

# India's Deindustrialization in the 18<sup>th</sup> and 19<sup>th</sup> Centuries\*

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## **Abstract**

India was a major player in the world export market for textiles in the early 18<sup>th</sup> century, but by the middle of the 19<sup>th</sup> century it had lost all of its export market and much of its domestic market. India underwent secular deindustrialization as a consequence. While India produced about 25 percent of world industrial output in 1750, this figure had fallen to only 2 percent by 1900. We ask how much of India's deindustrialization was due to local supply-side influences, such as the political and economic fragmentation of the 18<sup>th</sup> century, and how much to world price shocks. We use an open, three-sector model to organize our thinking about the relative role played by domestic and foreign forces. A newly compiled database of relative price evidence is central to our analysis. We document trends in the ratio of export to import prices (the external terms of trade) from 1800 to 1913, and that of tradable to non-tradable goods and own-wages in the tradable sectors back to 1765. Whether the deindustrialization shocks and

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responses were big or small is then assessed by comparisons of the Indian experience with other parts of the periphery.

## **1. Introduction**

The idea that India suffered deindustrialization during the 19<sup>th</sup> century has a long pedigree. The image of skilled weavers thrown back on the soil was a powerful metaphor for the economic stagnation Indian nationalists believed was brought on by British rule. However, whether and why deindustrialization actually happened in India remains open to debate. Quantitative evidence on the overall level of economic activity in 18<sup>th</sup> and 19<sup>th</sup> century India is scant, let alone evidence on its breakdown between agriculture, industry, and services. Most of the existing assessments of deindustrialization rely on very sparse data on employment and output shares. Data on prices are much more plentiful, and this paper offers a new (price dual) assessment of deindustrialization in 18<sup>th</sup> and 19<sup>th</sup> century India supported by newly compiled evidence on relative prices. A simple model of deindustrialization links relative prices to employment shares. We think the paper sheds new light on whether and when deindustrialization happened, whether it was more or less dramatic in India than elsewhere, and what its likely causes were.

The existing literature primarily attributes India's deindustrialization to Britain's productivity gains in textile manufacture and to the world transport revolution. Improved British productivity, first in cottage production and then in factory goods, led to declining world textile prices, making production in India increasingly uneconomic (Roy 2002). These forces were reinforced by declining sea freight rates which served to foster trade and specialization for both Britain and India. As a result, Britain first won over India's export market

and eventually took over its domestic market as well. This explanation for deindustrialization was a potent weapon in the Indian nationalists' critique of colonial rule (see e.g. Dutt 1906/1960, Nehru 1947).

The historical literature suggests a second explanation for deindustrialization in the economic malaise India suffered following the dissolution of Mughal hegemony in the 18<sup>th</sup> century. We believe the turmoil associated with this political realignment ultimately led to aggregate supply-side problems for Indian manufacturing, even if producers in some regions benefited from the new order.

Like the first, a third explanation for India's deindustrialization also has its roots in globalization forces: India's commodity export sector saw its terms of trade relative to textiles improve significantly in the late 18<sup>th</sup> century and it drew workers away from textiles. We will argue that these explanations are complementary and that each makes a contribution to our overall understanding of India's deindustrialization experience.

Before proceeding to our argument and evidence, we first offer a precise definition of deindustrialization and elaborate on its likely causes. We develop some initial intuition using a simple 2-good 3-factor framework. Suppose an economy produces two commodities: agricultural goods, which are exported, and manufactured goods, which are imported. Suppose it uses three factors of production: labour, which is mobile between the two sectors; land, which is used only in agriculture; and capital, which is used only in manufacturing. Further suppose that this economy is what trade economists call a "small country" that takes its terms of trade as exogenous, dictated by world markets. Given these assumptions, deindustrialization can be defined as the movement of labour out of manufacturing and into agriculture, either measured in absolute numbers (what we call *strong deindustrialization*), or as a share of total employment (what we call *weak deindustrialization*).

While deindustrialization is easy enough to define, an assessment of its short and long run impact on living standards and GDP growth is more contentious and hinges on the root causes of deindustrialization. One possibility is that a country deindustrializes because its comparative advantage in the agricultural export sector has been strengthened by productivity advance on the land at home or by increasing openness in the world economy, or both. Under this scenario, GDP increases in the short-run. If productivity advance on the land is the cause, nothing happens to the terms of trade unless the small country assumption is violated, in which case they deteriorate. If increased openness is the cause, the country enjoys an unambiguous terms of trade improvement as declining world trade barriers raise export prices and lower import prices in the home market. Whether real wages also increase depends on the direction of the terms of trade change and whether the agricultural good dominates workers' budgets. Whether GDP increases in the long run depends on whether industry generates accumulation and productivity externalities that agriculture does not. If industrialization is a carrier of growth—as most growth theories imply—then deindustrialization could lead to a growth slowdown and low-income equilibrium that gives the idea of deindustrialization its power in the historical literature.

A second possibility is that a country deindustrializes due to a deterioration in home manufacturing productivity and/or competitiveness. In this case, and still retaining the small country assumption, nothing happens to the terms of trade, but real wages and living standards will deteriorate, and so will GDP. The economic impact of deindustrialization from this source is unambiguous.

In order to make this theoretical framework flexible enough to handle the causes of deindustrialization we believe most important, we need to add

a non-tradable grain sector. The three sectors considered in the rest of the paper are: agricultural commodity exports, which are tradable on world markets and include industrial intermediates (such as raw cotton and jute) and high-value consumer goods (such as opium and tea); manufacturing, which is primarily textiles and metal products and is also tradable; and grains, which are non-tradable and include rice, wheat and other food staples.<sup>1</sup>

We will build up our account of India's deindustrialization as follows. In Section 2 we present a theoretical narrative of India's deindustrialization experience, drawing on evidence from the historical literature. Section 3 reviews existing attempts to measure India's deindustrialization. We then present a simple general equilibrium model of deindustrialization in Section 4 to formalize our predictions about relative prices and their relationship to employment shares. Section 5 presents three price series – commodity agricultural exports ( $p_C$ ), manufactured textiles ( $p_T$ ) and non-tradable grains ( $p_G$ ), three intrasectoral terms of trade series –  $p_C/p_T$ ,  $p_C/p_G$  and  $p_T/p_G$ , three wage series – the grain wage, the own-wage in the import competing sector, and the own-wage in the export sector, and the external terms of trade. We will then assess this evidence in relation to the theoretical narrative and model, and also compare the relative price experience of India with its primary competitor during this period, England. Section 6 compares India's deindustrializing terms-of-trade shocks with those from other parts of the periphery, and section 7 concludes.

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<sup>1</sup> Grains became tradable commodities throughout Asia in the late 19<sup>th</sup> century, but for the 18<sup>th</sup> and early 19<sup>th</sup> century, it seems more accurate to treat them as non-tradables.

## 2. A Narrative Account of India's Deindustrialization

Our narrative account of India's deindustrialization embraces the three contending deindustrialization hypotheses, and traces the roots of deindustrialization well back into the 18<sup>th</sup> century. Two continent-wide political changes ground our understanding of India's 18<sup>th</sup> century: The dissolution of the Mughal empire into a constellation of small successor states followed after a time by the initial phase of reintegration of these states under the East India Company. Historians have long thought that India saw an overall economic decline during the 18<sup>th</sup> century, following the collapse of Mughal authority. This proposition has recently become controversial, and we will stake out our position in favour of it below.

We believe the dissolution of Mughal hegemony affected manufacturing through several channels. The first was a reduction in overall agricultural productivity. Reduced agricultural productivity would be reflected in an increase of the price of grain, the key non-tradable, and therefore in the relative price of non-tradeables to tradables (such as textiles).<sup>2</sup> To the extent that grain was the dominant consumption good for workers and that the grain wage was close to subsistence, this negative productivity shock should have put upward pressure on the nominal wage in cotton spinning and weaving. Cotton textile wages started from a low nominal but high real base in the mid-18th century (Parthasarathi 1998; Allen 2001). Competitiveness in textile manufacturing is negatively related to the own real wage  $w/p_T$ , the nominal wage divided by the price of textiles. Declining textile prices and rising nominal wages put downward pressure on "profits" from both below

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<sup>2</sup> We assume that India was a price taker for textiles and other manufactures. Given this assumption, domestic demand did not matter in determining the performance of Indian industry. Only price and competitiveness on the supply side mattered. Thus, we ignore as irrelevant any argument which appeals to a rise in the demand for cloth as per capita income rose (Harnetty 1991: 455, 506; Morris 1983: 669).

and above. If India experienced it, an increase in the own wage in textiles would have hurt the competitive edge India had relative to its 18<sup>th</sup> century competitors in third-country export markets, such as the booming Atlantic economy.<sup>3</sup> A decline in 18<sup>th</sup> century agricultural productivity in India suggests that even before factory-driven technologies appeared between 1780 and 1820, Britain was already beginning to wrest away from India its dominant grip on the world export market for textiles.<sup>4</sup>

We are not the first to exploit the connection between labour productivity in pre-industrial agriculture, nominal wages in manufacturing, and the resulting competitiveness in world markets for manufactures. Alexander Gerschenkron (1962) and W. Arthur Lewis (1978: chp. 2) have both used the argument to good effect in explaining why low productivity in agriculture helps explain the absence or delay of industrial revolutions. More recently, Prasannan Parthasarathi (1998) has argued that while low nominal wages in pre-colonial and early colonial India gave it the edge in world textile markets, living standards for labour in the south of India were just as high as

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<sup>3</sup> English merchants and English ships were the main suppliers to the Atlantic trade, a lot of it the so-called re-export trade. The share of Indian textiles in the West African trade was about 38 percent in the 1730s, 22 percent in the 1780s and 3 percent in the 1840s (Inikori 2002: 512-3 and 516). By the end of the 17<sup>th</sup> century, Indian calicos were a major force in European markets (Landes 1998: 154). For example, the share of Indian textiles in total English trade with southern Europe was more than 20 percent in the 1720s, but this share fell to about 6 percent in the 1780s and less than 4 percent in the 1840s (Inikori 2002: 517). India was losing its world market share in textiles during the 18<sup>th</sup> century, long before the industrial revolution.

<sup>4</sup> To make matters worse, India, which had captured a good share of the English market in the 17<sup>th</sup> century, had -- as an English defensive response -- already been legislated out of that market by Parliamentary decree between 1701 and 1722 (Inikori 2002: 431-2), thus protecting local textile producers. But Parliament kept the Atlantic economy as a competitive free trade zone. Of course, the large Indian Ocean market was also a free trade zone, and India had dominated this for centuries (Chaudhuri 1978; Landes 1998: 154).

that in the south of England.<sup>5</sup> Indian productivity was higher in foodgrain production, and thus foodgrain prices were lower.

Historians have traditionally viewed India's 18<sup>th</sup> century as a dark era of warfare, political chaos, and economic decline sandwiched between stable and prosperous Mughal and British hegemonies. This view has been vigorously challenged by the most recent generation of Indian historians, who have emphasized the continuities between the earlier Mughal and later British states and the constellation of small successor states that emerged with the ebbing of Mughal power (e.g. Alam 1986, Bayly 1983, Marshall 1987). The largest of these successor states were the former Mughal provinces of Bengal, Awadh, Benaras, and Hyderabad. There were many smaller ones as well. Their rulers were former provincial governors, Mughal officials, and other men powerful enough to assert *de facto* sovereignty. They collected the land revenue, sometimes using a modification of the old Mughal system, but submitted less and less of it to Delhi in favour of building up their own armies and courts.

While it has been widely accepted that the successor states provided a greater degree of political continuity and stability than was previously thought to have existed, no consensus has been reached about the implications of this fact for overall course of the continental Indian economy in the 18<sup>th</sup> century. Marshall (2003) brings together contributions from the contending scholars and provides a useful overview. Where the 18<sup>th</sup> century economy is concerned, some see the literature on the successor states as a useful corrective but believe the overall picture is one of decline. Others believe the traditional view to be fully overturned and view the 18<sup>th</sup> century

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<sup>5</sup> This revisionist position on living standards has recently come under attack (Broadberry and Gupta 2005)., but nobody has yet denied that nominal wages were low in 18<sup>th</sup> century India and rose thereafter.



as a period of continued growth, despite the ebbing of Mughal hegemony. Two key differences between these scholars concern first, the implications of the emergence of a new prosperity for the principal towns and middle classes of the successor states and second, the degree of centralization and stability provided by the Mughal regime before its collapse, and thus the relative effect of the subsequent decentralization of power.

