The Transformation from a Pre-Colonial to a Colonial Order: The Case of India

Om Prakash

According to Angus Maddison, one hundred and fifty years ago, the gap in mean per capita share of gross domestic product between the richest and the poorest global regions, namely Western Europe and Africa, was probably three to one. Today the difference in income per head between the richest industrial nation, say Switzerland, and the poorest nonindustrial country, Mozambique, is a mind-boggling 400 to 1[1]. What has brought this incredible state of affairs about? Clearly, a key factor at work has been the tremendous acceleration in the rate of growth of gross national product in most economies of the west as a direct consequence of the forces unleashed by the Industrial Revolution that got under way in the second half of the eighteenth century and continued through the nineteenth. Over the same period of time, most of the countries of Asia, Africa and Latin America not only did not experience similar major growth but in some cases were even characterized by no or even negative growth in the major economic indices. The inevitable outcome was the enormous widening of the gap in the level of economic achievement between the two sets of countries.

An important element at work in the emergence of the above scenario was the rise in the course of the nineteenth century of a world economy characterized by significant movements of goods, capital and men across national boundaries in a number of continents. This phenomenon owed a great deal to the Industrial Revolution in Britain in the latter part of the

[1] David S. Landes, *The Wealth and Poverty of Nations, Why Some are So Rich and Some So Poor*, New York, London, 1998, p.xx.

eighteenth and the early years of the nineteenth century. In turn, it conditioned in a significant way the spread of the Industrial Revolution in the rest of Europe and the United States during the latter part of the nineteenth century. Perhaps more importantly, it also played a major role in determining the path of economic change – or the lack of it – in the greater part of the world today described as the Third World. Growing foreign trade enabled Britain both to dispose of her fast increasing industrial output in the world market as well as to obtain raw materials for her industry and food for her population. 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 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. This fact significantly affected the potentiality of their economic growth and in fact became a major factor in explaining their continued backwardness.

Where does 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 a structure of the so-called colonial pattern of trade. Also, from the second half of the nineteenth century onward, there was the rise of a modern industrial sector in India in a manner which had few parallels in other colonial economies in Asia.

Euro-Asian commercial contacts: The early period

The body that was instrumental in the establishment of a formal colonial relationship between Britain and India in the second half of the eighteenth century was the English East India Company chartered by Queen Elizabeth I on the last day of the year1600. Along with its rival organization in the Netherlands, the Dutch East India Company chartered in 1602, the English East India Company stood out as the most remarkable contemporary edifice of commercial capitalism. The process which had culminated in the establishment of these two organizations that dominated trade between Asia and Europe during the seventeenth and the eighteenth centuries had indeed started with the discovery by the Portuguese at the end of the fifteenth century of the all-water route to the East Indies via the Cape of Good Hope. Among the historic consequences of the discovery was the overcoming of the transport-technology barrier to the growth of trade between Asia and Europe. The volume of this trade was no longer subject to the capacity constraint imposed by the availability of pack-animals and river boats in the Middle East. Both the old and the new routes were in use throughout the sixteenth century, but by the early years of the seventeenth, when the English and the Dutch companies had successfully challenged the Portuguese monopoly of the all-water route, the new route had almost completely taken over in the transportation of goods between the two continents. In addition to their transportation, the procurement of the Asian goods also was organized from the sixteenth century onward by the Europeans themselves, who had arrived in the East in any significant number for the first time. The goods procured had to be paid for overwhelmingly in precious metals. This was an outcome essentially of the inability of Europe to supply goods which could be sold in Asia in reasonably large quantities at competitive terms. The new vistas of the growth of trade between the two continents opened up by the overcoming of the transport-technology barrier could have been frustrated by the shortage of silver for export to Asia that the declining, or at best stagnant, European output of this metal might have occasioned. But fortunately, the discovery of the Cape route had coincided with that of the Americas. The working of the Spanish American silver mines had tremendously expanded the European silver stock, a part of which was available for diversion to Asia for investment in Asian goods. A continued expansion in the volume and the value of the Euro-Asian trade could now take place.

In the last quarter of the sixteenth century, the Portuguese Crown faced a growing range of problems in its Euro-Asian pepper trade. This, coupled with the loss in 1585 of Antwerp's position as the staple market for Asian spices in north-western Europe as a result of the blockade of the Scheldt, gave the merchants from the northern Netherlands a strong incentive to challenge the Portuguese monopoly of the Cape route and participate directly in the Euro-Asian spice trade. In April 1595, the Amsterdam based 'Company of Far Lands', which was the first among the so-called Dutch 'pre-companies', sent out four ships to the East Indies under the command of Cornelis de Houtman. One of the ships was lost but the remaining three came back in August 1597 with a cargo of pepper, nutmeg and mace. In the meantime, a number of new 'pre-companies' had been organized for trade with the East Indies. One of these was in Amsterdam, two in Zeeland and another two in Rotterdam. The two Amsterdam companies were merged in 1598 and came to be known as the 'Old Company'. It was on the account of this Company that eight ships were sent out to the East in the spring of 1598. The ships returned safely in 1599 and the profit on the voyage was estimated at around 400 percent. This caused great consternation among the English merchants engaged in the spice trade from the Levant where supplies of Asian spices were brought in regularly via the water-cum-land route passing either through the Red Sea and Egypt or through the Persian Gulf, Iraq and the Syrian desert. The fear of the Dutch domination of the spice market in north-western Europe thus served as the catalyst that led a group of London merchants to apply to the Crown for a monopoly charter for the East India trade. The birth of the English East India Company on 31 December 1600 was followed by that of the Dutch East India Company on 20 March 1602 on the strength of a charter granted by the States-General, the national administrative body of the Dutch Republic. In so far as this Company brought the existing "pre-companies" together under one umbrella, it was christened the United East India Company (Verenigde Oost-Indische Compagnie).

The English East India Company

Between 1601 and 1612, the twelve voyages organized by the English East India Company to the East were on separate and terminable account.

The period between 1613 and 1642 witnessed the operation of three successive joint stocks. In the meantime, in 1637, Charles I had granted a patent to the so-called Courteen's Association to trade to those parts of the East Indies where the Company had not established a factory. But the Association turned out to be a dismal failure and constituted no real threat to the monopoly of the Company. The outbreak of the civil war in the 1640s caused a certain amount of dislocation for the Company's trade but matters improved considerably after the charter of 1657 which provided for a permanent joint stock. The monopoly privileges of the Company were threatened yet again in July 1698 when a rival body – usually described as the New English East India Company - received a charter from the Crown. But in April 1702, the two companies agreed to have a joint Board of Directors. The final amalgamation came in 1709 under an award by the Earl of Godolphin. From this point on there was no further challenge to the Company's monopoly until 1813, when the new charter legalized the entry of private traders into the East Indian trade. Twenty years later, the Company ceased to be a trading body and was entrusted solely with the running of the colonial administration of India, a process that had started in 1765 with the Company wresting from the Mughal Emperor Shah Alam the *diwani* (revenue collection) rights in the province of Bengal. The Company was liquidated in 1858 following the assumption by the British Crown of direct responsibility for Indian affairs.

