals - mainly silver - to India. It was not without reason that the port of Mocha in the Red Sea was often referred to as the 'treasure chest' of the Mughal empire. The principal port at which silver from this region entered Mughal India was Surat. As for the relative roles of the Cape of Good Hope and the West Asia routes in the transmission of American/European silver to India, the West Asia route was clearly the dominant one in the sixteenth century. By and large the same situation would seem to have continued into the seventeenth century, though the gap was fast narrowing down. The Cape route emerged as definitely dominant only by the 1720s or so. From about the 1630s onward, Japan had also emerged as a major source of silver imported into India by the Dutch East India Company. This, however, ceased to be case from 1668 onward when Japan banned the export of silver from the country[9].

As for the principal Asian recipients of foreign silver, there is a general belief in the literature that China was by far the most important with India

[9] Om Prakash: " Precious-metal flows into India in the early Modern Period" in Dennis O. Flynn, Arturo Giraldez and Richard Von Glahn (ed.), *Global Connections and Monetary History, 1470-1800*, Ashgate, 2002, pp 149-158.

being perhaps a distant second. It has, for example, been suggested that somewhere between one-third and one-half of all New World silver wound up in China[10]. This might indeed very well have been the case but the precise mechanism behind this needs to be spelt out in greater detail than has been the case so far. It is true that the arbitrage on silver was probably the highest in China. Also, the supplies of American silver reaching Asia via the Pacific probably ended up in China in good measure but of the supplies of American/European silver brought in by the European corporate enterprises into Asia, the share of China was by no means of any particular importance.

In the matter of the economy-wide implications of the imported silver, the difference between China and India was also probably less marked than has generally been assumed in the literature. The widespread use of silver in China as a store of value, an important (though not exclusive) medium of circulation and a major means of paying taxes has legitimately been emphasized. But India might indeed not have been far behind in respect of any of these uses as far as the Mughal Indian silver rupee was concerned. To take only one example, the single most important tax collected in Mughal India was land revenue which is generally believed to have amounted to between 40 and 50% of the gross agricultural output in the empire. The progressive conversion of this tax from kind into cash from the late sixteenth century onward would have implied a growing drawing in of millions of Indian peasants into the domain of cash transactions and a consequent revolution in the degree of monetization in the economy. Another significant feature of the Mughal Indian economy was the rise of banking firms all over the empire dealing in extremely sophisticated instruments of credit. Many of these firms

[10] K. Pomeranz, *The Great Divergence*, p 190 quoting the work of Flynn and Giraldez and of Von Glahn.

had enormous resources at their command. Probably the best known of these was the house of the Jagat Seths operating from its headquarters in Murshidabad in Bengal. Along with its other activities, the firm organized the transfer of Delhi's share in the land revenues collected in the province. It need hardly be stressed that there was an important organic link between the rise in the money supply and the growth of the banking firms in the Mughal Indian economy.

The death of the Mughal emperor Aurangzeb in 1707 was the symbolic beginning of the process of the collapse of the centralized Mughal empire, the rise of the so-called successor states in provinces such as Awadh, Hyderabad and Bengal, and eventually the takeover of large parts of the country by the English East India Company, beginning with Bengal where it was officially recognized by the Mughal emperor as the *diwan* of the province in 1765. How did the successor states fare during the eighteenth century both politically and economically? According to scholars such as Irfan Habib and M. Athar Ali, the successor states were not quite able to cope with the changing situation and there was in all probability a general decline in the standard of economic performance. Habib sums up the eighteenth century as a period of 'reckless rapine, anarchy and foreign conquest'[11].

This view has been challenged over the last two decades or so by several of the so-called 'revisionist' historians, notably Chris Bayly and Burton Stein. In the words of Stein, most of these scholars "agree that the rural economy over most of the eighteenth century India enjoyed substantial, if uneven, growth notwithstanding both the destructive wars culminating in those which won the subcontinent for the British, and the supposed political

[11] Irfan Habib, *The Agrarian System of Mughal India*, 1556-1707 (Bombay 1963) p.351.

disorder in many areas. It is claimed that new, smaller states with efficient tax gathering procedures replaced the Mughal military imperial order, that market networks proliferated and became to a degree interlinked, that a more prosperous agriculture came into being with increased commodity production as a result of rural investments by the revenue farmers of the time, that all of this was buoyed up by an ever-increasing level of international trade in which Indian artisans, merchants and especially bankers played key and lucrative roles, and that this phase of political economy obtained until the first quarter of the nineteenth century"[12].