We tend to agree with the position that sees an aggregate economic decline following the dissolution of a strong empire into contending states. We believe that the more optimistic narrative tends to place too much emphasis on the prosperity of a few areas and groups, such as the towns of the successor states and their middle classes, and too little emphasis on the evidence for decline in the rural areas and peripheries of these states. Even in an era of aggregate economic decline, we would expect local booms to result from the diversion of land revenue flows from Delhi to the big towns of the successor states, where the new rulers and their revenue farmers lived. Moreover, the rural, agricultural sector was overwhelmingly dominant in the 18<sup>th</sup> century Indian economy,<sup>6</sup> so it is the course of that sector which largely dictated the course of the overall economy, not what happened in the towns.<sup>7</sup> The optimistic narrative also seems to overly discount the strength of the Mughal empire and the economically favourable stability it brought. The Mughal state shows evidence of having achieved a high level of centralization and control of revenue sources. Revenue realization per

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<sup>6</sup> Agriculture employed 68 percent of the Indian labour force even as late as 1901 (Roy 2002: 113).

<sup>7</sup> Since we take grain to have been non-tradable internationally, any secular tendency for domestic demand to outpace domestic supply would have raised grain prices. An exogenous acceleration of population growth would have lowered labour productivity on the land, reduced food supply relative to demand, and thus raised the price of food. However, population grew at only 0.26 percent per annum between 1700 and 1820, and this was only a trivial increase over what preceded it (Moosvi 2000: 322). Thus, we believe other forces would have to explain any observed rise in the relative price of grains.

cultivated acre was as high in remote provinces as in the centre.

Examination of the careers of Mughal revenue officials shows that provincial postings were of virtually the same duration (about two and a half years) all over the empire, suggesting that remote provinces were well integrated into the imperial machinery (Habib 2003). There do not appear to have been many Mughal officials who were in reality local potentates. An imperial regime powerful enough to extract 40 percent of the economic surplus from distant provinces must have also insured peace and security, which in turn must have been favourable for agricultural investment and productivity.

Our evidence for an overall 18<sup>th</sup> century economic decline begins with an examination of unskilled wages in grain units, which are a good measure of the overall level of economic activity in a largely agricultural economy. Figure 1 presents three grain-wage series, two from North India and one from South India, from Radhakamal Mukerjee (1939) and Stephen Broadberry and Bishnupriya Gupta (2005). This figure shows a suggestive long-run decline in grain wages beginning in the last decades of the 17<sup>th</sup> century and continuing until late in the 18<sup>th</sup> century.<sup>8</sup> We believe it is important to realize that even though the wage and price data for early modern India is thin, it provides us with one of the few indicators of the condition of ordinary people and the aggregate economy that is easily compared across time. We believe a number of features of the transition of political authority from the Mughal empire to the successor states provide further evidence supporting an overall economic decline, and moreover one that resulted from reduced agricultural productivity. We find Christopher Bayly's view of 18<sup>th</sup> century north India particularly compelling, as it shows

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<sup>8</sup> The Broadberry-Gupta North India series does not have any data points between 1690 and 1874, though there is a substantial decline between those two years.

how urban prosperity coexists with aggregate agricultural decline (Bayly 1983).

As central Mughal authority waned, the state resorted increasingly to revenue farming, and the practice became even more widespread in the successor states. This served to raise the effective rent share to 50 percent or more, greater than the 40 percent maximum said to have been extracted by the Mughal state (Raychaudhuri 1983: 17; Bayly 1983, 10). “With revenue assessment geared to 50 per cent or more, in contrast to China’s 5 to 6 per cent, the Indian peasant had little incentive to invest labour or capital” (Raychaudhuri 1983: 17). The economics is familiar to development economists, economic historians, and observers of modern agrarian backwardness: The lower the share of output received by the peasant, the less incentive he has to be productive, to carefully monitor the crop, to invest in land, and to remain in place rather than fleeing. Scattered evidence suggests in some locations the rent burden may have been quite extreme (Bayly 1983, 42). In the Rohilla state north of Delhi, cultivators were stripped of their land rights entirely and reduced to direct dependence. Under the *savak* system in north Awadh, cultivators received as little as one sixth of the produce and their wives and children were required for *corvée* for a large part of the year. The Sayyids of Moradabad employed the *batai* system in which they “appropriated all 'save a bare subsistence' from the cultivators and invaded the villages for several months a year with bullock teams, armed retainers, and weighmen to secure the best portion of the crop.” Productivity must have suffered as a result of the increased rent burden. Tapan Raychaudhuri claims the grain prices “increased by 30 percent or more in the 1740s and 1750s” as a result (Raychaudhuri 1983: 6). There is no reason to believe that when the British became rulers of the successor states the revenue burden declined. Initially at least, British revenue officials

saw slack in the existing system more often than not, and increased the revenue burden.

Rulers of the successor states also engaged in territorial disputes, and it is possible the increased rent burden reflected military expenses. These wars drew key resources out of agriculture and also led to the destruction of capital.

“Endemic local warfare...and the collapse of local aristocracies had effects which were inimical to agricultural production...Cultivation was driven back from the roads by the passage of marauding armies who sometimes deliberately destroyed walls and irrigation tanks” (Bayly 1983, 70).

Areas at the edges of successor states were particularly prone to agricultural decline, perhaps because these were the areas most affected by territorial disputes, both between states and between local strongmen, who in remote areas were relatively free to plunder their neighbours. Bayly describes “large penumbras of agricultural decline, particularly in the northwest” (1983, 76). However, Bayly believes that increases in input prices were even more significant than the withdrawal of some areas from cultivation.

“More important, warfare withdrew both men and animals from agriculture...Recruitment into armies, the consolidation of population into defensive centres, and general migration...contributed to a patchy and local decline in cultivated area. Draught animals determined the extent of cultivation even more than human labour, and there is scattered evidence of a great dearth of animal power in north central India” (Bayly 1983, 70-1).

A dearth of animal power would certainly have led to less efficient cultivation techniques and increased prices. Cultivators who relied on the

bullocks owned by others would have been particularly vulnerable to fluctuations in their availability due to warfare. To cite an example, when Ahmed Shah Durrani invaded India from the northwest in 1759, bullock hire rates between Benares and Patna, a route nearly 600 km from the furthest extent of the fighting, increased by 500 percent (Bayly 1983, 68). This suggests the agricultural economy was operating on very inelastic regions of the supply and/or demand curves for these key inputs, which is suggestive of a shortage. Political fragmentation and warfare also disrupted India's major internal trade routes, and likely increased transport costs and insurance. Since most long distance transport was by bullock, the scarcity of bullock power resulting from warfare would have increased transport costs. Irfan Habib (2003) also presents fragmentary evidence that insurance rates may have gone up during the 18<sup>th</sup> century.

We therefore find Holwell's claim that the dissolution of the Mughal empire led to "a scarcity of grains in all parts, [and] the wages of labour [were] greatly enhanced" as credible, even if other aspects of the traditional view of 18<sup>th</sup> century India have been discredited (Holwell 1766-1767, cited in Raychaudhuri 1983: 6). This presumed rise in nominal wages would have slowly eroded the long-standing source of Indian 17<sup>th</sup> and 18<sup>th</sup> century competitiveness in foreign textile markets, long before Britain flooded those markets with factory-made products, and declining agricultural productivity in India must have been at the heart of it. After 1800, Indian "textile exports ... could not withstand the competition of English factory-produced cottons in the world market" (Moosvi 2002: 341).

Even if we had good data on Indian employment and output in the 18<sup>th</sup> century, deindustrialization effects could be hard to see because between 1772 and 1815 there was a huge net financial transfer from India to Britain in the form of Indian goods. The "drain resulting from contact with the West

was the excess of exports from India for which there was no equivalent import” (Furber 1948: 304), including “a bewildering variety of cotton goods for re-export or domestic [consumption], and the superior grade of saltpeter that gave British cannon an edge” (Cuenca Esteban 2001: 65). Indian textiles were at this time an important vehicle by which Britons repatriated wealth accumulated in India to England, increasing demand for them. Javier Cuenca Esteban estimates these net financial transfers from India to Britain reached a peak of £1,014,000 annually in 1784-1792 before declining to £477,000 in 1808-1815 and -£77,000 in 1816-1820 (Cuenca Esteban 2001: Table 1, line 20). However, at their peak in 1784-1792, these net Indian transfers still amounted to less than 2 percent of British industrial output (Deane and Cole 1967: Table 37, 166, using 1801 “manufacture, mining, building”). As a share of Indian industrial output, these net transfers were probably about the same.<sup>9</sup> Thus, while a secular fall in the “drain” after the 1784-1792 peak must have served to speed up the pace of deindustrialization in early 19<sup>th</sup> century India by reducing demand for Indian textiles, the effect could not have been big. There must have been other fundamentals at work that mattered far more.

Around the beginning of the 19<sup>th</sup> century, the fundamental economic dynamic underlying deindustrialization in India changed from agricultural productivity decline taking place at home to globalization shocks induced by events abroad. Globalization is the most popular explanation for India’s deindustrialization in the literature, and is an important component of the historiography of colonial India constructed by the Indian nationalists. For example, Jawaharlal Nehru’s classic *Discovery of India* (1947) argued that

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<sup>9</sup> Maddison (2001: 184 and 214) estimates that in 1820 the GDP of the India (including present-day Bangladesh and Pakistan) was about three times that of the United Kingdom,

India became progressively ruralized in the 19<sup>th</sup> century owing to the destruction of artisanal employment by British factory-made goods. Nehru laid the blame squarely on colonial economic policy, which almost entirely eschewed tariff protection and did nothing to help nurture Indian industry (Nehru 1947: 247-53). Similar arguments can be found in the work of the 19<sup>th</sup> century nationalist Dadabhai Naoroji, the pioneering Indian economic historian R.C. Dutt, and the Marxist historian D.D. Kosambi. The economic logic underlying the deindustrialization-through-globalization hypothesis is that rapid productivity advance in European manufacturing—led by Britain—lowered the relative price of textiles, metal products and other manufactures in world markets. The European industrial leaders shared those productivity gains with the rest of the world as augmented world supplies of manufactures lowered world prices. Having defeated India in its export markets, “after 1813 Lancashire invaded India as well” (Moosvi 2002: 341). Cheap British factory-made yarn and cloth took away India’s local market from her own producers. India experienced deindustrialization over the half century following 1810 due to terms-of-trade shocks in its favour. The relative price impact of the unbalanced productivity performance is best illustrated by trends in Britain’s terms of trade. According to Albert Imlah, they fell by 40 percent over the four decades between 1801-1810 and 1841-1850 (Mitchell and Deane 1962: 331). That is, the price of British exports (manufactures) fell dramatically compared with that of its imports (industrial intermediates, food and other primary products). India’s textile producers—already well integrated into the world textile market—faced a big negative price shock on that score alone. Failing to keep up with the factory-based productivity growth achieved abroad, the Indian textile industry took the price

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but the industrial share must have been a lot smaller in India. The text assumes that these offsetting forces were roughly comparable.

hit, became less profitable, and deindustrialization ensued. As if this were not enough, the foreign-productivity-induced negative price shock was reinforced by another powerful global event. Trade barriers between India and her foreign markets declined, particularly due to the transport revolution (Shah Mohammed and Williamson 2004) but also due to tariff policy. The relative supply price of manufactures in India was driven down still further, and it was driven down even more compared with Indian exports, since overseas transport improvements served to raise export prices in the home market. These world market integration trends served to create “Dutch disease” effects in India: The import-competing sectors slumped, the export sectors boomed, and deindustrialization was reinforced.

The decline in world textile prices caused by British productivity advance made textile production in India less attractive relative to Britain. It also contributed to a shift in the terms of trade between India’s own textiles and agricultural commodity export sectors, a shift reinforced by booming world demand for Indian agricultural commodities. This shift alone would have caused a decline in the relative employment in textiles. The most important agricultural commodities for India in the first half of the 19<sup>th</sup> century were opium, raw cotton, raw silk, and sugar, and they were a growing fraction of India’s exports. By 1811, they accounted for 57 percent of India’s exports by value compared to 33 percent for cotton piecegoods (Chaudhuri 1983). The role played by the terms of trade in reallocating resources to commodity agriculture is noted in the literature on the commercialization of Bengali agriculture in the late 18<sup>th</sup> century (Chowdhury 1964), but it has not yet been a part of the deindustrialization debate.

