ECONOMIC HISTORY OF INDIA UNDER THE BRITISH

1757-1947

(Revised and brought up to date)

(1) French revalution -
(1) 1848. Revalution -
(2) Zollevine -
Bismark -

By

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VORA & CO. PUBLISHERS PVT. LTD.,
3, Round Building, Bombay 2.

First Edition,
1968
Revised Second Edition,
1969

Published by

K. K. Vora,
Vora & Co.,
Publishers Pvt. Ltd.,
3, Round Building,
Bombay-2

Printed by

D. V. Sheth,
Art Indestro,
125, Nagindas Master Road
Fort, Bombay-1.

PRINTED IN INDIA.

PREFACE TO THE SECOND EDITION

The book has been extensively revised to incorporate mainly recent developments. In particular, half a dozen tables are added to cover the post-Independence developments in the sphere of Old Age and Unemployment Insurance, Collective Bargaining, Irrigation and Agriculture under the Plans and Industrial Finance Corporations. With the same end in view some tables have been extended, viz. those on Outline of Labour Legislation, Details of Labour Laws on Working Conditions and Social Insurance. (The addition of tables on Labour has resulted in a change of numbers of two tables — 15 and 16 of the first edition now become 17 and 18 respectively.)

There are also new sections on the Historical Background —a brief account of political, administrative and economic developments during 1707 to 1968, the Population Explosion and Irrigation under the Plans (after the table on the subject) and a list of the Landmarks at the end. Some of the chapters have been substantially expanded to discuss more fully the Urban Handicrafts, Agriculture (several sections enlarged) and Industry and, to a lesser extent, Labour Legislation, Towns (a Note on the two tables), Foreign Trade and Banking. Elsewhere too more recent figures and developments have been added.

Thus the book now covers about a dozen of the post-1947 developments at length, generally in a comparative way; the element of comparison has thus been substantially enlarged.

Thanks are due to Dr. S. D. Punekar for Table 15 which is based on a table of his, and to Miss J. M. Sawant for the Note on Irrigation, which uses part of the material she collected for her article and papers on the subject. The lady who helped with Table 7 has been "discovered" to be Miss Mankekar, now Mrs. Tombat.

T. B. D.

PREFACE TO THE FIRST EDITION

1. The Tables. In the early 1940s the year's President of the Indian Economic Conference visited the Wadia College at Poona, where he saw a table (No. 12 in this book) on the black-board in a class-room. He remarked that it was an interesting (or useful, I forget the exact words) way to study the problem. Since then many students—reading for the B.A., B. Com., and M.A. examinations—as well as professors have shown their appreciation of these tables. They were found particularly useful in revising the subject. A note on the use of the tables follows; they have also been woven into the texture of the book. Numerical data, too, have been presented in a tabular form, wherever possible, so as to facilitate comparisons.

2. Simple language. The need for a book on the subject also arose from the difficulty that the vast majority of students experience in understanding standard works on the subject, like those by Prof. D. R. Gadgil and R. C. Dutt. It had, therefore, to be in simple English. To that end words and constructions were simplified until, in some cases, the former changed in meaning and the latter became awkward; and so they had to be changed again. The same aim is responsible for the heavy punctuation. An effort has also been made to include as much matter as possible within a limited compass to keep the book within the student's capacity to acquire it.

3. New "topics," comparisons. This was rather difficult as several "topics" have been covered which are not usually discussed in a book of this nature. These include the farmer's credit needs, the condition of agricultural labour, export industries, gold exports during the Depression. and a number of comparisons: between urban and rural handicrafts, cotton and jute industries, tea and coffee plantations, as also between the various laws on working conditions and on workmen's compensation and between the Commissions (and Committees) on currency and exchange.

4. Systematic presentation. These comparisons, as also the tables, should help in a systematic study of the problems involved. Considerable attention has also been paid to analyse each problem and to link the various parts, indeed to connect every sentence, paragraph, section and chapter with the preceding one.

5. Paragraph headings, questions. Another device on which a good deal of care was bestowed is the provision of paragraph headings. They supply the reader with the principal point in the paragraph before starting on it and again after finishing it, and when read together they would be particularly helpful in getting a brief, overall view of all the developments in a particular field, especially when revising the subject. Here again simplicity is aimed at—and brevity. To help revision, again, questions have been provided at the end of every chapter, many of them based directly on the tables.