According to Bayly, the chief beneficiaries of economic expansion seem to have been groups between the imperial nobility or their successors, on the one hand, and the vast mass of those who cultivated the land or worked in the towns, on the other. He describes them as "a range of intermediate entities" who were situated between the "revenue-based state and the mass of agrarian society". Local gentry with military or administrative skills, merchants and financiers were all given opportunities to profit from the new states' needs, to obtain employment for themselves under them, and to enjoy the patronage that they offered. We noted above the availability of a sophisticated network of finance and credit in the economy. This was made full use of by the successor states. Underwriting the revenue system by enabling the renters to pay on time, and the money to be remitted by bill from where it had been collected to the rulers' capital or wherever else it was needed was one of the essential services of bankers to the new states.

Specifically, how did the successor state of Bengal, which eventually became the first Indian state to be brought under formal colonial rule in the

[12] Burton Stein, 'A Decade of Historical Efflorescence', *South Asia Research* 10/2 (November 1990), pp.132-33.

second half of the eighteenth century, fare during the century? The man responsible for creating a near autonomous successor state in Bengal was Murshid Quli Khan, an extremely able but equally ambitious Mughal official, sent to the province at the turn of the century with a specific brief to try and increase the revenues that the imperial government at Delhi received annually from the province. By scrupulously ensuring that the annual flow of the *khalisa* revenues to Delhi not only continued uninterrupted but in fact registered an increase over time, Murshid Quli succeeded in creating a mutually beneficial working partnership with the imperial government. His own price in the bargain was to obtain near - autonomy from the Centre. An important milestone in the emergence of this situation was the 1716 conferment on Murshid Quli Khan by Emperor Farrukhsiyar of the office of the *subahdar* or *nazim* (governor) in addition to the office of the imperial *diwan* that he already held. This was the first time that the two key offices were combined in one person in any province. The arrangement suited both sides. The Centre got its revenue regularly while Murshid Quli, though not formally independent of the Mughal empire, enjoyed an enormous degree of freedom in which to manoeuvre within Bengal. The successor state thus created survived Murshid Quli's death in 1727 until the forces of Robert Clive defeated those of Nawab Sirajuddaulah at Plassey in 1757 and installed in his place a puppet administration. In 1765, the English East India Company coerced the imperial administration into formally appointing it the *diwan* of the province. The emperor was sanctioned an annual tribute of Rs.2.6 million. The *nawab* of Bengal retained the office of *nazim* with formal responsibility for defence, law and order and the administration of justice according to Islamic law. However, as a military entity, the *nawab* was reduced to insignificance. He was granted a fixed allowance for his court

expenses and such activities as he tried to undertake. The rest of the revenues of Bengal were at the disposal to the East India Company.

In the case of Bengal, then, the eighteenth century consists of two distinct time-periods with the cut-off point lying somewhere around 1760. Quite apart from its political dimension, the distinction is of key importance in an evaluation of the standard of economic performance and achievement that characterized the province through the century. The introduction of alien rule introduced important modifications in the structure of economic organization at a variety of levels. Probably the most basic of these was an alteration in favour of the English traders (most of whom were also employees of the Company) of the pattern of distribution of the overall income and output generated in the economy.

In the domain of political stability and the state of law and order, the situation in Bengal in the first half of the eighteenth century was certainly no worse than it had been during the seventeenth. If anything, Murshid Quli Khan's grip over the administrative machinery in the province was firmer than had been the case under his predecessors. It is true that a certain amount of political dislocation was caused in the early 1740s as a result of Maratha incursions into the province. But that was essentially a temporary phase and things were by and large back to normal by the end of the decade. In brief, the picture of political confusion and unrest associated with the declining power of the Mughals in the first half of the eighteenth century is certainly not applicable to Bengal.