In sum, our view is that the long run sources of India’s deindustrialization were both the globalization price shocks due to European productivity advance in manufacturing (and the induced demand for



industrial intermediates such as cotton and indigo) plus the negative productivity shocks to Indian agriculture induced by the earlier Mughal decline.<sup>10</sup> We do not see these foreign and domestic effects as competing. They were both at work, and they reinforced each other, although each had its most important influence in different epochs.

### **3. Measuring India's Deindustrialization. Inputs, Outputs, and Deindustrialization**

Despite its importance for Indian historiography, there have been only four attempts to measure India's 19<sup>th</sup> century deindustrialization experience owing to the dearth of statistical sources. We believe we are the first to apply relative price evidence to the deindustrialization question, and by doing so the first to offer evidence, tentative though it may be, about deindustrialization in the 18<sup>th</sup> century. Tirthankar Roy (2000) offers a useful survey of the existing evidence, starting with this big fact: It seems likely that the share of the work force engaged in industry was quite a bit higher in 1800 (probably 15-18 percent) than it was in 1900 (about 10 percent). In the strictest sense, therefore, *strong deindustrialization* appears to have taken place over the 19<sup>th</sup> century. However, the literature insists on some qualifications to this big deindustrialization fact. First, many workers who gave up industry over the century were working only part-time. Second, the import of machine-made goods only helps explain the demise of textiles. Third, while there was a fall in textile employment, there was a rise in employment in indigo, opium, and saltpeter. Finally, cheaper imported cloth

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<sup>10</sup> Peter Harnetty would appear to agree, although he was speaking of the Central Provinces in the 1860s, after our century of interest starting roughly with 1750. Harnetty

would have benefited consumers. All of these qualifications make good sense.<sup>11</sup>

The first evidence supporting strong deindustrialization was offered more than a half century ago by Colin Clark (1950). Clark published tabulations of the 1881 and 1911 Census of India showing that the share of the Indian workforce in manufacturing, mining, and construction declined from 28.4 to 12.4 percent from 1881 to 1911, implying dramatic deindustrialization in the late 19<sup>th</sup> century. Daniel Thorner (1962) re-examined the Census data and convincingly argued that the tabulations used by Clark were misleading. His revised estimates show that the sectoral employment structure was stationary after 1901, with only a very small decline in male non-agricultural employment between 1881 and 1901. Thorner used these revisions to convincingly make two important points: first, if there was a major shift out of industry and into agriculture, it occurred before 1881, not after; and second, if deindustrialization occurred after 1881, it was on a very modest scale, and all of it took place before 1901.

The third attempt to measure deindustrialization looks to the early 19<sup>th</sup> century, closer to the years which anecdotal evidence has always suggested were those of most dramatic deindustrialization.<sup>12</sup> Amiya Bagchi (1976a,

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says (1991: 460): “The combination of high food prices and cheap cloth imports had a depressing effect on the local industry.”

<sup>11</sup> The literature also argues that cheaper imported yarn would have reduced the production costs facing handloom weavers, thus making them more competitive. Since cheaper European factory-produced yarn would have lowered the production costs not just for Indian handloom weavers but for weavers the world around, it is not clear how this made Indian weavers more competitive with imported cloth.

<sup>12</sup> Among the most well known examples is the powerful image quoted by Karl Marx in *Das Kapital*: “The misery hardly finds a parallel in the history of commerce. The bones of the cotton-weavers are bleaching the plains of India” (1977[1867], vol. 1: 558). Marx attributed this quote to the Governor-General of India in 1834-1835, who was Sir William Bentinck. However, Morris D. Morris has pointed out that the quoted words do not appear in Bentinck’s report of that year or in his papers (Morris 1969, 165, n.152). The true source of this first report of deindustrialization remains a mystery.

1976b) examined evidence on handloom spinning and other traditional industry in Gangetic Bihar, an area of eastern India, collected between 1809 and 1813 by the East India Company surveyor Dr. Francis Buchanan Hamilton.<sup>13</sup> Bagchi compared Hamilton's data with the 1901 Census estimates of the population dependent on industry for the same area. His findings are presented in Table 1. The population dependent on industrial employment requires an estimate of family size, and Bagchi makes two estimates using alternative assumptions. Under Assumption A, each spinner supports only him or herself, and under Assumption B, each spinner also supports one other person. Under both assumptions, non-spinners are assumed to support the survey's modal family size (five). He also removes commercial workers from the 1901 data to make them consistent with the 1809-13 data. Spinners in Gangetic Bihar were almost exclusively women who spun in the afternoons (Dutt 1960: 232-5). Hamilton's estimates show that women earned about Rs. 3.25 annually at spinning, while a male day labourer who worked 200 days would earn about Rs. 8 annually, all of which suggests that Assumption B is more likely to be true. In either case, Bagchi's evidence suggests a substantial decline in the industrial employment share during the 19<sup>th</sup> century from more than 21 percent to less than 9 percent. When the Bagchi and Thorner evidence is combined, it suggests that most of the deindustrialization took place in the first half of the century.

While the employment share in "other industrial" occupations fell over the century as well, it is important to note that the largest component of deindustrialization was the decline of cotton spinning.<sup>14</sup> Table 2 rearranges Bagchi's original numbers, making the contribution of cotton spinning to

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<sup>13</sup> Hamilton spent nearly \$20 million (2005 US\$) on the survey, and his information appears to be of high quality (Martin 1838).

overall deindustrialization more transparent. Of the 12.7 percent of the population that depended on cotton weaving and spinning in 1809-1813, more than 80 percent depended on spinning. Since cotton spinning was performed part-time by women at home using extremely simple technology, it may seem implausible to argue that the demise of cotton spinning in the early 19<sup>th</sup> century destroyed India's platform for modern industrialization. Yet British economic historians assign the same importance to home-based cotton spinning: 17<sup>th</sup> and 18<sup>th</sup> century "proto-industrial" cottage industries are said to have supplied the platform for the factory-based British industrial revolution that followed in the late 18<sup>th</sup> century (Mokyr 1993: chps. 1-3). Furthermore, employment of women and children was central to the process then too (Mokyr 1993: chp. 1; De Vries 1994).

Finally, in an unpublished study reported by Habib (1985), Amalendu Guha calculated the amount of cotton yarn available for Indian handloom production by subtracting the quantity used in local machine production from total local yarn production and imports. The result documents a huge decline in yarn used for handloom production, from 419 million pounds in 1850, to 240 in 1870 and to 221 in 1900. This indirect evidence suggests that the decline in hand spinning documented for Gangetic Bihar in the early 19<sup>th</sup> century was widespread, that it was followed by a decline in hand weaving during the mid-century, and that the decline of both hand spinning and weaving was almost complete by 1870. These facts are consistent with Peter Harnetty's summary characterization of Indian handloom weaving in the 19<sup>th</sup> century:

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<sup>14</sup> The percent of industrial workers who were spinners fell from 82 to 15 between 1809-13 and 1901.

“At the opening of the century, the handloom weavers had supplied all the textile requirements of the country and had maintained a flourishing export trade, notably to Britain [e.g. re-exports]. This reached its peak in value in 1800 and in volume in 1802, thereafter, imports of Indian piece goods to Britain declined sharply in face of competition from the growing British cotton industry.” “From about 1840 ... British imports entered the [local] market in strength.” “At the turn of the [20<sup>th</sup>] century, India was absorbing more than 40 per cent of total British cloth exports to the world” (Harnetty 1991: 472).

As we have argued, the trouble actually started over the half century *before* the 1800 peak with Britain’s challenge to India’s dominant presence in foreign markets.

In 1982, Paul Bairoch used evidence similar to that reviewed above to assess deindustrialization not only in India, but across the non-European periphery. Table 3 reports Bairoch’s survey as it was retold by Colin Simmons (1985). In 1750, China and India together accounted for almost 57 percent of world manufacturing output, while India itself accounted for almost a quarter. By 1800, India’s world share had already eroded to less than a fifth, by 1860 to less than a tenth, and by 1880 to less than 3 percent. Bairoch’s investigation found that India’s share in world manufacturing output declined precipitously in the half century 1750-1800, *before* factory-led industrialization took hold in Britain and consistent with our hypothesis the deindustrialization took place in the 18<sup>th</sup> century. Furthermore, India’s experience was different than that of China or the rest of the periphery. Between 1750 and 1830 India’s world manufacturing output share dropped by 6.9 percentage points from a base of 24.5 percent, much bigger than the fall elsewhere (China lost 3 percentage points, and the rest of the periphery lost 2.6 percentage points). Bairoch’s data suggest that during the century before 1830, well before European factories flooded world markets with manufactures, India suffered much more pronounced deindustrialization

than did the rest of the periphery. This fact must be explained by conditions faced by India and not by the rest of the periphery, fully consistent with our agricultural productivity hypothesis.

World output shares can also change due to different rates of output growth across countries. The economic implications of faster growth abroad are much more benign than those of slow growth at home. Anticipating this criticism, Bairoch (1982: Tables 6 and 9) also documented that per capita levels of industrialization in India fell from an index of 7 in 1750 to 6 in 1830 and 2 in 1880. Since India's export share of total manufacturing output was small in 1750, the loss of its export trade does not show up as dramatic deindustrialization 1750-1830, but when Europe penetrates local markets after 1830, it certainly does. In addition, the loss of export trade is hidden by that second event: the declining long run fundamentals are obscured by the short run financial "drain" which increased the demand for Indian textiles, facilitating the real transfer of wealth from India to Britain.

### Real Wages and Deindustrialization

Models of deindustrialization such as that of Paul Krugman and Anthony Venables (1995) suggest that it should be accompanied by a long run decline in real wages. The evidence for 18<sup>th</sup> and 19<sup>th</sup> century India is not yet of high quality, but it does document a secular deterioration.

Parthasarathi (1998) argues that real wages in mid-late 18<sup>th</sup> century South India were comparable to those in the south of England, and thus that the rising living standard gap between the two was a late 18<sup>th</sup> and early 19<sup>th</sup> century phenomenon. Robert Allen (2001) uses Mughal manuscript sources to compute the real wage in 1595 Agra, then the capital of the Mughal empire, and compares it to that of 1961, based on a common market basket of consumer goods. Allen's evidence documents a fall in the real wage by

about 23 percent over those 366 years, and if Parthasarathi is correct, most of that fall must have taken place in the last 166 years. Anthropometric evidence on south Indian indentured workers confirms the view that living standards stagnated during the last half of the 19<sup>th</sup> century (Brannan et al. 1994). But perhaps the most telling evidence of real wage performance, *and its timing*, comes from Mukerjee (1939) and Broadberry and Gupta (2005), reproduced in Figure 1. Mukerjee reports 1600-1938 real wages in northern India of unskilled and skilled labour (nominal wage rates deflated by grain prices) starting with the same 1595 benchmark used by Allen. Broadberry and Gupta offer grain wages for both north and south India, with the most resolution in the 17<sup>th</sup> and 18<sup>th</sup> centuries. According to this evidence, by 1789 real wages had fallen 30-44 percent from their 1600 level. By 1875, real wages are at only 25-50 percent of the 1600 level.

This evidence suggests that the vast majority of the real wage and living standards fall took place before 1850, or even before 1825, not after. Was deindustrialization responsible for the fall, and were the deindustrialization forces more powerful before 1850, or even before 1807, than after? The sparse data on employment and output shares suggests deindustrialization was an important force in the Indian economy during the 19<sup>th</sup> century. This account can be supplemented and pushed back into the 18<sup>th</sup> century with (relatively) much richer relative price data, but before doing so we need to model the relationship between relative prices and deindustrialization.

#### **4. A Model of Deindustrialization**

In order to formalize our intuitions about the relationship between relative prices and deindustrialization, we develop a simple Ricardian model

that relies on the classic contribution of Ronald Jones (1971). Consider a perfectly competitive economy in which there are three sectors: textiles (T), grain (G), and agricultural commodity exports (C). Grain is not traded. Agricultural commodity exports include non-grain items such as opium, tea, indigo, jute, and raw cotton. Textiles and agricultural commodities are traded in the world market and sell for the world prices  $p_T$  and  $p_C$ , respectively. Labour (L) is mobile between all three sectors, is the only factor of production, and costs nominal wage  $w$  per unit. We abstract from capital and land for simplicity,<sup>15</sup> but in any case we do not need them to make our point.