Like other Europeans, the principal interest of the English in the East, initially at least, was in the procurement of pepper and other spices for the European market. The first two voyages were directed at Bantam in Java where a factory was established in 1602. From 1613, Sumatra became the chief supplier of pepper to the Company. The crucial importance of the Coromandel textiles in facilitating this trade and making it more profitable had also been brought home to the Company quite early. A factory was established at Masulipatnam in 1611, though the first Company voyage to the Coromandel coast was organized only in 1614. In the meantime, given the Dutch monopsonistic designs in the Indonesian archipelago in the matter of the procurement of spices such as cloves, nutmeg and mace, a situation of armed conflict with the VOC was becoming inevitable. The hostilities erupted in 1618, and the English emerged distinctly the worse of the two. The London agreement of 1619 provided for an English share of one-third in the trade of the Spice Islands, and of one half in the pepper trade of Java subject to the English contributing one-third of the cost of maintaining the Dutch garrisons in the area. The English headquarters in the region were moved to Batavia in 1620 and the two companies shared garrisons in Banda, Moluccas and Amboyna. But due both to Dutch hostility as well as the shortage of resources with the English, the arrangement did not quite work. The 1623 incident at Amboyna led to a recall of the English factors from the shared centres in the archipelago to Batavia and hastened the process of the English withdrawal from the Spice Islands.

While the English had come to Coromandel in quest of textiles for the south-east Asian markets, their attempts to penetrate the Gujarat trade were linked directly to their Euro-Asian trade. Because of the possibility of a military engagement with the Portuguese and/or the Dutch, each of the English voyages to the East consisted of a certain minimum number of ships. But on the return voyage, a cargo consisting of pepper and other spices alone would fill perhaps only one of these ships. Hence the urgent need to diversify the return cargo by including in it items such as Indian textiles and indigo. Gujarat textiles could, of course, also be used for the south-east Asian trade to the extent necessary. The third voyage sent out in 1607, therefore, carried instructions to explore the commercial possibilities of the western coast of India. William Hawkins reached Surat in 1608 and went on to Agra the following year but was unable to obtain formal trading rights. Henry Middleton, the Commander of the sixth voyage, was also refused permission to trade at Surat. Thomas Best, the Commander of the tenth voyage, who reached Surat in September 1612, however, finally managed to obtain an imperial edict conferring formal trading rights on the Company. A factory was established at Surat in 1613 and regular trade started there and at Ahmedabad, Burhanpur and Agra. A ship was sent back directly from Surat for the first time in 1615. Between 1616 and 1617, while only four small ships were dispatched directly to Bantam from London, nine ships of large tonnage were sent to Surat. The President at Surat was also placed in charge of the Company's trade in Persia. The Crown leased Bombay to the Company in 1668, and in 1687 Bombay superseded Surat as the headquarters of the Company in western India. In the meantime, the Company's trade had extended into Bengal in the early 1650s with the establishment of a factory at Hughli[2].

Though items such as indigo and saltpetre figured in the Company's exports from India, the most important commodity the Company procured there was textiles. Initially, a part of these textiles was carried to the Indonesian archipelago to pay for the pepper and spices bought there. After 1624 when the Company's procurement of cloves smuggled by Asian merchants into Makassar became important, the volume of Coromandel textiles carried to Makassar via Batavia and later Bantam became fairly large. But this trade declined rather sharply as of 1643 as Dutch efforts to plug the smuggling into Makassar became increasingly more successful.

---

[2] K.N. Chaudhuri, *The English East India Company: The Study of an Early Joint – Stock Company 1600 – 1640*, London, 1965; K.N. Chaudhuri, *The Trading World of Asia and the English East India Company 1660-1760*, Cambridge, 1978.

The only other Asian market to which the Company carried Coromandel textiles was Persia, but the quantities involved were never large. In view of the continuing poor performance in this area, the Company decided in 1661 to withdraw from participation in intra-Asian trade and concentrate its energies and resources on Euro-Asian trade.

Private English Traders

From about this time onward, the English participation in intra-Asian trade was confined to private traders. These included senior Company employees engaged in this activity on their private account. Among the important private English traders operating from Coromandel during the second half of the seventeenth century were the governors of Madras. Two of these, Elihu Yale and Thomas Pitt, were particularly active and are known to have amassed huge fortunes, estimated in the case of Yale at a massive ⬟200,000. Other governors with significant private trading interests included Edward Winter, William Langhorn, Streynsham Master, Gulston Addison, Edward Harrison and Joseph Collet[3]. Most, if not all, of these individuals were also diamond commissioners. Diamonds were an important item of trade not covered by the Company's monopoly and figured prominently in English Euro-Asian trade on private account. The diamond trade was controlled basically by Jewish merchants, many of whom had migrated from Portugal to England around the middle of the seventeenth century. This had led to a shift in the axis of the diamond trade from Goa-Lisbon to Madras-London. The diamond merchants operated mainly by appointing commissioners in India to whom funds were dispatched regularly and who looked after the procurement and shipment of the rough stones. In recompense of their labours, the commissioners were entitled to a 7 per cent

[3] P.J. Marshall, "Private British Trade in the Indian Ocean before 1800" in Ashin Das Gupta and M.N. Pearson (ed.), *India and the Indian Ocean 1500-1800,* Calcutta, 1987.

commission on the value of the investment. The accounts of a leading diamond merchant in London, John Chomley, provide for some years information on the total amount of funds remitted each year from London to Madras for investment in rough diamonds. While this amount fluctuated a great deal between one year and another, an exceptionally good year such as 1676 witnessed the remittance of as much as £100,000 on this account[4]. There ordinarily was a gap, sometimes as long as six months, between the receipt of the funds by the commissioner in Madras and their actual investment in the purchase of the diamonds. The resultant additional liquidity available at no extra cost often constituted a major contributory element to the commissioner's success in the trading ventures he carried on his private account. The group of Company servants engaged in private trade, of course, also included many who did not occupy senior positions in the Company's hierarchy. In addition, there were the so-called free merchants settled in India who were an important constituent of the group of English private traders engaged in intra-Asian trade.