As in the rest of the subcontinent, an overwhelming bulk of the total output in Bengal was generated in the agricultural sector. By all accounts, Bengal was amongst the most fertile of the major Indian regions. The province witnessed a marked extension of cultivation in response to the shift eastward of the course of the rivers in the Ganges delta which had created

favourable conditions for opening up new rice lands, whose produce went to feed the growing city of Calcutta and the textile manufacturing districts of the west. The high level of productivity achieved embraced both food production and commercial crops. The latter, including such items as mulberry, cotton, and sugarcane, were highly market-oriented, and the acreage and output responded quickly to changes in market demand. To take an example from the early years of the eighteenth century, while urging the imperial authorities to settle their dispute with the Dutch in Bengal, Murshid Quli wrote in 1706 that following the closure of the Dutch factory at Kasimbazar two years earlier, the Hollanders' demand for raw silk had registered a considerable decline, leading to a substantial shift of land away from mulberry into rice and pulses. This had had an injurious effect on the income from land revenue in as much as mulberry lands were assessed at Rs.3 per *bigha*, whereas the corresponding rates for rice and pulses -–being lower-value crops – were only Rs.0.75 and Rs.0.37 per *bigha* respectively. This could be reversed only if the Company were persuaded to reopen its factory at Kasimbazar[13].

There is no evidence whatsoever to suggest that this highly positive picture underwent any deterioration in any sense through the remaining part of the eighteenth century. Indeed, the rising sums of land revenue collections in the province might well point to an increasingly more productive and efficiently organised agricultural sector. Between 1700 and 1722, the actual amount of revenue collected in the province per annum is reported to have gone up from Rs.11.72 million to Rs.14.11 million – an

[13] Om Prakash, *The Dutch East India Company and the Economy of Bengal*, 1630-1720 (Princeton, 1985), p.25.

increase of over 20 percent[14]. In the absence of a marked or sustained rise in the general price level in the province during the relevant period, it would be unrealistic to dismiss a revenue increase this magnitude simply as an adjustment to rising prices[15]. Philip Calkins has suggested that Murshid Quli's revenue reforms tended to depress the weaker and less efficient *zamindars* and intermediate landholders, while allowing the stronger and more efficient ones to survive[16]. On the whole, there was a more intensive squeezing of the intermediary groups as a whole, a phenomenon unlikely to obtain for any length of time in a situation of non-growing output.

What was the situation like in the non-agricultural and the trade sectors? It is indeed true that the Maratha incursions into the province in the 1740s had led to a scarcity of grain, shortage of labour and generally rising cost levels. As a result, among other things, the production and procurement of textiles for export had suffered quite severely. In 1744, for example, it was believed that the fortunes of several of the merchants supplying textiles to the Dutch Company were under strain. These suspicions were confirmed in 1746 when it was learnt that four important merchants operating in the major textile centre of Shantipur near Dhaka – Hinkar Chaudhury, Jag Bhushan, Gokul Chand and Bhagwan Gopi Chand – together with their associates, Radhamohan Chaudhury and Radhakant

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[14] Appendix no.6 to John Shore's 'Minute on the Rights of Zamindars', West Bengal Government Archives (Calcutta), Board of Revenue, *Proceedings*, April 2, 1788, vol. 127, 539-540. Quoted in Philip B. Calkins, 'The Formation of a Regionally Oriented Ruling Group in Bengal, 1700-1740', *Journal of Asian Studies* (1970) pp.799-806. Note the proximity of the figure of Rs. 14.11 million to that of Rs.14.28 million, the figure that emerged after the 1722 revision of the Bengal land revenue. The *khalisa* component of the latter figure was Rs. 10.96 million. W.K. Firminger ed., *The Fifth Report from the Select Committee of the House of Commons on the Affairs of the East India Company*, 1812 II, pp. Appendix 4, 186 and 191.

[15] For evidence on movements in the general price level, see Om Prakash, *The Dutch East India Company and the Economy of Bengal*, Chapter 8.

[16] Philip B. Calkins, 'The Formation of a Regionally Oriented Ruling Group in Bengal', 803.

Chand, had been financially ruined. The Company suffered considerable losses in the form of debts owed by these merchants. The principal corrective step the factors sought to take was to require the merchants to provide sureties. But the local *sarrafs* and bankers, who would have been acceptable to the Company as guarantors, flatly refused, saying it was too risky a proposition[17]. It should, however, be emphasized that this kind of situation was essentially a temporary aberration caused by specific circumstances. By the end of the decade, things were by and large back to normal.