To create a link between agricultural productivity and wages in the textile sector, which we believe was a key driver in India's loss of competitiveness in the 18<sup>th</sup> century world textile market, we follow Lewis (1954, 1978) in assuming that the real wage in grain units is constant. This reflects the Malthusian assumption that in a poor country the supply of labour will be unlimited as long as the wage assures subsistence. Any lower wage leaves labourers unable to sustain the physical capacity for work. The Lewis assumption implies the possibility of unemployment, so  $L$  represents employment rather than the population, which we denote by  $P$ .

Suppose output in each sector is produced according to a Cobb-Douglas production function:

$$Y_G = GL_G^\alpha \tag{1}$$

$$Y_C = CL_C^\beta \tag{2}$$

$$Y_T = TL_T^\gamma \tag{3}$$

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<sup>15</sup> For our period, reliable information on these factors and their returns are difficult to obtain for India.



$G$ ,  $C$ , and  $T$  are technology parameters and the elasticities  $\alpha$ ,  $\beta$ , and  $\gamma$  are all less than 1.<sup>16</sup> The labour market is such that each individual will supply one unit of labour as long as the grain wage  $w/p_G$  is at or above the reservation price of 1. We assume that there is no rationing of labour, so that  $L = L_G + L_C + L_T < P$ . Perfect competition in each sector ensures through zero-profit conditions that labour demand will be given by:

$$L_G = (p_G G/w)^{(1/1-\alpha)} = G^{(1/1-\alpha)} \quad (4)$$

$$L_C = (p_C C/w)^{(1/1-\beta)} \quad (5)$$

$$L_T = (p_T T/w)^{(1/1-\gamma)} \quad (6)$$

If we assume that there is no technical change, the growth rates of labour demand are

$$L_G^* = 0 \quad (7)$$

$$L_C^* = -(1/1-\beta)(w^* - p_C^*) \quad (8)$$

$$L_T^* = -(1/1-\gamma)(w^* - p_T^*) \quad (9)$$

Since the nominal wage is equal to the price of grain, employment in the grain-producing sector is fixed. Growth in the own wage in either commodity agriculture or textiles leads to a decline in the absolute number of workers employed there. Thus, *strong deindustrialization results from an increase in the own wage in textiles*. The own wage in either sector could increase due to a decline in the world price for its output. It could also

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<sup>16</sup> Constraining the elasticities to be less than one ensures that labour demand is finite. It also implies decreasing returns to scale. Adding specific factors to each sector would allow for constant returns, but would not change the intuitions we wish to draw from the model.

increase if the price of grain rose, for example from a negative productivity shock in agricultural production.

The growth rate of the share of textile workers in total employment, our measure of *weak deindustrialization*, is:

$$L_T^* - L^* = \frac{-1}{(1-\beta)(1-\gamma)} \left( \left[ (1-\beta)(1-\theta_{TL})(w^* - p_T^*) \right] - \left[ (1-\gamma)\theta_{CL}(w^* - p_C^*) \right] \right) \quad (10)$$

The shares of textiles and commodity agriculture in total employment are given by  $\theta_{TL}$  and  $\theta_{CL}$ , respectively. Thus, *weak deindustrialization will result whenever the own wage in textiles is growing sufficiently fast compared to the own wage in agricultural commodity exports*. Moreover, holding employment shares constant, weak deindustrialization will be most severe when the difference in own wage growth rates is largest. More formally, the condition that must be satisfied for weak deindustrialization is

$$w^* - p_T^* > \frac{(1-\gamma)\theta_{CL}}{(1-\beta)(1-\theta_{TL})} (w^* - p_C^*) \quad (11)$$

Given that both commodity agriculture and textile sectors are small shares of total employment in late 18<sup>th</sup> and early 19<sup>th</sup> century India, the ratio on the right-hand side is likely to be less than one.<sup>17</sup> This implies that own wage growth in agricultural commodity exports would have to be even higher to counteract the weak deindustrialization effect of own wage growth in textiles. In short, we expect to see weak deindustrialization whenever own wage growth in textiles is positive, unless own wage growth in agricultural

commodity exports is much greater. Own wage growth in agricultural commodity exports dampens the weak deindustrialization effect because it reduces  $L_C$ , which is in the denominator of our weak deindustrialization measure. As the share of the labour force employed in agricultural commodities increases, the greater growth in the own wage in textiles needs to be to overcome growth of the own wage in agricultural commodities and for deindustrialization to ensue. We can also rewrite condition (11) to relate nominal wage growth to the terms of trade between textiles and commodity agriculture.

$$\frac{(1-\gamma)\theta_{CL} + (1-\beta)(1-\theta_{TL})}{(1-\beta)(1-\theta_{TL})} w^* > p_T^* - p_C^* \quad (11')$$

Weak deindustrialization results when nominal wage growth, which deters production in both non-grain sectors, is sufficiently greater than the growth of the terms-of-trade favouring textiles, which encourages production in textiles over agricultural commodities. Thus, *weak deindustrialization should have been most severe when nominal wage growth was strongest and when the terms of trade were shifting most strongly in favour of agricultural commodities.*

In summary, the predictions of the model are: *strong deindustrialization*, defined as a decrease in  $L_T$ , will result if the own wage in textiles increases; and *weak deindustrialization*, defined as a decrease in  $L_T/L$ , will result if own wage growth in textiles increases sufficiently faster than the own wage growth in agricultural commodities.

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<sup>17</sup> For example, let  $\beta = \gamma$  and following Table 2 set  $\theta_{TL} = 0.15$ . If we assume  $\theta_{CL} = 0.1$ , then the ratio is 0.12. For strong deindustrialization to occur, own wage growth in textiles must

## **5. The Terms of Trade, Relative Prices, and the Own-Wage in Manufactures 1750-1913**

We divide the Indian deindustrialization experience over the century and a half between about 1750 and 1913 into three distinct epochs. Our interpretation of the fundamentals explaining deindustrialization within each of these epochs implies predictions regarding changes in Indian relative prices.

The first epoch, approximately 1750-1810, was one during which India lost its significant share of world textile markets to Britain. What was an important export sector in India at the beginning of the epoch became an important import-competing sector at the end. While that result can be explained by increasing cost competitiveness favouring Britain, superior factory technology was not yet the main force at work. Instead, we believe that it was reduced agricultural productivity in India that mattered in this epoch. Grain prices rose and thus—in a relatively stable real wage subsistence economy where grain was the key consumption good—pushed up nominal wages economy-wide. Hence, the own wage rose in both tradable sectors, textiles and commodity production, damaging cost competitiveness there.<sup>18</sup> Textiles would thus experience strong deindustrialization. To the extent that the price of textiles relative to commodities fell, the effect of reduced agricultural productivity would have fallen more heavily on textiles than commodities, a weak deindustrialization effect.

The second epoch, approximately 1810-1860, was one during which India lost much of its domestic textile market to Britain. This result can be

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be about 0.12 times greater than own wage growth in agricultural commodities.

explained by the combined influence of relatively rapid factory-based productivity advance in Britain and by increased world market integration, the latter driven by declining transport costs between the two trading partners, and to a free trade commitment for India on the part of her colonial rulers. The terms of trade moved to favour India and hurt her import competing manufacturing sector. The effects of the economic difficulties of the 18<sup>th</sup> century were pretty much over, and the induced decline in Indian grain productivity had ceased.

The third epoch, approximately 1860-1913, was one during which the rate of deindustrialization slowed down and eventually reversed. Late in the epoch, India was “reindustrializing.” This result can be explained by the subsidence in both the unbalanced productivity advance favouring European manufacturing and in the world transport revolution. The terms of trade no longer moved in India’s favour and thus no longer served to penalize import competing manufacturing.

These predictions are largely confirmed by our new relative price and terms-of-trade evidence, which we plot in Figures 2-6. A full description of how we constructed the data can be found in the Appendix. The analysis which follows will focus on the first two epochs, when deindustrialization was dramatic.

Let us first consider strong deindustrialization across the first two epochs combined, recalling that strong deindustrialization is defined as an absolute decline in the industrial workforce, driven in our model by the own wage. Figure 2 documents that between 1765 and 1810 the price of textiles relative to grains fell at a spectacular rate: by 1805-1810, it was only 25

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<sup>18</sup> If this formal “cost competitiveness” and “own-wage” language seems awkward when applied to household spinners and weavers, think instead of the grain that could be bought with nominal earnings in those households.

percent of its 1765-1770 level. The decline continued after 1810, but at a much slower rate. Why the spectacular fall in  $p_T/p_G$  in the late 18<sup>th</sup> century, especially compared with the early 19<sup>th</sup> century? The answer is that grain prices, while volatile in the short run, soared upwards in the long run. However, this did not serve to reduce real wages ( $w/p_G$ ). Figure 1 shows that grain wages appear to have been largely stable during the last half of the 18<sup>th</sup> century.<sup>19</sup> Figure 3 presents the grain wage using an alternative series of grain prices and confirms this claim for roughly the same years, between the 1720s and the 1810s. Nominal wages were thus driven up along with grain prices.

While there was great short-run volatility in the grain wage, a Lewis-like assumption about long run real wage stability seems to be reasonable for the first epoch. As a result, the own-wage in Indian manufacturing (Figure 4:  $w/p_T$ ) more than doubled between 1765 and 1810. Since there is no qualitative evidence suggesting significant productivity advance in Indian textiles and other manufacturing production during this epoch,<sup>20</sup> we take this evidence as powerful support for the thesis that reduced agricultural productivity attendant on the dissolution of Mughal hegemony can indeed explain much of India's pre-1810 deindustrialization and loss of world markets. India lost much of its cost competitiveness as the own-wage in home manufacturing underwent that spectacular rise, and it was the rise in the price of non-tradable grains that pushed the nominal wage up to such high levels. Most of the secular rise in grain prices stopped after around 1810, and the upward pressure on nominal wages began to ease. Thus, conditions in the grain sector stabilized a bit in the second epoch, and the

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<sup>19</sup> Note that Broadberry and Gupta's north India grain wage series contains no data points between 1690 and 1874, so it is impossible to discern trends within the 18<sup>th</sup> century from it.

fall in  $p_T$  dominated deindustrialization conditions in Indian manufacturing. The relative price  $p_T/p_G$  fell (Figure 2), the own-wage  $w/p_T$  rose (Figure 4), and deindustrialization continued – but now driven mainly by exogenous world market forces.

Now let us consider weak deindustrialization across the first two epochs, recalling that it will be more intense when the own-wage in textiles is growing faster *and* when the intersectoral terms of trade is shifting most strongly in favour of agricultural commodities. Figure 4 shows  $w/p_T$  doubling between 1770 and 1810 and more than doubling between 1810 and 1850. Thus, own-wage growth was slightly stronger in the second epoch. Conversely, the terms of trade shift appears to be strongest in the first epoch. Figure 6 documents India's external terms of trade from 1800. It shows two big spikes in the second epoch, the first over the decade of the 1810s and the second over the decade of the 1850s. When the series is smoothed, the measured trend in the terms of trade favouring India (and thus penalizing the import competing sector) is very modest. In contrast, during the first epoch the intersectoral terms of trade between textiles and agricultural commodities (Figure 2:  $p_T/p_G$ ) underwent a very sharp decline. By 1810 it was only 20 percent of its 1780 level, causing lost agricultural productivity to fall *much* more heavily on textiles than on agricultural commodities during that period. Indeed, the own wage in agricultural commodities actually fell during this period (Figure 4:  $w/p_G$ ). This pattern suggests that strong deindustrialization may well have been greater in the first epoch than in the second. In the first epoch, labour left textiles due to labour's demand for nominal higher wages and to a strong shift in the terms of trade favouring agricultural commodity exports and disfavouring textiles,

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<sup>20</sup> In any case, since agriculture was so huge, it must have dominated nation-wide labour scarcity conditions, not just those in manufacturing.

while in the second epoch labour left mainly due to falling world textile prices.