6. Developments since 1947. The history has been brought up-to-date by briefly mentioning the developments since Independence. (In a few cases recent changes will be found wanting as the typescript was handed over in the first half of 1965.) This feature should help the reader to link up the subject with the "Indian Economic Problems" of to-day.

7. Acknowledgements. A small book like this, attempting a detailed survey of the many developments in different fields over a number of periods, is bound to be immensely indebted to the many standard works, general and specialised, dealing with these developments, as indeed the Bibliography makes it amply clear. It cannot thus claim originality except in the sense that when one concentrates on a theme a few ideas are bound to occur to him. One can only express one's deep gratefulness and hope that what he has made out of the original sources is not too unsatisfactory. In the preparation of some of

the tables substantial help was obtained from students: from (Prof.) V. R. Kapadia and Shri J. M. Kakaria for Nos. 1 and 3, from a lady student who worked on No. 7 (I regret I do not recollect her name, it was perhaps a decade ago) and from Miss (now Mrs.) Shetty, who helped with No. 16. But No. 14 is based on a table lent by Dr. S. D. Punekar. It is a pleasure to recollect this help from them with gratitude.

T. B. D.

A NOTE ON THE TABLES

The tables were designed to present data on particular problems in a useful, systematic and striking form. This results in bringing together all the relevant material, emphasising the points of similarity and difference and facilitating the study of interrelations between the different aspects of the problem. It also helps to look at the problem from a new angle. Take Table 12, for instance. The usual presentation is in the form of details of the Factory Act of 1881, then of the Act of 1891 and so on. The table gives that in one or two lines each, but it also enables us to read off quickly the changes in each separate element from Act to Act, viz., changes in the minimum and maximum ages for employment of children, in their hours of work, in hours for women and for men, in "welfare" provisions and inspection, in the scope of the Acts. Further, the table makes it very convenient to compare each Act with the previous and the succeeding ones (thus bringing out the very logical nature of the developments as each new Act was passed); also to compare the first Act with the last one (to find out the overall change) and each Act with the Act in force at the time in mining and on railways (and, after Independence, on plantations too).

This sort of study—the "vertical" study, shall we say?—is rendered very easy by almost all the tables in the last group discussed below.

Taking up those groups now, three of the tables—Nos. 3, 5 and 9—are simple two-column ones. No. 3 brings out very strikingly the differences between India's urban and rural handicrafts. It also facilitates a comparison with regard to each of their features. As to No. 5, we know of the cycle of prosperity and depression in agriculture as determined by the monsoon right upto 1967; but the table presents the fact in a very clear-cut form, which should fix it in the reader's mind; it also brings out the diminishing importance of the seasons with the passage of time. Table No. 9 (on the growth and decay of towns) shows how basically the same forces were at work on both sides: trade routes, industries, natural calamities and other adverse conditions; and how the first two had permanent effects, while the others exerted only a temporary, negative or negligible effect.

Two of the tables look more complex, but are really simple in nature. No. 6 brings out the various aspects of the three-fold finance needed by the farmer and shows how the other features depend on the purpose of the loan. The contrast between these features of each type of loan should help to make them very clear to the reader. No. 8 similarly emphasises that the features of each town depended on the type to which it belonged.

Two other "tables" are charts really, viz. No. 4 and No. 10. The former brings out the interrelations between the various forces that brought about the decline of India's urban handicrafts. This should be more helpful in understanding the problem than a mere list of the "causes". No. 10 classifies the numerous problems of industrial labour under four broad headings; it thus attempts to bring some order into what would otherwise be a chaotic list or succession of "topics." The text also points out the interconnections between these problems.

There is a pair of tables, No. 1 and No. 2, which have several columns each, but which are also simple. They deal with the same theme, economic conditions during the earlier part of British rule. Dr. Buchanan's survey was very detailed, but the long descriptions of places (which were visited by him) leave no clear impression about, say, land revenue, industries or transport in either the South or the North. The table gives a sort of generalised picture of the two regions with regard to each of these problems. A comparison between the two regions is also facilitated, as also a comparison with Prof. Gadgil's picture of the whole country's economy at about the same time.

The remaining tables, nearly half the total, are quite large; several of them bring together details about developments in a particular field during successive periods. Four of these provide an analysis of labour legislation, which is particularly necessary in the case of No. 11 and No. 12 because of the large number of Acts involved.