The increasing body of privileges enjoyed by the English East India Company in the region, mainly in the context of the royal *farman* granted to it by Emperor Farrukhsiyar in 1717, is often quoted as another distortion this period witnessed involving a curtailment of the rights and privileges of the ordinary Indian merchants. One such special privilege accorded to the English related to their exclusive use of the Murshidabad mint three days a week 'if it be not against the King's interest'. In fact, however, this privilege was never actually made available to the English. This would seem to have had indirectly something to do with the power and influence enjoyed by the house of the Jagat Seths at the Murshidabad court. But as I have argued in some detail elsewhere, the suggestion that the Jagat Seths then managed to appropriate for themselves the exclusive right to use the Murshidabad mint, forcing everyone else to sell their bullion to them and obtain coins in return on terms less favourable than if they had had their own access to the mint, is equally incorrect. There is abundant evidence to show that the Dutch East India Company, for example, continued to have significant quantities of silver

[17] Memorandum by Jan Kersseboom, the outgoing director of the Bengal factories, addressed to his successor, Louis Taillefert, 16 February 1755, National Archives, The Hague (NA), VOC 2862. The volume is not foliated.

minted at the Murshidabad mint[18]. There was thus no departure from the Mughal norm of allowing, in principle, everyone free access to the mint.

` As for the actual movements in trade from Bengal by the various groups – European and Indian – involved in it, the picture for the first half of the eighteenth century is essentially one of net growth. The Europeans' trade from Bengal registered a significant increase during the period. Thus of the rising total Dutch exports from Asia to Europe amounting to f.19.24 million over the triennium 1738-40 as against f.15 million during 1698-1700, the share of goods procured in the province had gone up to 47 percent as against 41 percent at the turn of the century. The corresponding figures in the case of the English East India Company were f.23 million as against f.13.79 million with the share of Bengal goods being at the all-time peak of 66 percent during 1738-40 as against 42 percent during 1698-1700[19].

The second half of the eighteenth century witnessed a fundamental alteration in the nature of the Indo-European encounter. The takeover of Bengal by the English East India Company following the battle of Plassey in 1757 marked the inauguration of the colonial phase in this encounter. The nawab's army, though ten times the size of Clive's 2,000 sepoys and 900 Europeans, was routed providing the English Company its first foothold in the subcontinent. The formal acquisition of *diwani* rights in 1765 provided it with access to the province's revenues. These were used in part to strengthen further the Company's military strength. By 1782, the Company was able to maintain 115,000 men in India (90 percent of them sepoys) enabling it to intervene effectively in other parts of the subcontinent such as the Deccan.

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[18] Om Prakash, 'On coinage in Mughal India', *The Indian Economic and Social History Review* 25/4 (October-December 1988), pp.475-491.

The availability of political power to the English East India Company altered the basic relationship between the Company on the one hand and the Indian intermediary merchant and artisan on the other. The earlier relationship based on the absence of coercion and the working of the market forces of demand and supply was now replaced by one of the availability to the Company of wide powers of coercion over the Indian trading and artisanal groups. Not only were these groups no longer entitled to a market-determined return to their endeavours, they were often no longer free even to decide whether to enter into a business relationship with the Company at all. The position of these groups was further worsened by the use of its political authority by the English East India Company to increasingly marginalize the rival European trading companies engaged in the trade from the region such as the Dutch and the French East India companies. These companies were no longer allowed to operate in the market as an equal, substantially cutting into their role as major alternative buyers of the goods manufactured in the province.

The first major element of discontinuity in the new situation was the near-stoppage of silver imports by the European companies into Bengal. This was partly an outcome of the availability to the companies of large amounts of rupee funds owned by private European traders of various nationalities and waiting to be remitted home against bills of exchange payable at various European capitals. In the case of the English East India Company, the Bengal revenues officially accruing to it after 1765 provided yet another major source of investment funds which were used not only in Bengal but also in Madras and Bombay and even in China. To that extent, the Company's exports from Bengal became 'unrequited' and a drain on the

[19] Om Prakash, *European Commercial Enterprise in Pre-Colonial India*, Cambridge, 1998, p. 396.

region's resources. In the words of the Parliamentary Select Committee of 1783, "A new way of supplying the Market of Europe, by Means of the British Power and Influence, was invented; a Species of Trade (if Such it may be called) by which it is absolutely impossible that India should not be radically and irretrievably ruined, although our Possessions there were to be ordered and governed upon Principles diametrically opposite to those which now prevail in the System and Practice of the British company's Administration".