The Dutch East India Company

The trading strategy followed by the Company's principal rival, the Dutch East India Company, was quite different. By far the most distinctive characteristic feature of this strategy was a large scale participation in intra-Asian trade as an integral part of the Company's overall trading operations. By the middle of the seventeenth century the range of the Company's intra-Asian trading network covered practically all major points along the great arc of Asian trade extending from Gombroon in the Persian Gulf to Nagasaki in

[4] Soren Mentz, "English Private Trade on the Coromondel Coast, 1660-1690: Diamonds and Country-trade" *Indian Economic and Social History Review*, Vol.33 (1996), pp 155-74.

Japan. The two principal factors contributing to the great success achieved by the Dutch East India Company in this endeavour were the spice monopoly in the Indonesian archipelago and the exclusive access amongst the Europeans to the Japan trade following the closure of the country to the rest of the world in 1639. It should also be realized that the extensive as well as highly profitable participation in intra-Asian trade which contributed a great deal to the Company's dominant position in Euro-Asian trade through at least the seventeenth century would have been impossible without the coordinating role played by the office of the Governor-General and Council at Batavia, the intermediate high-ranking agency in Asia with extensive decision - making powers. But at the same time it must be recognized that there were other dimensions of Batavia's intermediate role, all of which were not necessarily to the Company's advantage in the long run. Take, for example, the procurement of Indian textiles for the European market following the fashion revolution of the last quarter of the seventeenth century when trade in these textiles became the single most important component of the English and the Dutch East India companies' Euro-Asian trade. At the turn of the eighteenth century, Bengal had emerged as the single largest provider of these textiles. The Bengal-Europe trade in textiles was essentially a luxury trade in which exclusiveness and novelty in designs and patterns mattered a great deal. In 1681, for example, the English Court of Directors had written to their factors in Bengal: "Now this for a constant and general Rule, that in all flowered silks you change ye fashion and flower as much as you can every yeare, for English Ladies and they say ye French and other Europeans will give twice as much for a new thing not seen in Europe before, though worse, than they will give for a better silk for [of] the same fashion worn ye former yeare"[5]. Later the same year, they had written, "Of all silk wares, take it for a certain rule that whatever is new, gaudy or unusual will always find a good price at our candle"[6]. This exclusiveness, coupled with the intense competition among the Europeans for limited supplies, put a large premium on quick decisions by the local European factors. Such a decision might pertain to the purchase of a textile with a new pattern or a colour combination or a textile whose quality or size specification was substantially different from that stated in the relevant orders list. In this kind of a situation, the English factors were able to score a great deal over their Dutch counterparts. Given the distance between England and India, the English Directors really had no option but to allow a considerable amount of discretion in such matters to factors in Calcutta and elsewhere on the subcontinent. The result was a constant flow of new varieties, colour combinations and patterns in the textiles that Calcutta sent to London, though in the process the prices paid for these textiles continuously went up. The Dutch factors, on the other hand, were systematically denied such discretionary powers. The reason was the belief that considering that Batavia was only a few weeks away from Hughli or for that matter any other Asian chief factory, such discretion was best left only to the Governor-General and Council. But the fact of the matter was that Batavia was never really able to help the Bengal factors effectively in deciding what to buy. The net result was that the Dutch factors in Bengal at no time were able to match the initiative and drive of their English counterparts. It was this more than anything else that enabled the English Company to almost catch up with the VOC by the turn of the eighteenth century in the matter of the average annual value of its imports from Asia.

[5] Quoted in V. Slomann, *Bizarre Designs in Silks*, Copenhagen, 1953, p.114.
[6] Quoted in V. Slomann, *Bizarre Designs in Silks*, p.114

This process continued in the eighteenth century and by 1740, the English had actually forged ahead of the Dutch.

Trade as an instrument of growth

The increase in the output of textiles and other export goods in the subcontinent in response to the secularly rising demand for these goods by the English and the Dutch East India companies would seem to have been achieved through a reallocation of resources, a fuller utilization of existing productive capacity and an increase over time in the capacity itself. A reallocation of resources in favour of the production of export goods such as raw silk and particular varieties of textiles would have been signalled, among other things, by a continuous rise in the prices of these goods in the markets where they were procured. Evidence regarding such a rise is available in plenty in the European company documentation. The available evidence also suggests both a fuller utilization of existing capacity as well as expansion thereof over time. In the case of textile manufacturing, for example, artisans engaged in the activity on a part-time basis seem to have increasingly found it worth their while to become full-time producers and to relocate themselves in the so-called *aurungs* - localized centres of manufacturing production, where the Europeans were increasingly concentrating their procurement though the intermediary merchants. Among the other factors of production required, land was clearly in abundant supply practically all over the subcontinent at this time. As far as the necessary capital resources needed for the production of new spindles, wheels and looms etc. were concerned, given the extremely small amounts involved and the fact that the European companies were ever willing to advance the necessary sums, the availability of funds also is highly unlikely to have been a constraining factor. It need hardly be stressed that across a country of the size of the Indian subcontinent there are likely to have been regional variations with regard to the degree of dynamism, flexibility and potential for continuing expansion in the scale of production that this scenario envisages. However, evidence available at least in respect of a region such as Bengal, which was by far the most important theatre of company activity on the subcontinent, would generally seem to confirm the presence of such attributes in ample measure.

In this scenario, the English and other European companies' trade would have become a vehicle for an expansion in income, output and employment in the subcontinent. As far as additional employment generated in the textile manufacturing sector as a result of European procurement is concerned, an exercise carried out in respect of the trade of the English and the Dutch East India companies in the early years of the eighteenth century, the number of additional full-time jobs created was estimated at approximately 100,000 accounting for around 10 percent of the total workforce in the sector[7].

Our information on the distribution of the gains accruing from a growing foreign trade among the various sections engaged in productive activity is extremely limited. The two major groups directly affected by the growth in the volume of the European trade were the merchants dealing with the companies and the artisans who manufactured the export goods. The intense and growing competition among the English and the Dutch for goods such as textiles and raw silk increasingly turned the market into a sellers' market. This was reflected in the growing bargaining strength of the merchants vis-à-vis the companies. The position is somewhat less clear in

[7] Om Prakash, *The Dutch East India Company and the Economy of Bengal, 1630-1720*, Princeton, 1985, Chapter 8.

relation to the textile weavers and other producing groups supplying to the merchants. In principle, one would expect that at least a small part of the gain would have been transmitted to the producers in the form of increased employment and better returns. There is some evidence that this indeed happened. On the whole, then, there can be very little doubt that the English East India Company and other European trading companies' commercial operations in the subcontinent represented a distinctly positive development from the perspective of the Indian economy[8].