As remarked at the beginning of this note, most of the tables in this group are particularly useful for a "vertical" study, i.e. the study of the history of every feature during all the successive periods. In No. 7, for example, one can quickly read off the general condition of the cotton (mills) industry during each period; and similarly, changes in localization, in the number of mills and of workers, in exports, in imports. One can also study the interrelations between influences, on the one hand, and general condition, exports, imports, etc. on the other; and so on. And, of course, one can survey all the developments together period by period. Table 11, too, can be used in a similar way; it is moreover useful for studying the volume and range of labour legislation in each period and for comparing it with the preceding and succeeding periods. The uses of No. 12 have already been indicated. No. 13 presents the rather complicated provisions of the Workmen's Compensation Act of 1923 (and its amendment in 1933) in a systematic form, which should facilitate their study a good deal, particularly a comparison of the amendment with the original Act. Table 14 deals with the same theme but in a more general way and adds legislation on maternity benefits.

No. 15 is a marathon effort. It can be used, among other things, for studying the close connection between trade policy and industrial position, between the latter and the composition of trade, between the composition of exports and that of imports, between external influences and the fortunes of India's foreign trade. Incidentally, the column on trade policy gives a good brief history of government's industrial policy from period to period. Similarly, one can quickly read off changes in exports, imports, direction of trade, terms of trade and balance of trade from the first period to the last. Lastly, of course, one can study all the developments together for each period.

The last table summarises many of the important developments in currency and exchange during six decades under the Crown. It is more useful still to bring out the changes in government's attitude regarding the currency standard and the exchange ratio. In a text-book these discussions would be spread over some two dozen pages and the students would lose the thread; the table makes it very easy to compare the changes recommended by the various currency bodies in, for instance, the currency standard or the exchange rate; and also to study government's reaction and how far it implemented the recommendations of the particular currency body.

Tables which outline the developments in a particular field during succeeding periods can be easily extended to include later developments; they can then be used for studying "Indian Economic Problems" since Independence. All the tables in the last group except No. 16 lend themselves to such use.

The changes and additions in the second edition are indicated in the new Preface.

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R. C. D.

Note: 1) A *'lakh'* is a hundred thousand and a *'crore'* is ten million.

2) One *rupee* was divided into 16 *annas*, now it is divided into 100 *paise*. One dollar today is worth 7.5 rupees and one pound sterling fetches 18 rupees.

3) The C.P. (Central Provinces) was, as the name indicates, in the middle of India with Nagpur as capital. Now its parts are merged with the three neighbouring linguistic States; the cotton-growing Berar (Vidarbha) is in Maharashtra.

Chapter 1

HISTORICAL BACKGROUND AND ECONOMIC CONDITIONS IN EARLY 19th CENTURY

Section I. Historical Background

1707, The last of the Great Moguls: In 1707 Aurangzeb, the last of the Great Moguls, passed away. That was the beginning of the end of the Mogul Empire, which gave India one of its brightest periods of history; indeed it was one of the most glorious eras of two centuries in any country. However, it went the way of all empires; and after Aurangzeb's death there followed family feuds for succession and the break-up of the Central authority. Independent kingdoms multiplied, arose and fell; and there were war and disorder, uncertainty and insecurity of life and property—all of them obstacles to economic progress.

1757, The Battle of Plassey: Exactly half a century later, the British won the Battle of Plassey in Bengal. This victory is the beginning of the next great empire in India, the British Empire, which also endured for two centuries and which, too, left a permanent legacy to the country. The victory at Plassey occurred at about the same time as the beginning of the Industrial Revolution in England (from about 1760); and these two events combined to have a profound effect on every aspect of India's economy.

1600-1765, The Trading Company: The beginning of this new empire goes back a century before Aurangzeb's death. On 31st December, 1600, the East India Company was granted a charter to trade with the East Indies, by Queen Elizabeth I of England; and it was this Company that won at Plassey. Thus the British came to India to trade with her; and so for the first century and a half, they were mainly busy with that. They had three chief establishments, at Bombay, Madras and Calcutta, each with a Council under a President. These came to be known, therefore, as the Presidencies. They were responsible to the Court of Directors of the Company in London.