The Committee also noted that: "In all other Countries, the Revenue following the natural Course and Order of Things, arises out of their Commerce. Here, by a mischievous Inversion of that Order, the whole Foreign, Maritime Trade, whether English, French, Dutch or Danish arises from the Revenues; and these are carried out of the Country, without producing any Thing to compensate so heavy a Loss"[20].

Quite apart from the drain of resources dimension of the altered pattern of the English company's trade from Bengal, the cessation of silver imports effectively meant the demise of the centuries-old 'bullion for goods' character of the Indo-European trade. In the altered state of affairs, the 'gains from trade' in terms of increases in income, output and employment along the lines discussed earlier would no longer accrue. As noted above, the post-1760 period also witnessed a basic alteration in the ground rules the English Company followed in its dealings with the merchants and the artisans supplying it with the textiles and other export goods. These dealings were no longer governed by the market forces of demand and supply. Through an extensive misuse of its newly acquired political power, the Company subjected suppliers, artisans and peasants to complete

[20] 'Ninth Report from Select Committee Appointed to Take into Consideration the State of the Administration of Justice in the Provinces of Bengal, Bahar and Orissa', 25 June 1783, OIOC, British Library, London, L/Parl/2/15.

domination, imposing upon them unilaterally determined terms and conditions including monopsony, which significantly cut into their margin of profit. This misuse of authority was not confined to the English Company but was also extensively resorted to by its servants engaged in intra-Asian trade on their private account.

In the case of textiles, the English Company made use of the so-called *gumashta* system of procurement which became the principal vehicle through which the Dutch and the French East India Companies were marginalized and the weavers obliged to produce for the English Company subjected to intense coercion. For purposes of procurement, the Company divided the province of Bengal into segments, each of which consisted of a group of production centres called *aurungs*. Each group contained a string of procurement stations, one of which was designated as the principal station where the chief *gumashta* of the group, responsible to the Commercial Resident, was based. The chief *gumashta* received from the Company both a salary (a modest sum of around Rs. 50 per month) as well as a commission. He operated with the Company's funds and was, in principle, responsible for any bad debts that might arise from the sums advanced to him. Each of the subordinate trading stations was manned by a *gumashta* and a *dalal* who dealt with the weavers. Alternatively, the chief *gumashta* might operate directly through *paikars*, a group that was a counterpart of the *dalals*. On the strength of the Company's political authority in the region, the *gumashtas/dalals/paikars* enjoyed a position of unquestioned domination over the weavers and forced upon them terms considerably below the market.

The agrarian counterpart of the aggrieved Bengal textile weaver was the opium peasant who was similarly subjected to significant non-market pressures by the English East India Company, as well as by its employees

operating in their private capacity. Soon after the takeover of the province, Company servants tried to establish private monopolies in the drug. There individuals generally did not engage in internal or international trade in the item on their own but would sell it on a monopoly basis to the prospective traders in the drug who would include Indian merchants, other private English traders and the Dutch East India Company. The gross profit earned in the process has been estimated to be quite high. This situation was altered radically in 1773 when the English Company decided to assume monopoly rights in the drug for itself. The arrangement was for the Company to organize the procurement of the drug on an exclusive basis and then arrange for its sale to prospective traders through public auctions held at Calcutta. In principle, the monopoly implied that the entire output of the drug would have to be handed over to the Company through a contractor at a price determined unilaterally for the year. In 1797, the contract system was abolished in favour of an agency system involving direct control by the Company of the cultivation of opium. If a peasant decided to be in the business of producing opium, he had no option but to deal with the Company. But in principle, he had the right not to be in the business of producing opium and to reject the offer of a cash advance in return for pledging his crop to the English Company agent[21].

The new situation held important consequences for the economy of the province. For one thing, the substantial reduction in the silver imports would seem to have been an important element behind the shortage of money that several contemporaries noted and commented upon. More importantly, there was a marked deterioration in the relative share in the total value of the output produced as far as the Bengali artisanal and the

[21] Extract, Bengal Revenue Consultations, 23 November 1773, Appendix 57, Ninth Committee Report, OIOC, British Library, London.

mercantile groups engaged in business with the English East India Company were concerned. This was a necessary corollary of the replacement of a market-determined relationship between the Company and these groups until about 1760 by a relationship marked by a clear-cut domination by the Company in the decades that followed. The blatant manner in which this was done, robbing in the process the producers and the merchants of a good part of what was legitimately due to them, would, in turn, have introduced distortions in the incentive structure in the domain of manufacturing and other production in the province. This, combined with the official Company and the unofficial private English traders' monopolies in commodities such as salt and opium, is likely to have brought about a certain amount of decline in the value of the total output produced in the province, though in the present state of our knowledge it is not possible to indicate even broadly the extent of this decline.