The early colonial period

This scenario, however, underwent a substantive modification during the second half of the eighteenth century. The starting point was the assumption of political leverage by the English East India Company in different parts of the subcontinent. The process began in south eastern India where the English and the French became allies of contestants for the succession of the Nawab of Arcot and the Nizam of Hyderabad. War ebbed and flowed across southern India with little intermission from 1746 until complete English victory brought the fighting to an end in 1761. British victory meant that the territories of the English backed Nawab of Arcot became a client state of the English East India Company. Much more fundamental in importance was the incorporation of Bengal as a province under actual British rule. The 1765 Treaty of Allahabad was an outcome of the battle of Plassey in 1757 and that of Buxar in 1764. On condition of paying an annual tribute to the Emperor of Rs.2.6 million, the Company obtained, as a free and perpetual gift, the imperial post of *Diwan* (treasurer)

[8] Om Prakash, *The Dutch East India Company and the Economy of Bengal*, Chapter 8.

of Bengal, Bihar and Orissa. In addition, Clive obtained from Shah Alam a confirmation of the strip of coastal territory called the Northern Circars, till then formally dependent on the Nizam, as a gift for the Company at Madras. Under imperial sanction, the Nawab of Arcot, in law the Nizam's deputy but in fact the Company's dependent, obtained the Carnatic independently of the Nizam, and the Company in turn obtained from the Nawab a confirmation of the *jagir* of land around Madras as its free gift[9]. At the same time the *wazir* of Awadh accepted a British alliance and a British garrison. This settlement gave the British rule over some 20 million people in Bengal together with access to a revenue of about £3 million and it took British influence nearly up to Delhi.

Coercion of merchants and artisans

What the availability of substantive political leverage to the English East India Company in a province such as Bengal did was to bring to an end the level playing field that the intermediary merchants and artisans doing business with it had hitherto enjoyed. The relationship between these groups and the European companies had generally been free of coercion and determined by the market forces of supply and demand. That was now a thing of the past. Through an extensive misuse of its newly acquired political power, the Company subjected suppliers and artisans to complete domination, imposing upon them unilaterally determined terms and conditions which significantly cut into their margin of profit. For the procurement of textiles, for example, the province was divided into a number

[9] Rajat Kanta Ray, "Indian Society and the Establishment of British Supremacy, 1765-1818" in P.J. Marshall (ed.), *The Oxford History of the British Empire, Vol. II The Eighteenth Century*, Oxford and New York, 1998, p.511.

of segments each under the authority of a Commercial Resident. This Resident then arranged for information to be collected regarding the number of weavers, looms, pieces of textiles of different kinds manufactured in each *aurung* in his area in a year, the number ordinarily procured by rival European trading companies as well as private merchants each year and so on. Since the Company's textile requirements took precedence over everyone else's, individual suppliers of the Company were allotted weavers who were banned from working for anyone else till such time as they had met their contractual obligations towards the Company. The terms offered by the Company to the suppliers, and in turn, by the latter to the weavers, were extraordinarily poor. The perennial complaint of the weavers was that the price allowed them by the Company hardly enabled them to cover the cost of the raw materials. In 1767, the weavers of the Khirpai division went so far as to send a delegation to Calcutta with a petition requesting that the prices offered to them be increased by at least so much as to afford them a subsistence wage. They did manage to obtain an order directing the Commercial Resident, identified as one John Bathoe, to do the needful. But this evidently was no more than eyewash because Bathoe not only openly disregarded the order but indeed threatened to have the weavers arrested in the event that they continued with their claims[10].

The woes of the intermediary merchants and the artisans were further aggravated by the complete marginalization of the rival European trading companies by the English. Indeed, within a few months of the take over of the province after the battle of Plassey, the English factors were reported to be forcibly taking away pieces woven for the Dutch. In the early 1760s, the Commercial Residents at Malda and Midnapur were instructed to ensure

[10] Nationaal Archief (NA), J.M. Ross at Khirpai to Directors at Hughli, 16 May1767, Appendix C2, *Hooge Regering Batavia* (HRB) ,247.

that the best weavers of Jagannathpur, Olmara and the neighbouring *aurungs* worked exclusively for the English. This was at complete variance with the public posture that the English East India Company took. A Fort William public notification dated 28 April 1775, for example, asserted “that the weavers of the province of Bengal and Bihar should enjoy a perfect and entire liberty to deal with any persons whom they pleased and that no person should use force of any kind to oblige the weavers or other manufacturers to receive advances of money or to engage in contracts for the provision of clothes against their will, and that all persons offending against this order should suffer severe punishment”[11]. The charade was continued in the English response dated 8 September 1785 to a Dutch memorandum, “Under your agents, they [the weavers] may work more freely perhaps than under our own, and you may rest assured that we shall not countenance the servants or gomastahs of our own Board of Trade in any attempts that they may make to oppress the natives who work for you and not us, or prevent your employment of their industry. The weaver who works for your Company contributes equally to pay the revenue with the weaver who works for our own Board of Trade, and perhaps more so. And an extension to the sale of Bengal manufacture is more profitable to Great Britain than a monopoly in the purchase of such goods as would restrain the manufacture”[12]. The truth, however, was otherwise. The marked decline in the relative share in the total value of the output produced as far as the Bengali artisanal and the mercantile groups engaged in business with the English East India Company were concerned might, in turn, have introduced

[11] NA, The notification was signed by J.P. Auriol, Assistant Secretary, HRB 253.
[12] NA, The English Company reply dated 8 September 1785 to the second Dutch memorandum, Macpherson and Council to Eilbracht and Van Citters, HRB 211.

distortions in the structure of incentives in the domain of manufacturing and other production in the province.

Totally unjustified and distressing as such an erosion into the relative share of the mercantile and artisanal groups in the total output produced was, it is nevertheless important to distinguish between this range of implications of the altered status of the English East India Company as a trading body and the changes, if any, in the broad macroeconomic implications of its trading operations. There is a strong likelihood that the structure of manufacturing production in the province continued to be marked by a reasonable degree of vitality and capacity to deliver. An important, though by no means conclusive, index suggesting this scenario is the continuing growth of both the Euro-Asian and the intra-Asian trade 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 during 1777-79. Bengal accounted for as much as half of this value[13]. In intra-Asian trade, the decline in the Dutch Company exports as well as in those by the Indian merchants engaged in this trade was similarly much more than made up for by the spectacular rise in the English private merchants' trade with China.

[13] Om Prakash, *European Commercial Enterprise in Pre-Colonial India*, Vol. II. 5 in the *New Cambridge History of India* series, Cambridge, 1998, p.348.