If we take the own-wage in manufacturing as a critical indicator of cost competitiveness, and if England was India's main competitor in world markets, we can compare trends in the own-wage in textiles between the two as an indicator of relative productivity change. We must be cautious here, since a measured increase in the ratio of Indian to English  $w/p_T$  will understate the role of own-wage inflation to the extent that English productivity growth performance was superior to India even before the great factory boom. Our source for England is Gregory Clark (2004: Table 6 for nominal wages; Table 4 for grain and clothing prices), whose data allow us to construct the price of clothing relative the grain ( $p_T/p_G$ ) 1705-1845 and the own-wage in textiles ( $w/p_T$ ). Figure 5a plots an index of the ratio of English  $p_T/p_G$  to Indian  $p_T/p_G$ . The Indian series uses five-year averages due to the volatility of  $p_G$  in India, and thus starts in 1770, the end of the first half-decade for which we have data. The price of textiles relative to grains fell in both economies 1765-1845, but it fell *five times faster* in India due to the much bigger  $p_G$  boom there. The index of British relative to Indian  $p_T/p_G$  rose from 100 in 1775 to 172 by 1810, and again to 313 by 1845. Grain prices rose almost four times faster in India than England, an event which we argue put greater upward pressure on wage costs in India than England, thus lowering the English own-wage in textiles relative to India. Indeed, the ratio of  $w/p_T$  in England relative to India fell from 100 in 1775, to 55 in 1815, and to 23 in 1845, as shown in Figure 5b. More than half of that century fall was completed by 1805, before the great flood of factory-produced textiles hit Indian markets in the second deindustrialization epoch. But even after 1810, it appears that some part of Indian deindustrialization was explained by poor productivity performance in grains: after all,  $p_T$  was pretty much equalized



between India and Britain, so the faster decline in India's  $p_T/p_G$  implies a poorer productivity performance in grains there, and perhaps even compared with the rest of the periphery. If we had Indian data for 1705-1765, we think it would extend these trends backwards. After all, the English  $p_T/p_G$  declined only modestly between 1705 and 1765,<sup>21</sup> and  $w/p_T$  hardly changed at all. Our guess is that  $p_T/p_G$  fell sharply in India given that  $p_G$  about doubled between 1704-1706 and 1764-1766. This added evidence seems to point to reduced agricultural productivity with roots in the decline of the Mughal empire as the central cause of Indian deindustrialization in the 18<sup>th</sup> and even in the early 19<sup>th</sup> century.

## 6. Indian Relative Price Trends Compared with the Rest of the Periphery

Deindustrialization appeared everywhere around the 19<sup>th</sup> century periphery, and globalization plays a major role in each region's economic history narrative. Here we ask whether 19<sup>th</sup> century India faced a big or a small deindustrializing global price shock compared with other parts of the periphery. If India's global price shock was small, it follows that domestic supply-side deindustrialization forces were relatively important in India compared to other parts of the periphery.

Figure 6 shows that India underwent a significant improvement in its terms of trade from 1800 to the mid-1820s, followed by a collapse, and then a significant rise again up to the early 1860s. Over the half century between 1800-1804 and 1855-1859, India's terms of trade rose only 28.6 percent, or less than 0.5 percent per annum. In contrast, the Egyptian terms of trade

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<sup>21</sup> Furthermore, the English terms of trade *rose* over those sixty years (Mitchell and Deane 1962: Table 14, 330).

rose by two and a half times between 1820-1824 and 1855-1859, or 2.7 percent per annum (Figure 7); the Ottoman terms of trade increased by two and a half times between 1815-1819 and 1855-1859, or 2.4 percent per annum (Figure 8); and the Latin American terms of trade increased by 1.7 times between 1820-1824 and 1855-1859, or 1.7 percent per annum (Figure 9).

In short, it appears external price shocks facing India were quite modest compared to the rest of the periphery.<sup>22</sup> Yet, Indian historians discuss deindustrialization more than do historians of other poor periphery regions. This suggests that domestic supply side conditions played a far more important role in accounting for deindustrialization in India than elsewhere.

## **7. Conclusions**

India deindustrialized between 1750 and 1860, and two main epochs, with very different deindustrialization causes, distinguish that century. The first epoch runs from about 1750 to 1810 and was an indirect result of the dissolution of the Mughal empire. As central authority waned, revenue farming expanded, the rent burden increased, warfare raised the price of agricultural inputs, and regional trade within the sub-continent declined, all serving to drive down the productivity of foodgrain agriculture. Grain prices rose, and given that ordinary workers lived near subsistence, the nominal wage rose as well. As a consequence, the own-wage in Indian textile manufactures increased, hurting India's competitiveness in the export

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<sup>22</sup> Terms of trade increases up to the 1860s were also much bigger for Indonesia, Italy and Spain. In addition, after the 1840s their increase was much bigger for Japan and the Mideast (Williamson 2005).

market. India thus lost ground to Britain in the world textile market during a period when most British production was still carried out using the cottage system. Additionally, the intersectoral terms of trade moved against textiles, encouraging a shift to agricultural commodity production. India's share of world industrial production fell faster than in any other part of the non-European world. During the second epoch, running from roughly 1810 to 1860, productivity advance resulting from the adoption of the factory system drove down the relative price of textiles world-wide, a trend that was magnified in India as a world transport revolution lowered the price of textiles even further everywhere in the periphery. Thus, while the productivity of Indian agriculture stopped its decline during this period under the relative security of Company rule, and while the rise in grain prices slowed down and then stabilized, the *relative* price of grain continued to rise. By 1860, India had completed a century-long two-part transition from being a net exporter to a net importer of textiles. A secular rise in the terms of trade stopped, turned around, and started a long run fall that lasted until the late 1930s. A deterioration in the terms of trade meant that the import competing sector (textiles) was no longer being penalized by unfavourable external price shocks. By the late 19<sup>th</sup> century, India's deindustrialization was over, and the country began a period of slow reindustrialization.

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## Appendix: The Data

Wages Nominal wage series for India come from R. Mukerjee (1939), *The Economic History of India: 1600 -1800* (London: Longmans, Green and Company) and S. Broadberry and B. Gupta (2005), "The Early Modern Great Divergence: Wages, Prices, and Economic Development in Europe and Asia, 1500-1800," *CEPR Discussion Paper No. 4947*, Centre for European Policy Research, London (February). They reflect conditions in North India and South India. Linear interpolation was used to produce annual estimates from the data.

Grain Prices The grain price index incorporates data from several locations for four key foodgrains in India: bajra, jowar, rice, and wheat. The index takes an un-weighted average across all locations and all grain price quotes available for any given year. The sources are as follows. Prices of bajra, jowar, and wheat 1700-1750 from the Amber region (near present day Jaipur) are from S. Nurul Hasan, K.N. Hasan, and S.P. Gupta (1987), "The Pattern of Agricultural Production in the Territories of Amber (c. 1650-1750)," in S. Chandra (ed.), *Essays in Medieval Indian Economic History* (Delhi: Munshiram Manoharlal Publishers). Wheat prices at Delhi 1763-1835, rice prices at Madras 1805-1850, wheat and jowar prices at Pune 1830-1863, and wheat, jowar, and bajra prices at Agra City 1813-1833 are from A. Siddiqi (1981), "Money and Prices in the Earlier Stages of Empire," *Indian Economic and Social History Review* (vol. 18, nos. 3-4, 231-262). Prices of bajra, jowar, and wheat quoted at Pune 1795-1830 are from V.D. Divekar (1989), *Prices and Wages in Pune Region in a Period of Transition, 1805-1830 A.D.* (Pune: Gokhale Institute Monograph No. 29, Gokhale Institute of Politics and Economics). Rice and wheat prices at Fatehpur (in present-day Uttar Pradesh) for 1830-1850 come from C. W. Kinloch (1852), *Statistical*

*Report of the District of Futtehpore, July 1851* (Calcutta: F. Carbury). Wheat and rice prices at Cawnpore (present-day Kanpur) for 1823-1846 are from Sir Robert Montgomery (1849), *Statistical Report of the District of Cawnpore* (Calcutta: J.C. Sherriff). The price of rice at Calcutta 1712-1760 is from K.N. Chaudhuri (1978), *The Trading World of Asia and the English East India Company* (Cambridge: Cambridge University Press). Rajan Datta (2000), *Society, Economy, and Market: Commercialization in Rural Bengal c. 1760-1800* (New Delhi: Manohar) provided G. Herklott's series of the price of common rice in lower Bengal from 1700-1800, first published in *Gleanings in Science* (1829), and W.B. Bayley's coarse rice series for the Birbhum and Burdwan districts of Bengal 1784-1813, first published in *Asiatick Researches* (1816).

Textile Prices The bulk of the 18th and 19th century Indian manufacturing sector was involved in producing cotton textiles. Our textile price series 1765-1820 is constructed by taking the un-weighted average of the import prices of muslin and calico piece goods reported at London and collected by Javier Cuenca Esteban (underlying his "The British balance of payments, 1772-1820: India transfers and war finance," *Economic History Review* LIV February 2001: 58-86, and sent to us by the author). Since these manufactured goods had high value relative to their bulk, transport costs were a small fraction of their selling price in London by the late 18<sup>th</sup> century. The 1820-1850 India textile price series is taken to be the price of cotton piece goods reported in D. B. and W. S. Dodd (1976), *Historical Statistics of the United States from 1790-1970* (University, Ala.: University of Alabama Press).

Export Commodity Prices The five key export commodities produced in India during most of the 19<sup>th</sup> century were indigo, raw silk, raw cotton, opium, and sugar. Our export commodity price index was created by weighting the

prices of these five commodities by their export shares as reported in K.N. Chaudhuri (1983), "Foreign Trade and Balance of Payments (1757-1947)," in D. Kumar (ed.), *The Cambridge Economic History of India v.2* (Cambridge: Cambridge University Press), hereafter Chaudhuri. The Chaudhuri export shares only begin in 1811, and these (fixed) 1811 shares were used to weight prices in earlier years. Since 18<sup>th</sup> century price data for each of the five component commodities begins in different years prior to 1795, the export commodity price index weights the available prices by their 1811 export shares in a total export that includes only those commodities for which prices are available. Thus, the weights used in each year always add up to one. The coverage of the component series is as follows: indigo, 1782-1850; raw cotton, 1790-1850; raw silk, 1782-1850; opium, 1787-1850; sugar, 1795-1850. The indigo data is composed of British import prices of Indian indigo collected by Cuenca Estenban for 1782-1820 and for 1821-1850 British import prices of indigo in general from the microfilmed supplement to A. D. Gayer, W. W. Rostow, and A. J. Schwartz (1975), *The Growth and Fluctuation of the British Economy, 1790-1850* (Hassocks: Harvester Press), hereafter GRS, for 1821-1850. Raw cotton data are also British import prices of Indian cotton from Cuenca Estenban for 1790-1831 and British import prices of raw cotton in general from GRS for 1832-1850. Raw silk is composed of British import prices of Bengal silk from Cuenca Esteban for 1782-1820 and British import prices of raw silk in general from GRS for 1821-1850. Opium price data are taken from the Calcutta auction price of export opium recorded in Great Britain, Sessional Papers of the House of Commons (1895: vol. XLII), *Final Report of the Royal Commission on Opium, Part II Historical Appendices, Appendix B* 62-63 for 1787-1840 and from the average revenue yielded per chest of export opium found in J. Richards (2002), "Opium Industry in British India," *Indian Economic and*

*Social History Review* (vol. 39, nos. 2-3) for 1841-1850. Sugar prices for 1795-1820 are British import prices of Indian brown sugar from Cuenca Esteban and data for 1820-1850 are British import prices of sugar in general from GRS.

Terms of Trade The net barter terms of trade for India 1800-1913 are constructed two ways, labelled Chaudhuri (1800-1850) and BCW (1800-1913) in Figure 6. The export prices for both methods are the same. From 1800 to 1870, prices for cotton piece goods, raw cotton, raw silk, opium, indigo, and sugar are weighted by the export shares found in Chaudhuri. Individual commodity price series are as described above in the textile and commodity price sections. The import price component of the Chaudhuri terms of trade series was calculated using import shares found in Chaudhuri. Imports were bar iron, manufactured copper, raw wool, wine, cotton sheeting, and raw cotton, and their prices came from GRS, with the exception of cotton sheeting, which came from *Historical Statistics of the United States from 1790-1970*. The import price component of the BCW terms of trade series for 1800-1870 followed the method used in the BCW database, compiled by Jeffrey Williamson and his collaborators Chris Blattman and Michael Clemens. U.S. prices for textiles, metals, building materials, and chemicals and drugs are taken from the *Historical Statistics of the United States from 1790-1970* and are weighted using the fixed weights 0.55, 0.15, 0.075, and 0.075. The BCW terms of trade series is continued to 1913 by use of the India terms of trade series found in the BCW database and appendix. This 1870-1913 series, along with terms of trade series for Latin America, the Ottoman Empire, and Egypt, was first reported in Clemens and Williamson "Where did British Foreign Capital Go?" *NBER Working Paper 8028*, National Bureau of Economic Research, Cambridge, Massachusetts (December 2000) which has since been published as

“Wealth Bias in the First Global Capital Market Boom 1870-1913,” *Economic Journal* vol. 114 (April 2004): 311-44. The BCW appendix describes their construction and it is available from Williamson upon request.