As we saw above, the Central authority became progressively weaker after 1707. But the prestige of the Mogul was still high; so the Company secured a show of legal status from him, for their rule in Eastern India. In 1765 it obtained from him the 'diwani', the right to administer the Province (and collect its revenue).

1765-1858, The Ruling Power: Thus the trading company became a ruling power. With the passage of time, it acquired more and more territory, by conquest or otherwise, and side by side gradually lost its trading privileges. In 1773 the British Parliament passed the Regulating Act, which gave parliamentary title to the Company's administration in India. Twenty years later came the first Charter Act. The Company's Charter was renewed every twenty years by Parliament, which inquired into its affairs on each such occasion. The Charter Act of 1813 abolished the Company's monopoly of trade with India, so that private British citizens also could now trade with her. On the next occasion, in 1833, the Company's right to trade was taken away entirely; and thus it became a purely ruling power. The next renewal of the Charter in 1853 was the last; for in 1857, exactly a century after Plassey, there occurred the Great Sepoy Mutiny of her Indian soldiers. The Mutiny was suppressed, but so was the Company; or rather it was wound up, and the Government of India was taken over in 1858 by the Crown, i.e. at that time by Queen Victoria, who had come to the throne in 1837.

Epoch-making Developments, 1848-57: During the last decade of the Company's rule, there were epoch-making developments here and abroad. The abolition of Corn Laws in England from 1849 ushered in free trade in Europe and it was forced on India too. Gold was discovered in California in 1848 and in Australia in 1850. This, and the discovery of silver in Mexico, led to a rise in prices all over the world. This result was helped by the great development in the means of transport and communication. Ocean steamers were improved; in the 1850s the new Public Works Department of Dalhousie built modern roads, which spread rapidly in the 1860s; and so did the railways, which began with the first line of 1853; post and telegraph facilities were extended.

Their effects: These developments added economic unity to the administrative unity introduced by the British—cultural unity we already had. India became one market, indeed part of the world market, as was shown by the impact of the American Civil War in 1861-65. Agriculture was transformed, e.g. the nature and importance of famines were changed and commercialization of agriculture occurred, leading in its turn to localization of crops; the ancient village community broke up and its self-sufficiency and isolation vanished forever into thin air; its handicrafts decayed and the artisans had now to subsist on the soil, thus resulting in excessive pressure on the land, subdivision of holdings, increase in debts, transfer of land to the moneylenders; the urban handicrafts, too, declined; though their place was being partly filled up by the new factory, plantation and mining industry; the volume of internal and foreign trade was enlarged, its composition and direction changed and methods of trade were revolutionized. Thus the entire economic structure of India was terribly shaken. These developments were hastened by the opening of the Suez Canal in 1869.

The British also introduced peace and order, security of life and property. But in the process they enforced on the country their ideas about property: sanctity of contracts (e.g. between debtor and creditor), the right to mortgage and sell land and individual responsibility for payment of land revenue. These had some harmful effects on agriculture, like rise in land revenue and debts, mortgage and sale of land to moneylenders, dispossession of farmers, exploitation of tenants and labourers.

1858-1947, Under the Crown: Government by the Crown meant, of course, that a member of the British Cabinet was in charge of it. He was called the Secretary of State for India. The first small political advance under the Crown came through the Indian Councils Act of 1861, which sowed the seeds of representative legislatures. This element was substantially enlarged only in 1909—and even then under severe pressure. The Indian National Congress was founded by an Englishman in 1885, but its aims and programme were mild. The situation was, however, transformed overnight by the Partition of Bengal by Lord Curzon in 1905. The victory of little, Asiatic Japan over the giant, European Russia in 1905 had already thrilled Indians and given them self-confidence. So the Partition of Bengal sparked off a vigorous and countrywide agitation. The programme included boycott of British goods and encouragement to 'swadeshi' (Indian) products and was, therefore, known as the 'Swadeshi Movement'. Thus came the Act of 1909, which is known as the Morley-Minto Reforms, because Lord Morley was the Secretary of State for India at the time and Lord Minto was the Governor-General. In 1919, similarly, Montagu was the Secretary of State and Chelmsford the Governor-General.

Mont-ford Reforms, 1919: The First World War was a landmark in all history—economic, political, cultural—all over the world. India was no exception. The country contributed a good deal to the Allies' war effort and expected a substantial instalment of responsible Government. But the Act of 1919 gave such a Government in the Provinces only—and that too in some departments (like Co-operation, Irrigation, Agriculture and Industries), which were further starved of funds. The key departments were in the 'reserved' list, in charge of British officials, while these 'transferred subjects' were handled by Indian members of Legislatures. This was the so-called diarchy or two-fold Government.