Cessation of the import of bullion

Seemingly paradoxically, while the English East India Company's exports from India were undergoing a substantial increase during the second half of the eighteenth century, the import of bullion by the Company into the subcontinent was practically coming to an end. Thus against the annual average of ⬟650,000 for the decade of 1751-60 as a whole, the annual average for the last two years of the decade was under ⬟160,000. Such detailed information is unfortunately not available for the post-1760 period but an appendix to the Ninth Report from the Select Committee of the East India Company entitled "An account of the quantity of silver exported by the East India Company to Saint Helena, India and to China" from 1758 to 1771 lists only Mocha and Benkulen under India[14]. There is some evidence, however, which suggests that the import of treasure into India was resumed on a limited scale and on an occasional basis from 1784 onward.

Before we go into the question of how the export of goods was financed in the absence of the import of treasure, a comment on the resultant perceived shortage of circulating medium in the province would seem to be in order. The classic statement drawn upon in this context is the one made by James Steuart in 1772: "the complaints of a scarcity of coin in Bengal, once so famous for its wealth, are so general that the fact can hardly be called into question"[15]. Considering that there is no evidence on the stock of coined money or the amount of *sicca* rupees in circulation in the province at any point in time during the eighteenth century, there is no way the fact of shortage of money can be established or disputed in an objective manner. However, the relatively low rate of agio (*batta*) that was charged on

[14] This statement is available in Appendix 5 to the "Ninth Report from Select Committee appointed to take into consideration the state of the administration of justice in the provinces of Bengal, Bihar and Orissa", 25 June 1783, BL, OIOC, L/Parl/2/15.

Arcot sicca rupees at Dhaka between 1769 and 1773 would strongly discount the likelihood of any serious shortage of money being there in the region at this time[16].

That still leaves the question of how the Company managed to increase its exports from India significantly during this period in the context of the virtual stoppage of the import of bullion unanswered. The explanation lies in good measure in the substantial quantities of rupee receipts obtained by the Company locally against bills of exchange issued to English and other European private traders payable in London and other European capitals. In so far as this procedure provided a safe channel to a whole host of European individuals to remit home savings made in India by participation in private trade and through other means, the amounts available under this arrangement were usually quite large. Even the procurement of tea at Canton was organized partly on the basis of the funds made available at Calcutta by Englishmen in exchange for bills to be issued at Canton on London[17]. Between 1757 and 1784, the value of the bills issued on the East India Company headquarters in London, including those drawn at Canton, has been estimated at a little over ⬟11.8 million[18]. For the period between 1785 and 1796, the figure suggested is ⬟5.7 million[19]. From the perspective of the Company as a corporate enterprise, the financing of the procurement of the export goods in India through rupee receipts obtained against bills of exchange payable in London or elsewhere as against through bullion shipped from home only represented a change of form but from the

---

[15] “Memoirs of Coinage in Bengal”, 1772, OIOC, Home Miscelleneous, Vol. 62, p.163.
[16] Rajat Datta, *Society, Economy and the Market, Commercialization in Rural Bengal, C.1760-1800*, Delhi, 2000,pp. 348-50
[17] For an example of this kind of a transaction, see a Company advertisement from Fort William dated 30 July 1781, Appendix 12 to Ninth Committee Report, OIOC, L/Parl/2/15.
[18] Calculated from P.J. Marshall, *East Indian Fortunes, The British in Bengal in the Eighteenth Century*, Oxford, 1976, p.255.

perspective of the economy of the regions in which the Company functioned, this represented a substantive change.

Another source of funds for investment in export goods that the Company had access to after obtaining the *diwani* of the province of Bengal in 1765 was the surplus from the provincial revenue that it now collected. Such a diversion of the revenue was obviously unethical and indeed the Parliamentary Select Committee of 1783 indicted the Company in no uncertain terms for having done this. The Committee observed 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]. But ethics had never been the weakness of the likes of Robert Clive who predicted to the Directors in September 1765 that in the forthcoming year there would be a "clear gain" to the Company of ⬟1.65 million which would serve to "defray all the expense of the investment [in goods for export], furnish the whole of the China treasure, answer the demands of all your other settlements in India, and leave a considerable balance in your treasury besides"[21]. Such extravagant hopes were in fact never realized because a large part of the Bengal revenues had to be diverted to wars and other uses. With the return of peace in the 1780s and the 1790s, hopes were raised yet once again and in 1793 Henry Dundas produced figures to show that a clear ⬟1.4 million a year would be available for investing in goods for Europe[22].

---

[19] Rajat Datta, *Society, Economy and the Market*, p.353.
[20] Ninth Report from Select Committee, OIOC, L/Parl/2/15.
[21] Fort William-India House Correspondence and Other Contemporary-Papers Relating Thereto IV (Public Series) ed. C.S. Srinivasachari, New Delhi, 1962, pp. 338-9.
[22] P.J. Marshall, *Problems of Empire, Britain and India, 1757-1813*, London, 1968, p.84.

His prophecies, like those of Clive and his contemporaries in 1765, were again brought to nothing by war. A Select Committee of the House of Commons reviewing the years 1792 to 1809 was obliged to point out that instead of the surpluses promised by Dundas, there had indeed been an overall deficit in India of some ⬟8 million[23]. This, of course, does not mean that a part of the Bengal revenues would not have been diverted to the procurement of goods for export to England and there would clearly have been years when the sums so diverted would have been substantial. But it would seem impossible to work out on a systematic basis what proportion of the total exports of the English East India Company in the post – 1765 era would have been financed from the Bengal revenues and qualifying for the category of 'unrequited' exports.

'Drain' of resources

'Unrequited' exports represented the principal constituent element in the rubric of 'drain' of resources from India to Britain by the English East India Company in its corporate dimension. But there was in addition a private dimension to this phenomenon effected partly through the purchase of bills of exchange issued by the Company. The practice was by no means confined to the English Company. The Dutch East India Company was an equally important channel used for the transmission of private savings to Europe. Indeed from about 1770 onward, the process of raising resources in Bengal by the Dutch East India Company for investment in goods for export was marked by an important innovation. In addition to the usual mechanism of funds being collected in Asia through bills of exchange issued

[23] Marshall, *Problems of Empire*, p.84

locally, the Directors of the Company now also began operating at the European end. This was done by negotiating in Amsterdam the procurement of bills of exchange drawn by Englishmen resident in England on their correspondents in Calcutta, directing the latter to pay the local Dutch Company factors the sum of money specified in the bill. Many of these Englishmen had earlier bought bills from the Dutch Company factors in Bengal and were now on the other side. The transactions in these bills were intermediated by some of the leading Anglo-Dutch banking firms such as Hope and Co. and Pye Rich and Wilkieson who guaranteed timely payment against them. During the 1770s, this particular method became an important avenue for raising resources in Bengal. In a transaction entered into with Pye Rich and Wilkieson in 1773, for example, the Directors bought four such bills, each of the value of a little over ⬟10,000. In the event of the bills not being honoured in Bengal, the banking firm was liable to pay a 12 per cent compensation to the Company. The payment due to the firm against the bills was to be made only after the receipt of information that the money had in fact been collected in Bengal[24]. The Directors were able to negotiate such a favourable package evidently because of the large sums of money waiting in Calcutta for being remitted home. The parties interested in effecting the remittances were not particularly keen to use the offices of the English East India Company for the purpose. This was because the savings sought to be remitted home often contained a part – at times a rather large part – that the person concerned would be hard put to justify as legitimate made through participation in private trade or other authorized avenues of earning money.