Table 1

**Population Dependent on Industry In Gangetic Bihar**  
(in percent)

	<u>1809-1813</u>	<u>1901</u>
Assumption A	28.5	8.5
Assumption B	21.6*	8.5

**Source:** Bagchi (1976b): Tables 1-5.

**Note:** Under Assumption A, each spinner supports only him or herself, and under Assumption B, each spinner also supports one other person. Under both assumptions, non-spinners are assumed to support the survey’s modal family size (5).

\* Bagchi reports 18.6, but this appears to be a mistake. See the breakdown in Table 2.

Table 2

**Population of Gangetic Bihar Dependent on Different Occupations**  
(in percent)

	<u>1809-1813</u>	<u>1901</u>
Spinners	10.3	}1.3
Weavers	2.3	
Other Industrial	9.0	7.2
TOTAL	21.6*	8.5

**Source:** Bagchi (1976b): Tables 1-5.

\* Bagchi reports 18.6%, but this appears to be a mistake.

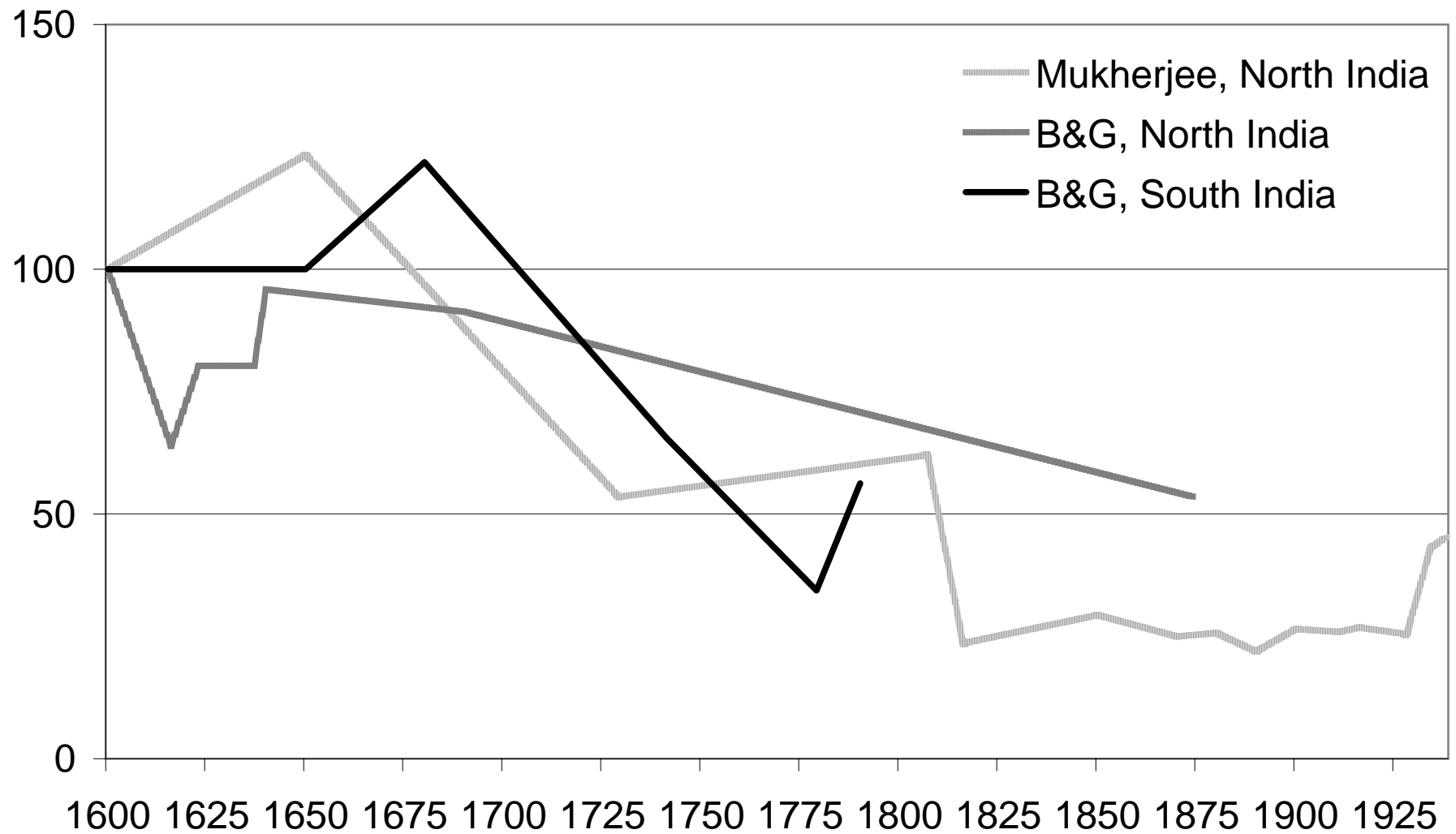
Table 3

<b>World Manufacturing Output 1750-1938</b>				
(in percent)				
<u>Year</u>	<u>India</u>	<u>China</u>	<u>Rest of the Periphery</u>	<u>Developed Core</u>
1750	24.5	32.8	15.7	27.0
1800	19.7	33.3	14.7	32.3
1830	17.6	29.8	13.3	39.5
1880	2.8	12.5	5.6	79.1
1913	1.4	3.6	2.5	92.5
1938	2.4	3.1	1.7	92.8

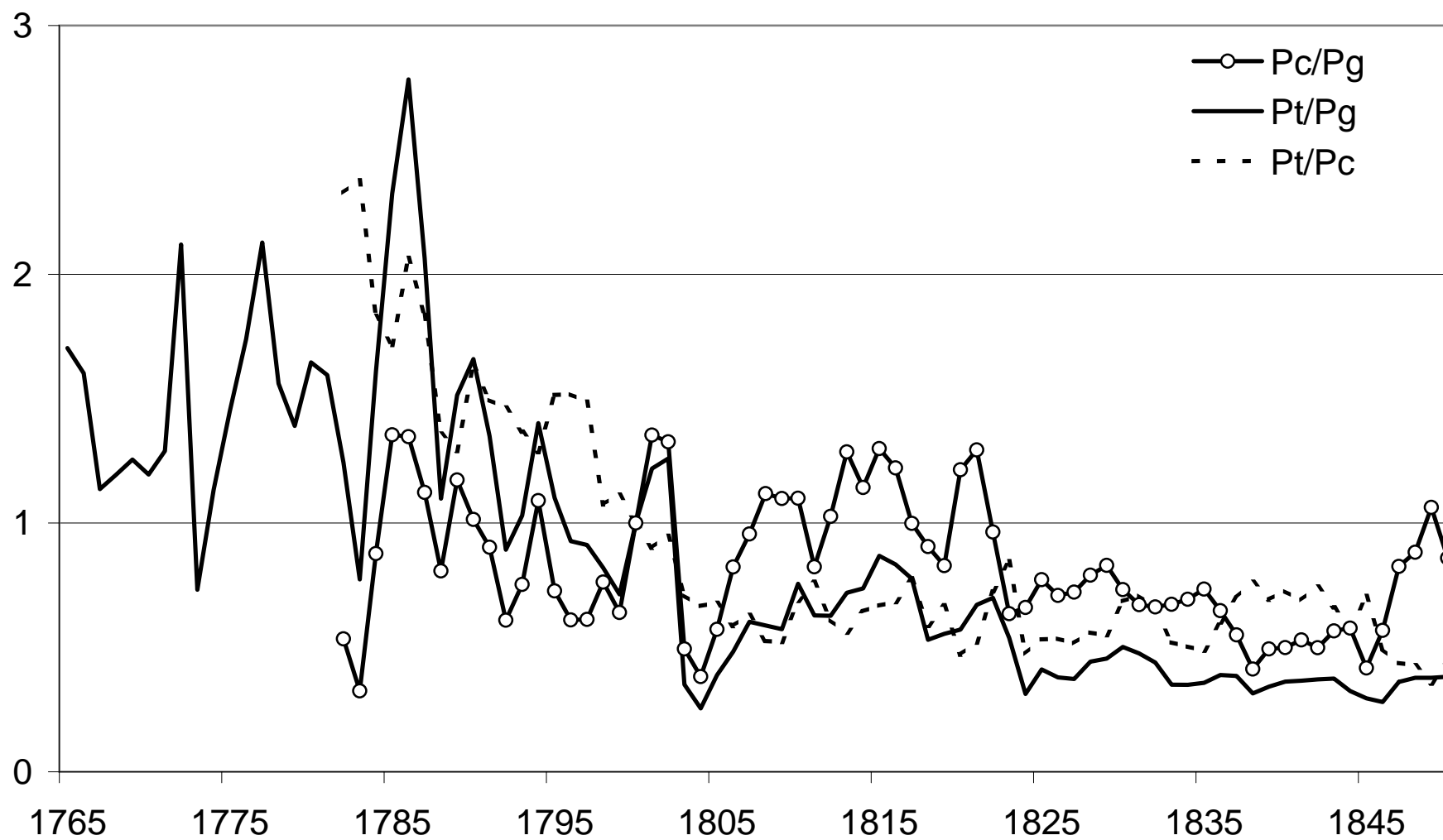
**Source:** Simmons 1985, Table 1, p. 600, based on Bairoch 1982, Tables 10 and 13, pp. 296 and 304.