It is, however, vitally important to view the aforementioned developments in perspective and situate them into the larger picture. The available evidence would seem to suggest strongly that the distortions introduced into the system as noted above notwithstanding, the structure of both agricultural and non-agricultural production in the province continued to be marked by a high degree of vitality and capacity to deliver. An important index of the continuing vitality of the textile sector, for example, would be the continuing growth of both the Euro-Asian and the intra-Asian trade in this commodity from the province. It is true that, under the pressure of the increasingly monopsonistic policies adopted by the English Company, the trade of the rival companies operating in the region was on the decline. But such a decline was much more than made up for by the English Company's own total exports to Europe going up from an annual average of under

£700,000 during 1758-60 to as much as £1.92 million during1777-79[22]. Bengal accounted for as much as half of this value with textiles accounting for a very large proportion of it. It is also useful to remember that the commodity composition of the exports from Bengal and the rest of India to Europe remained essentially unaltered in the second half of the eighteenth century with no evidence whatever of the emergence of the so-called colonial pattern of trade.

As far as the trade in textiles and raw silk between India and other parts of Asia within the subcontinent was concerned, Indian merchants continued to control the overwhelming bulk of it. At the end of the eighteenth century, Bengal textiles, for example, were finding their way through this channel regularly to the cities of northern India and beyond[23]. Large quantities of cotton were at the same time being carried from the Deccan to Bengal and the west coast[24]. The English East India Company is likely to have been able to control no more than about a third of the total number of weavers in the province[25]. The remaining continued to work for Indian and other non-English East India Company buyers and were not subject to any kind of extra-market pressures.

As for the agricultural sector in the province, it is true that the second half of the eighteenth century witnessed an increase both in the amount of revenue assessed as well as that collected. With 1755 as base equal to 100, the index of the amount assessed stood at 135 in 1770, 155 in 1778 and 168 at 1783. The amount of revenue collected also went up but by a somewhat smaller margin. The collection was made exclusively in cash

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[22] Om Prakash, *European Commercial Enterprise,* p 348

[23] C.A. Bayly, *Rulers, Townsmen and Bazaars: North Indian Society in the Age of British Expansion, 1770-1870*, Cambridge, 1983, pp 150-51.

[24] Lakshmi Subramanian, *Indigenous Capital and Imperial Expansion, Bombay, Surat and the West Coast*, Delhi, 1996, p 181.

significantly furthering the process of monetization in the province[26]. Recent research suggests that the agricultural sector and the rural economy in the province in the second half of the eighteenth century was nevertheless reasonably vibrant. It has traditionally been held, for example, that because of the revenue policy of the East India Company, there was a large scale distress sale of *zamindaris* in the province rendering the land market highly depressed. Specific evidence now available regarding the generally buoyant state of the land market during this period suggests the strong need of giving up such stereotypes and having a fresh look at this phase in the history of Bengal[27].

If Bengal and other major regions of the Indian subcontinent to which British colonial rule was extended in the course of the nineteenth century were largely left unscarred until the end of the eighteenth century, why was the potential for industrialization not realized in the nineteenth and the twentieth centuries? More specifically, what was the role of British colonial presence and policies in this regard? It need hardly be stressed that colonial rule was designed to promote the interests of the metropolitan country, if and when necessary at the expense of those of the colony. But within that overall context, the extent to which a colonial government can impede growth can vary enormously from case to case.

It is widely recognized that a large-scale interaction with the rest of the world economy played a major role in the course of the industrialization of Britain as well as of its spread to Western Europe in the nineteenth century. Growing foreign trade enabled Britain both to obtain raw materials for her industry and food for her population as well as to dispose of her fast

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[25] D.B. Mitra, *The Cotton Weavers of Bengal 1757-1833, Calcutta, 1978*, pp 107-08.
[26] Rajat Datta, *Society, Economy and the Market, Commercialization in Rural Bengal, C.1760-1800*, Delhi, 2000, pp 333-34.

increasing industrial output in the world market. Large capital movements enabled her to get rid of excess capital and ensured that the domestic rate of return did not register a disturbing decline. The industrializing countries of Western Europe benefited from the larger international availability of capital and technological know-how. The countries in the so-called Regions of Recent Settlement (Australia, New Zealand, Canada, etc.) also benefited by and large from the growing interaction with Western Europe in terms of the larger availability of both capital and manpower as well as a market for their agricultural and other produce. The picture, however, is much more complicated with respect to the second set of colonies that the western powers had come to have in Asia, Africa and Latin America. The principal use of these colonies was to serve as sources of raw materials and as absorbers of finished goods such as textiles and other consumer goods.