In his *John Company at Work* published more than half a century ago, Holden Furber was the first professional historian to try and quantify the size

[24] Femme Gaastra."British Capital for the VOC in Bengal", in Om Prakash and Denys Lombard (ed.), *Commerce and Culture in the Bay of Bengal 1500-1800,* Delhi, 1999.

of the annual drain of wealth from India to Britain. For the years between 1783 and 1793, he put this figure at ⬟1.8 million[25]. For Bengal alone, which was by far the most important single Indian region to contribute to this phenomenon, a recent study puts the figure at ⬟1 million for the years between 1757 and 1794[26]. Given the nature of the data, it is indeed quite impossible to attach any degree of precision to such estimates. All that one can say is that Bengal revenues provided an indirect subsidy to the British exchequer and the enormous opportunities for private gain now available to the Company servants in their personal capacity created a whole new class of the new-rich ‘nabobs’ returning to England with fortunes unheard of before. It is, however, highly unlikely that these private fortunes constituted an element of any importance in the financing of the Industrial Revolution in Britain which was then getting under way.

The rise of the China trade, which was by far the most important source of the creation of private trading fortunes, led to what Holden Furber has termed a ‘commercial revolution’ involving a clear domination of trade in the Indian Ocean and the South China Sea by the private English traders. Such a domination would almost certainly have had a certain amount of adverse impact on the trading operations of the Indian merchants engaged in trade in the Eastern Indian Ocean. It is, however, important to keep the matter in perspective. The overall adverse impact on the fortunes of the Indian merchants engaged in intra-Asian trade would not seem to have been anything like catastrophic. The direct involvement of the Indian merchants in the China trade had never been of any significance, and to that extent, a growth in the English private trade in the sector had no specific and

[25] Holden Furber, *John Company at Work, A Study of European Expansion in India in the Late Eighteenth Century*,Cambridge, Mass., 1948, p. 310.
[26] Rajat Datta, *Society, Economy and the Market*, p.57

immediate implication for these merchants except that English ships also did a fair amount of business in southeast Asia on the way to and from China. It would seem that initially the increased competition by the English was injurious to the Indian merchants engaged in trade with this region. But over time the volume and value of trade on the India-southeast Asia sector would in fact seem to have registered a significant increase with the Indian merchants getting their due share in the rising volume of trade.

The agrarian economy of Bengal

As far as the English East India Company in its corporate dimension was concerned, an analysis of the implications of the grant of the *diwani* to the Company for the prosperity or otherwise of the agricultural sector of the province is perhaps more promising than trying to work out what part of the total Bengal revenues was drained out to Britain.

The agrarian sector 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. These individuals generally did not engage in internal or international trade in the item on their own and sold 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 etc. 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[27].

The opium enterprise was clearly of great advantage to the English East India Company, the contractors and other intermediaries participating in the enterprise as well as to the private English traders engaged in the opium trade. As for the peasants participating in the opium enterprise, the position was more complex. There can be no question that the opium monopoly involved a certain amount of coercion over the peasants and it is likely that the degree of this coercion exceeded the officially stipulated limits. What can one say about the overall implications of the English Company's opium monopoly? Was the expansion in output over time solely a function of the coercion that the peasant was subjected to? Or is it possible that the peasant found even the monopoly price, particularly after it was periodically increased between 1823 and 1838, preferable to the option of growing alternative crops? While no definitive answers to these questions are as yet possible, certain tentative suggestions might be made. The cultivation of opium did involve a four to five-month commitment to demanding arduous work. The reason the acreage still went on increasing was because of the

[27] Extract, Bengal Revenue Consulations, 23 November 1773, Appendix 57, Ninth Committee Report, OIOC.

liberal policy the government followed in the matter of giving advances to the actual and prospective opium growers. These advances came in handy for meeting the peasants' land rent obligations and were extremely welcome. The fact that the government monopoly provided an assured market for the peasants' output at a predetermined price not subject to alteration by the size of the crop also worked as a positive factor. The cash advances involved the injection of fairly large sums of money into the commercial agricultural sector of the region directly through the peasants. The crop that this helped the expansion of was both of high value as well as being intended entirely for the market.

At a more general level, how did the functioning of the Company as the *diwan* affect the state of the agricultural sector in the province? The most basic element of state policy, of course, was the size and the pattern of the land revenue demand made on the sector. On an average, forty to forty-five percent of the agricultural output was collected as land revenue. There was an almost continuous increase in both 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 in 1783. The amount of revenue collected also went up but by a somewhat smaller margin. The collection was made exclusively in cash significantly furthering the process of monetization in the province. There is evidence, for example, that in 1769 even sharecroppers in an extended *zamindari* of Burdwan were obliged to sell the crop and then pay the *zamindar* in cash, a process which seems to have intensified in subsequent years. During periods of price slumps, the Mughal revenue officials often used to accept payment of revenue in kind in order that the real burden on the peasantry was reduced. That element of flexibility was now done away with altogether[28].

A major famine that hit the province in 1769-70 is conventionally believed to have caused as many as ten million deaths accounting for a third of the total population. Recent research, however, suggests that devastating as the famine was, the death toll is unlikely to have been anywhere near this figure. The duration of the famine at its peak was a maximum of six months and the worst affected were six districts in western and north-eastern Bengal. It is nevertheless true that the role of the English East India Company in alleviating the misery caused by the famine was practically nil. The collection of revenue was strictly enforced: indeed more revenue was collected at the height of the famine than in the subsequent year. Also, the Company failed to provide any form of institutional relief. Up to April 1770, the Company had advanced only Rs.100,000 “for the purchase of rice on account of a charitable distribution made to the poor in and around Murshidabad”. An amount of Rs.400,000 was all that was provided by way of financial aid from the Murshidabad treasury between April 1769 and May 1770 to help the cultivators to organize production during the ensuing agricultural season[29].