**Note:** India refers to the entire subcontinent.

**Figure 1**  
**Grain Wages in India 1600-1938 (1600=100)**

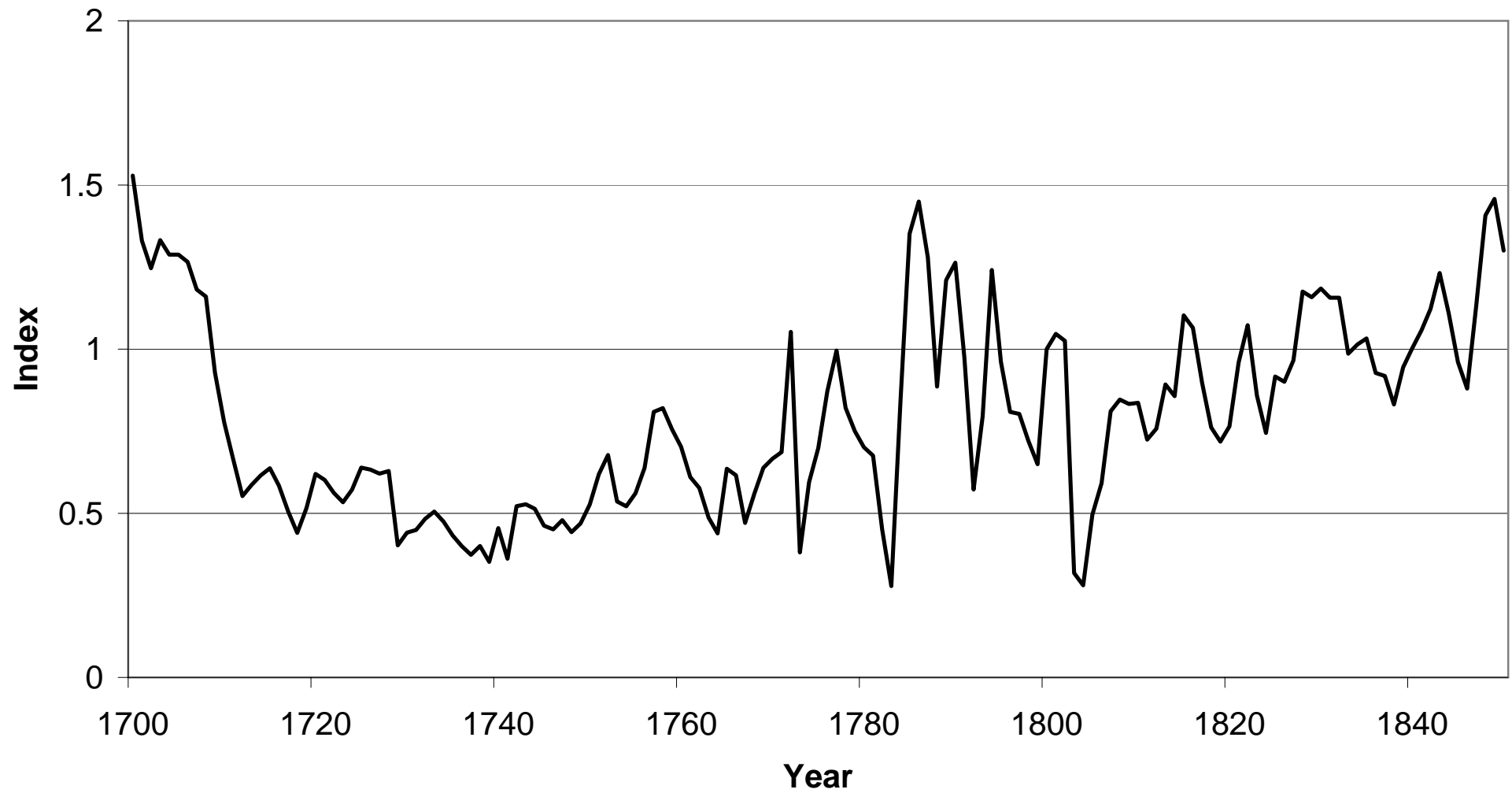


**Figure 2**  
**Relative Prices of Tradeables (1800=1)**

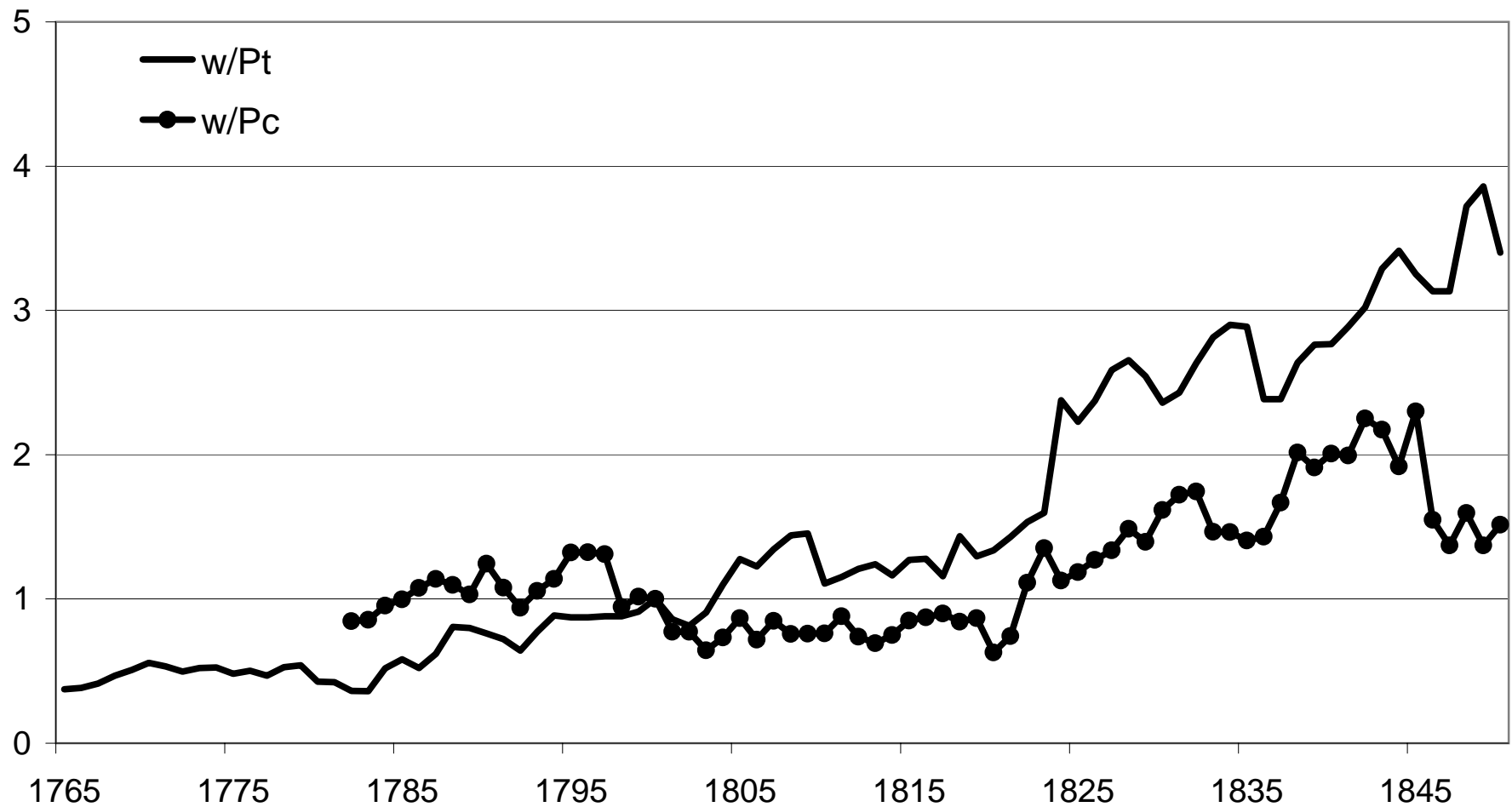




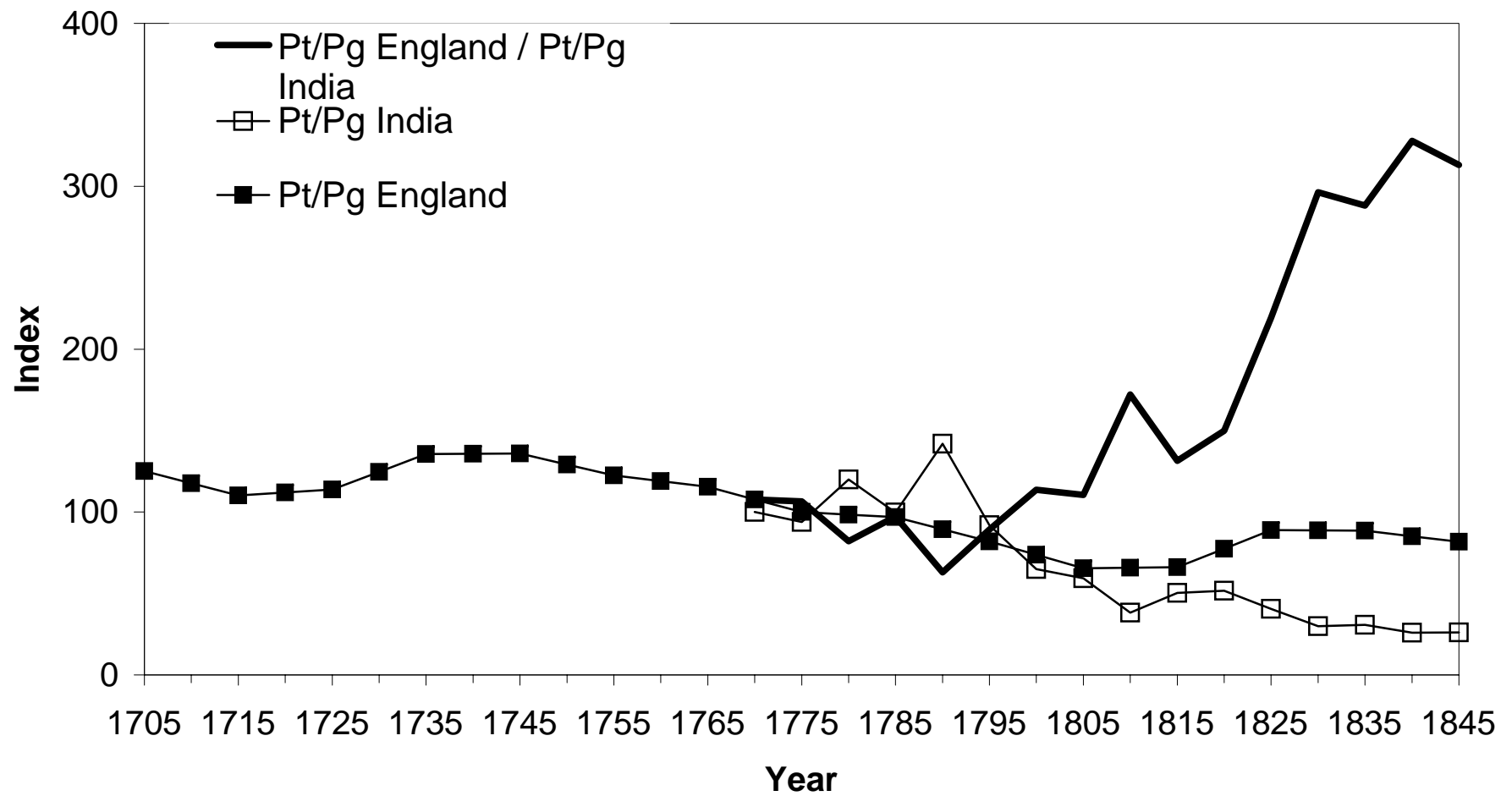
**Figure 3**  
**Grain Wage in North India 1700-1850 (1800=1)**



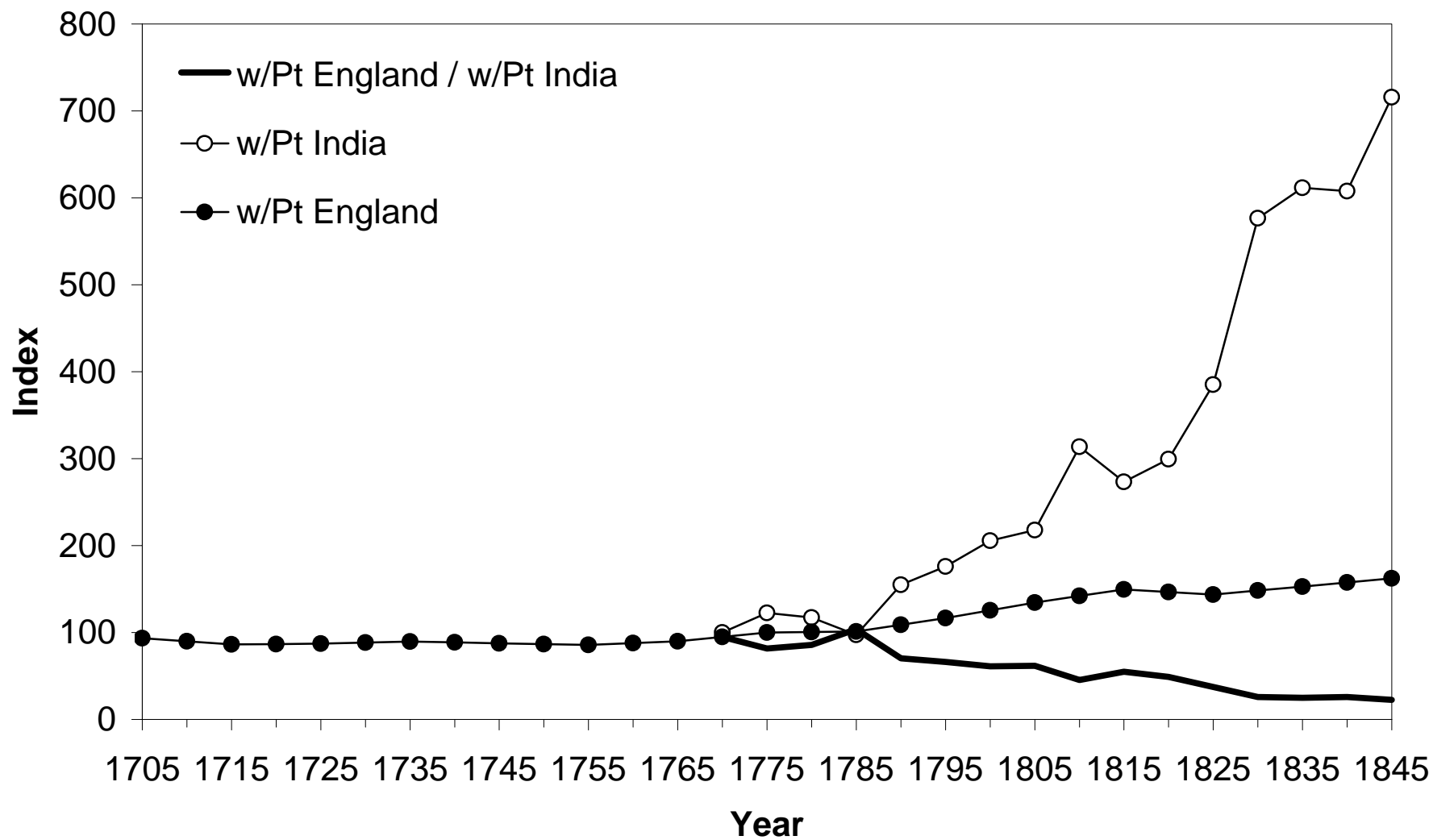
**Figure 4**  
**Indian Own Wages in Textiles and Agricultural**  
**Commodities (1800=1)**