Where did India fit into this scheme of things? At the outset it might be useful to note that in many ways India in the nineteenth and the first half of the twentieth century was not a typical colonial economy. While obviously aligned to and serving the interests of metropolitan Britain in an important way, India nevertheless was somewhat atypical in so far as its dependence on the foreign sector was at no point in time overwhelming. It was not a one or two products exporting economy – either agricultural or mineral – the way many Asian economies were. Partly because of its size and partly because of its variegated economic structure, both the exports from and the imports into India were quite diversified, although over a period of time there indeed was a distinct trend towards the emergence of the so-called colonial pattern of trade. Also, from the second half of the nineteenth century onward, there

[27] Rajat Datta, *Society, Economy and The Market*. pp 333-34.

was the rise of a modern industrial sector in India in a manner which had few parallels in other colonial economies in Asia.

In the course of the nineteenth century India did indeed provide both food grains – mainly wheat – as well as raw materials such as cotton and jute to Britain. it is a widely held belief that following the suspension of cotton supplies from the American South in the 1860s consequent upon the outbreak of the Civil War, the vastly increased supplies from India were generated mainly by the diversion of cotton from domestic use and shipments to China rather than by expanding output[28]. But scholars such as Peter Harnetty have argued that the rising supplies from India did indeed represent a major increase in domestic output in response to the new opportunities available. Indeed, it is stressed that even after the resumption of the American supplies from the mid-1860s onward, the continued large exports of cotton from India was possible because the new levels of domestic output had been successfully maintained.

The counterpart of this was the inundation of the Indian market by cotton textiles manufactured in Lancashire and Manchester. A primary plank in India's nationalist argument regarding the negative aspects of British colonial rule was the presumed destruction of the Indian handloom sector – often described as the process of deindustrialization. There was merit in this argument; research suggests a decline of some 3.6 million jobs in the Indian non-factory textile sector from 1850 to 1880. It is, however, important to realize that at the same time, the handloom sector adopted a range of survival strategies and, by and large, managed to hold its own. The primary strategy was the identification of specific market segments for which the sector enjoyed a clear and substantial advantage over the mill sector, both

[28] See, for example, K. Pomeranz, *The Great Divergence, p. 277*.

foreign and domestic. These market segments ordinarily included either the most expensive of the luxury textiles involving a good deal of embroidery and other handwork, or the very coarse cotton varieties. Inexpensive machine made yarns were also employed by the handloom sector. From the early years of the twentieth century onward, the sector also used new technology as well as new institutional arrangements for raising credit and for marketing. The destabilizing influence of British competition in textile imports was thus neutralized to a certain extent.

In the context of India's economic growth - or the lack of it - in the nineteenth and the first half of the twentieth century, the colonial episode was obviously something of immediate and substantive relevance. But to the extent that the expansion of modern industry depended on decisions made by private entrepreneurs, no single social or economic characteristic can explain the slowness of India's industrialization process; no single act of government policy or change of behaviour could have made for much more rapid progress than did occur. It is not that India was caught in a low-level equilibrium trap from which, once liberated, development would be cumulative. When the great array of evidence is considered, the image that emerges is one with a web of relationships that served to dampen the performance level and the rate of change. Expansion in a single sector, however successful, proceeded only in a limited way; it could not generate, on its own, an ever-widening chain of reactions throughout the system. Rapid and sustained industrial expansion on a broad front required not only an extensive array of basic social, political, and economic preconditions but also the development of an institutionalized mindset - one that solved the new problems that continually emerged. Despite its other virtues, the Indian system probably had not possessed these features at the beginning of the nineteenth century. Then, during the next 150 years, various necessary but

insufficient elements of economic expansion were introduced. Most of the economic changes were not only limited in scale and scope, they also generated contradictory features that did not promote widespread economic success.

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