An area in which the Company was more effective was in intervening in the market as a device to free it of its major internal restrictions imposed by *zamindari* control during the period of the *nizamat*. The fact that merchants were able to carve out petty domains of privileged trade, and that *zamindars* and other landed proprietors were the prime agents for the establishment of these markets, jointly militated against the development of an unfettered system of markets in the province. What this had involved

[28] Rajat Datta, *Society, Economy and the Market*, pp.333-34.
[29] Rajat Datta, *Society, Economy and the Market*, Chapter 5.

was the proliferation of *zamindari* outposts (*chowkies*) to collect tolls at various rates dictated by the financial predilections of an individual *zamindar* and continuous conflicts between merchants and *zamindars* over the rate of tolls, over market jurisdictions and the movement of commodities. What the East India Company was able to do was to take a body of steps between 1773 and 1790 to rectify this situation. These included the abolition of all duties levied upon grain while being transported from one place to another. It was only at the final point of destination that a duty was to be charged. The management of such duties was to be under five customs houses to be established at Calcutta, Hughli, Murshidabad, Dhaka and Patna. The other problem of the control exercised by the *zamindars* and the *talluqdars* over markets was found more difficult to address. Finally in 1790 the Board of Revenue decreed a separation between rent collected in the markets so controlled and the taxes collected there on trade. While rent could continue to be collected on a private basis, the right to tax was henceforth to be vested in the Company. The combined result of these policies was a proliferation of market places all over Bengal. The increase in their numbers or their establishment in previously deficient areas enabled the peasantry to relate more easily to wider commercial networks[30].

This profile of a reasonably vibrant agricultural sector and rural economy in the second half of the eighteenth century seeks to revise substantially the orthodoxy in the historiography on the subject. 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 which had rendered the land market highly depressed.

[30] Rajat Datta “Markets, Bullion and Bengal’s Commercial Economy: An Eighteenth Century Perspective”, in Om Prakash and Denys Lombard (ed.), *Commerce and Culture in the Bay of Bengal 1500-1800*.

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. Such an enterprise will fit in quite well with the work that has now been under way for two decades or more seeking to view Indian history in the eighteenth century in a new light.

The nineteenth and the twentieth centuries

While a colonial relationship had been established between Britain and Bengal following the 1765 treaty of Allahabad, it was only in the nineteenth century that British conquest extended to other regions of the subcontinent. Also, it was only after the abolition of the English East India Company's trading monopoly with India in 1813 that the full impact of the Industrial Revolution under way at the time in Britain was felt in India. Among the more visible of the changes was the gradual emergence of the so-called colonial pattern of trade. From being a major exporter of finished manufactured goods - the most important amongst which was cotton and other textiles -, India became in the second half of the century an exporter of items such as food grains, jute, oilseeds, tea, hides and skins and so on. It should of course be realized that although most of these exports can be classified as primary commodities, they are really in the category of semi-manufactures as many of them received considerable processing before they were internationally traded.

Nationalist critique

In second half of the nineteenth century, a spirited Indian nationalist critique began, with the British rule the fountainhead of India's miseries. The nationalist argument was put forward most forcefully by Dadabhai Naoroji, a Parsi businessman and the founder of the Indian National Congress; he was elected to the House of Commons to speak for Indian interests in the 1890s. There was also R.C. Dutt, who resigned from the Indian Civil Service to pursue his attacks on the revenue administration of Bengal; he focused on the distortions to the Indian economy brought about by British rule and the impoverishment of the mass population through the colonial "drain of wealth" from India to Britain throughout the nineteenth century. Nationalists asserted that the British had destroyed or deformed a successful and smoothly functioning pre-colonial Indian economy. British colonial rule was seen to have removed indigenous sources of economic growth and power, replacing them with imperial agents and networks, which deprived Indian entrepreneurs and businessmen in the "modern" sector of the opportunity to lead a process of national regeneration through economic development. The result was also severe welfare and distributional effects in India's "traditional" sector, owing to the imposition of foreign competition on handicraft workers and forced commercialization on agriculturists.

The deindustrialization debate

The Industrial Revolution in Britain, which started in the second half of the eighteenth century and matured during the first half of the nineteenth, had important consequences for the Indian economy. As late as the 1770s, one writer on India had commented that the demand for Bengal manufactures could never lessen because the quality of its cloth was so fine that no other nation could compete with it. Yet the invention and application of machinery to spinning and weaving had, within fifty years, undermined Bengal's position as one of the most important areas of textile production in India. By about 1830, the elimination of Indian handloom textiles from international markets was all but complete; the next stage was the emergence of Britain's Lancashire-made cotton textiles as the single most important class of foreign goods imported into the Indian subcontinent. 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. If this figure is subject to error – based on estimates of hand-spun yarn, the assumed growth of population and the per capita income, as well as the coefficient relating cloth production to full-time jobs – it conveys the order of magnitude involved. 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 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 some extent.

The rise of a modern industrial sector

The other major economic development in India was the rise of a modern industrial sector. From the 1850s, when the first major industries were started, to 1914, India had the world's largest jute-manufacturing industry, the fourth-to-fifth largest cotton-textiles industry, a modern iron- and steel-manufacturing sector, and the third largest railway network. The jute industry was initiated, managed, and entirely controlled by Europeans. Every mill (except one started by an American group in 1914) was promoted by Englishmen or Scotsmen. The mills were typically initiated as rupee firms, although a few (nine of the sixty-four existing in 1914) started as sterling ventures. Rupee companies tended to be financed mainly by investors in India; sterling companies probably obtained much of their initial capital in Britain, but they also offered blocks of shares for sale in India. In all cases, most of the capital came from British investors – civil servants, other officials, and merchants. Only during the 1920s and 1930s did Indian enterprise – mainly Marwaris – enter the jute sector.

The modern cotton-textile industry began in western India about the time the jute industry was established in Bengal. Whereas the jute industry was dominated by non-Indians, the cotton industry was essentially Indian in origin, largely controlled by Indian investors, and increasingly administered by Indian managers and technicians. Given the widespread impression that India's industrial development was impossible because of implacable British hostility to Indian competition, India's cotton-mill history seems particularly paradoxical; it flourished despite competing against the most important, the most internationally aggressive and politically most powerful industry in Britain. Its rapid expansion began only after 1870, yet by 1910 the Indian industry had become one of the world's largest. Unlike the jute industry, its expansion – although certainly assisted by substantial opportunities in foreign trade – ultimately depended on its own domestic markets.