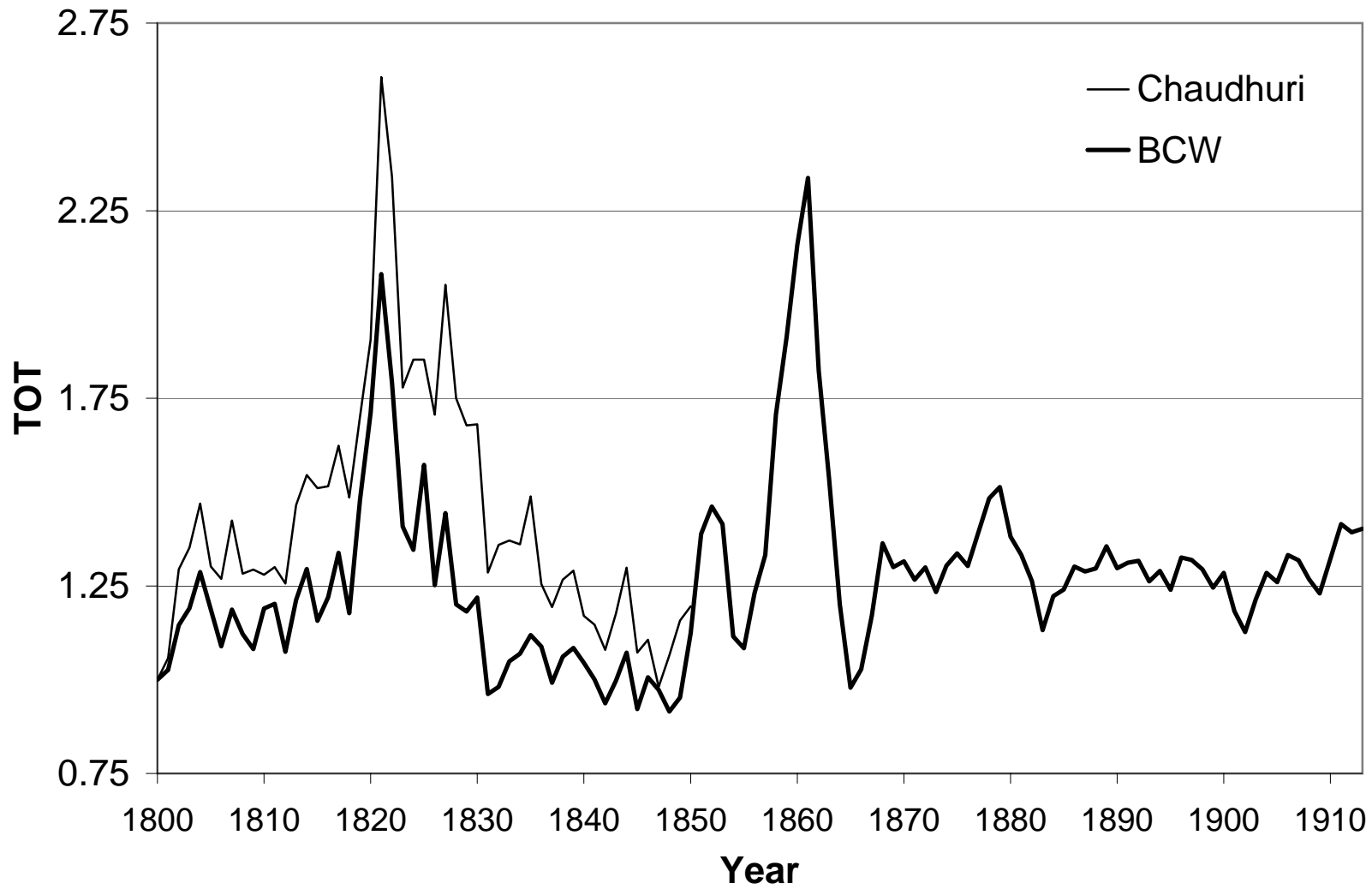
**Figure 5a**  
**Grain Price of Textiles in England and India (1775=100)**



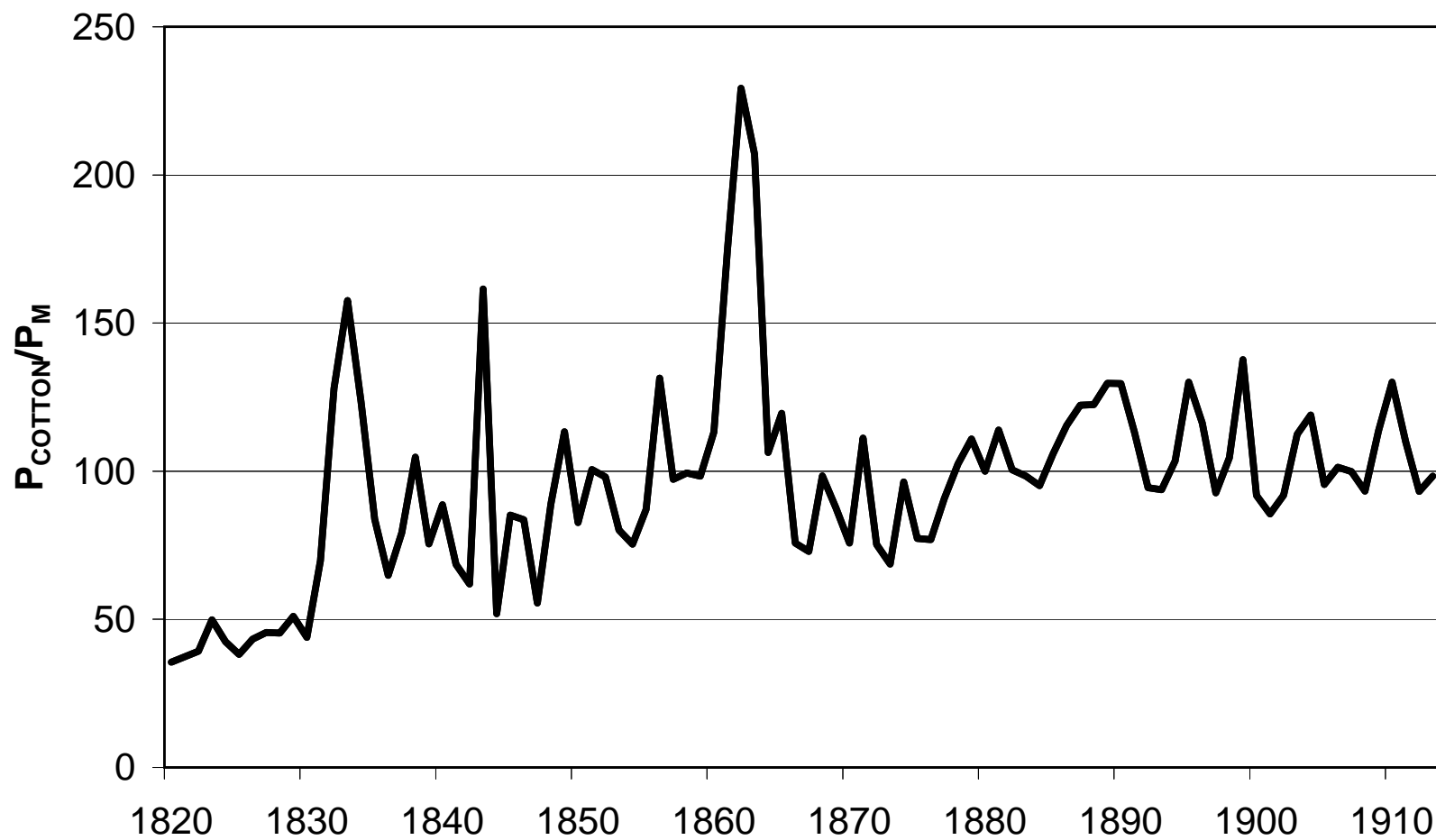
**Figure 5b**  
**Textile Own Wages in England and India (1775=100)**



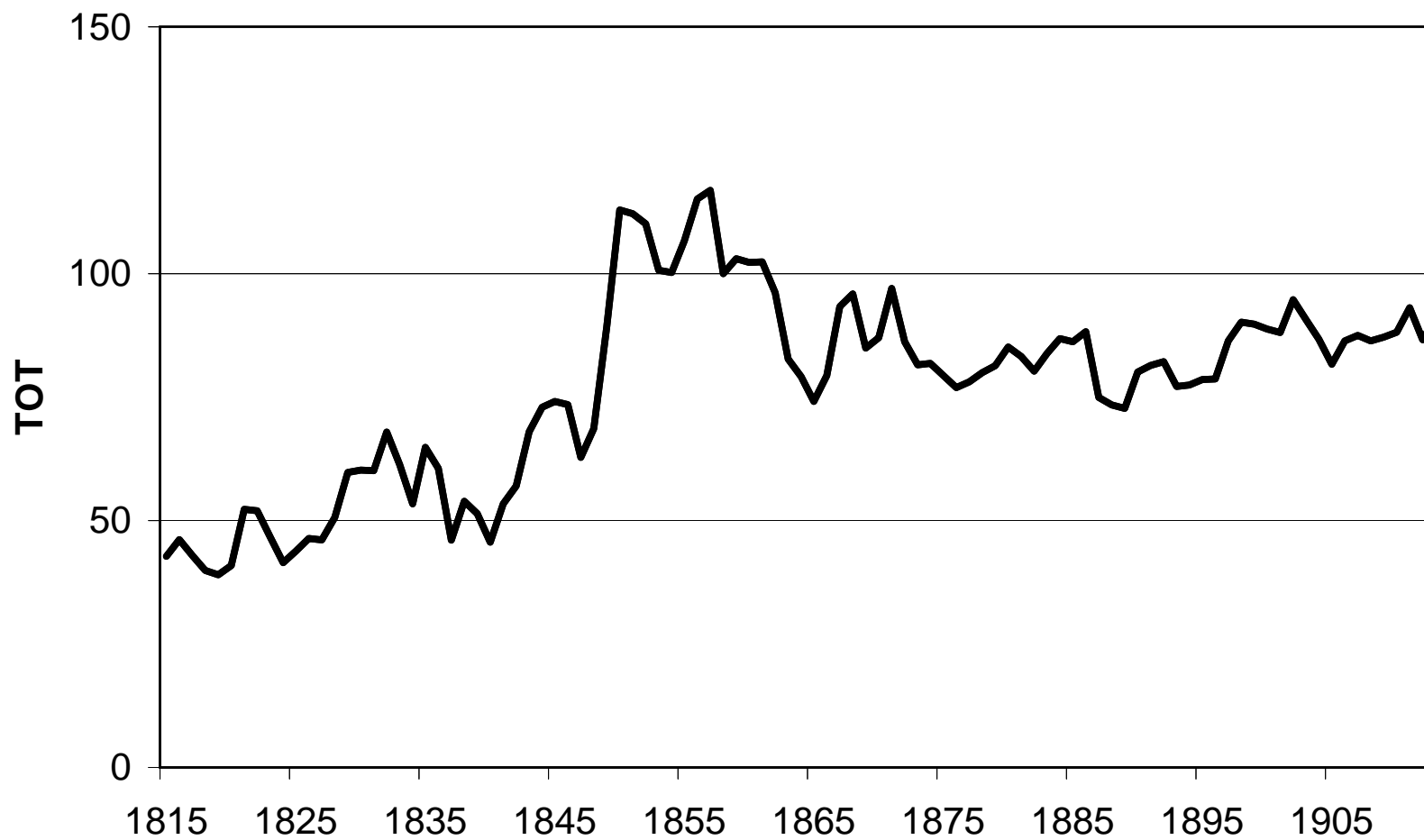
**Figure 6**  
**India's Terms of Trade 1800-1913**



**Figure 7**  
**Egypt's Terms of Trade 1820-1913 (1880=100)**



**Figure 8**  
**Ottoman Terms of Trade 1815-1913 (1858=100)**



**Figure 9**  
**Latin American Terms of Trade 1820-1950**