The establishment of India's modern iron- and steel-producing unit at Jamshedpur in Bihar in the early years of the twentieth century owed a great deal to the vision of J.N. Tata, probably the most creative of the first generation of Indian industrial entrepreneurs. Initially, he planned to obtain all or most of the capital for the project in London. Despite favourable reports about the quality and quantity of raw material and careful planning of the enterprise, negotiations in 1906 and early 1907 proved fruitless. The Tata concern was unable to get solid financial support for the project; a major factor seems to have been an unwillingness to yield control. London investors were not prepared to risk their capital in ventures controlled by Indian entrepreneurs, even those with the strong reputation of the Tatas. Only then did the Tatas turn to India, and the Tata Iron & Steel Company (TISCO) was registered in August 1907 with a nominal capital of 23.2 million rupees (approximately 1.6 million British pounds), and the entire amount was subscribed to the Bombay firm by some eight thousand people in three weeks. Not only was Bombay then a major commercial centre, where people were prepared to take some investment risks in modern enterprises, but since 1904 the city had experienced a boom. At the same time, India was generally engulfed by an enthusiastic nationalism, to which the Tatas appealed in their prospectus. Known for their financial competence, caution, and golden successes, the Tatas were able to take advantage of this fortunate set of conditions.

India's overall industrial growth, which continued during the interwar years, should not be overstressed. When the political philosopher Karl Marx wrote in the mid-1800s, he expected that the introduction of railways and modern factories would rapidly transform the subcontinent – he was excessively optimistic. Modern industrial processes did not spread easily from region to region or sector to sector, and the total effect was not cumulative. At the time of independence, India was still largely non-industrial and one of the world's poorest areas. Most interpretations have attributed the limited scale of modern industrial development either to British policy, which inhibited local initiative, or to the Indian value system and social structure, which diminished entrepreneurial drives. While these elements may have set parameters within which business behaviour occurred, they do not explain the specific and diverse characteristics of actual entrepreneurial choices. The Indian economy in the nineteenth and twentieth centuries was essentially a private-enterprise economy, and the vast bulk of decisions about the allocation of resources was made by private business. In no decade between 1872 and 1947 did the state's annual share of gross national product (GNP) average more than 10 percent; usually it was less than that.

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 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 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.

Conclusion

The Indo-European encounter over the last half a millennium was a historical process with extremely significant and wide-ranging implications for both sides. Within the overall rubric of the desire to procure Indian goods, the precise motivation and mechanism behind the arrival of each of the European trading groups into the subcontinent was different. The Portuguese came basically for pepper, and throughout the sixteenth and the early part of the seventeenth century India provided an overwhelming bulk of the total pepper supplies reaching Lisbon. The Dutch East India Company, on the other hand, procured its pepper and other spices in the Indonesian archipelago and came to India looking mainly for the relatively inexpensive mass-consumption cotton textiles produced on the Coromandel coast, and to a smaller extent in Gujarat, with a view to using them as a medium of exchange to procure the Indonesian spices. This became the first link in a chain that eventually developed into a massive involvement in intra-Asian trade with other Indian commodities such as Bengal raw silk and opium also playing a critical role in the successful functioning of the complex network. In the last quarter of the seventeenth century, the fashion revolution in Europe put Indian textiles and raw silk at the head of the imports from Asia catapulting India into the position of being by far the most important supplier of goods for Europe. The English involvement in the trade of the subcontinent became significant only from the second quarter of the seventeenth century, after they had found it impossible to carry on profitable trade in the Indonesian archipelago due in part to the opposition by the Dutch. From this point on, India figured even more prominently in the total English exports to Europe than was the case with the Dutch.

As far as India was concerned, the substantial amount of trade carried on from her ports by the Europeans, both with Europe as well as with other parts of Asia, particularly from the early part of the seventeenth century onwards, served to strengthen her status considerably as a premier trading and manufacturing nation in Asia. At the turn of the eighteenth century, India was probably the largest and the most cost-competitive textile-manufacturing country in the world. An increase in trade being beneficial for a country is an axiom: in India's case the 'bullion for goods' character of the European trade considerably enhanced its positive implications and indeed turned it into an important instrument of growth in the Indian economy. The gold and silver the Europeans imported from Europe and other Asian countries such as Japan led to a substantial increase in the supply of money in the country. The growing level of monetization in the economy, in turn, facilitated reform measures such as the growing conversion of the land revenue demand from kind into cash, which led to a further increase in market exchange and trade. The growing availability of precious metals in the system also helped the rise of banking firms, and generally became an important factor in facilitating the expansion of the Mughal empire.

By not involving a decline in the domestic output of import-competing goods, the 'bullion for goods' character of the European trade also implied that the positive implications of the growth in trade for the level of income, output and employment in the economy were considerably more substantial than would have been the case if this trade had been of the ordinary ‘goods for goods’ variety. In the agricultural sector, there was an increase in the acreage under cultivation, particularly in the case of high-value commercial crops such as cotton and opium. The increase in output and employment in the manufacturing sector was clearly on a scale that was not entirely insignificant. Job opportunities in several segments of the services sector such as that providing brokerage services would also have gone up. Besides, the fact that, on average, the rate of growth of the European demand for Indian goods such as textiles and raw silk was greater than the rate of growth of their supply, increasingly turned the market into a sellers’ market. The fact that this involved not only an increase in the bargaining strength of the intermediary merchants vis-à-vis the Europeans but also a continuous improvement in the bargaining strength of the weavers vis-à-vis the intermediary merchants, implied that the benefits of the continuing rise in the level of output, income and employment were not confined to the intermediary groups but percolated all the way down to the weavers and the other constituents of the producing groups.

During the early colonial phase in the post-1760 period, this situation continued unaltered in many respects but underwent major modification in others. The composition of the trade with Europe remained unchanged, and except for the ‘unrequited’ part of the exports financed through the investment of the Bengal surplus revenues, the ‘bullion for goods’ character of the trade continued to be valid, though in a more restrictive and limited way. From the point of view of the English Company, the suspension of silver imports for a while and the financing of the exports mainly through the bills of exchange only meant that the payment in silver was now made in Europe rather than in India. But of course, this silver never reached India.

Also, in so far as the relationship between the English East India Company on the one hand and the Indian intermediary merchants and producers on the other was no longer governed by the market but was dictated by the Company, a good part of the legitimate share of the producers and the merchants in the total output was now appropriated by the Company.

The full-fledged impact of the colonial relationship between Britain and India came into play only in the nineteenth and the first half of the twentieth century. The subcontinent witnessed only a limited amount of economic growth during this period. To what extent colonial rule was directly responsible for this is a matter which is very difficult to find an easy answer to. It need hardly be stressed that colonial rule is designed to promote the interests of the metropolitan (mother) country, if 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. Given the reasonably resilient internal dynamics of the Indian economy, the colonial period was not altogether devoid of all growth though one could legitimately take the position that almost certainly things would have been distinctly better if the colonial episode had never happened.