To make matters worse, the Act was followed by the repressive Rowlett Act, and the notorious massacre at Jallianwala Bagh in the Punjab. The Indian National Congress, under the leadership of Mahatma Gandhi, started the Non-cooperation Movement. The boycott of British goods was renewed and 'swadeshi' products encouraged. However, the Movement was called off due to the eruption of violence. It was taken up again in the early 1930s under the name of 'satyagraha' (insistence on truth).

1937-39, Provincial Autonomy: Ultimately, under the Act of 1935, full responsible Government was granted to the Provinces, where Popular Governments, made up of elected members in the legislatures, started functioning in 1937. They took a number of steps for the welfare of the people. But they lacked experience, were too much in a hurry and ultimately resigned in the large majority of Provinces, on the issue of the War. These were run by the Congress, which objected to Britain involving India in the Second World War without her consent. For such consent real power in the Central Government was demanded. The British response was the Cripps Proposals of 1942, which the Congress rejected. The latter passed the 'Quit India' Resolution in August that year. The Government imprisoned its leaders immediately and that led to strikes and violence.

1947, Independence and Partition: Finally India gained independence on 15th August, 1947; but it was accompanied by the country's Partition, which created Pakistan out of the areas in the north-west and the east; Burma was already separated a decade earlier.

The Partition created serious economic problems for independent India; e.g. the large irrigation works in Sind and Western Punjab, and the wheat and cotton areas there, now formed part of Pakistan, as also the jute region of East Bengal, while the mills were in India; the railway and transport system was disrupted; and particularly after the Chinese invasion in 1962, defence expenditure mounted up, more so after the conflict with Pakistan in 1965.

1951-68. Planning and its Problems: In the meantime India had embarked on her Five-Year Plans in 1951-52 and later adopted the 'socialistic pattern of society' as her economic goal. This goal has meant, among other things, a variety of controls, a great expansion in Government staff and a huge public sector of some six dozen projects. These have absorbed an investment of about Rs. 3,000 crores, of which the steel plants account for a third. The beginning of the Fourth Plan in 1966-67 had to be postponed by three years, because of war with Pakistan in 1965 and two successive famines in 1965-67. There had also been other unfavourable developments: a rapid rise in population due to a fall in the death rate; underutilization of industrial capacity; shortcomings in plan implementation; and a good deal of deficit financing, which had raised the price level, particularly after 1962-63, the year of the Chinese invasion. As a result of all these adverse circumstances, there had been an increase in the deficit in the balance of payments; rise in public debt, foreign and internal; increase in taxation, especially on the urban people; the foreign exchange crisis and devaluation (in 1966); increasing unemployment; and more recently, the recession in industry. The closure of the Suez Canal in June 1967 added to our difficulties.

Fortunately, we received massive economic aid from the U.S.A., including large supplies of P.L. 480 foodgrains on favourable terms.

Achievements: There have also been some healthy developments, viz. the Community Development Programme (from 1952) for all-round rural uplift; the huge multipurpose irrigation and power projects and progressively greater utilization of irrigation potential; schemes of agricultural research, particularly successful in evolving hybrid seeds; a number of Corporations for financing industry, and in general the laying of the base for rapid industrial growth; relaxation in imports of spare parts and raw materials; export incentives; and a countrywide, vigorous family planning drive. And 1967-68 has been a year of good harvests. Lastly, Government have become less rigid and doctrinaire in their approach to economic problems. All these developments point to a brighter future.

Section II. Economic Conditions in Early 19th Century

As we saw above, British rule in India introduced a distinct period in her economic history. There were many far-reaching developments, several of them adverse. To appreciate this change we must first study the features of the old Indian economy.

Accounts by Dr. Buchanan & Prof. Gadgil

Fortunately, we have a detailed survey of the position at the beginning of the British Period. At the instance of Wellesley, the Governor-General, Dr. Francis Buchanan toured South India in 1800 and North India in 1808-15. He described in detail the economic conditions in the various places which he visited. His report is summarised in *Table 1** and we will now take it up, as also a comparison of the North with the South. But we also have a picture of the Indian economy in the first half of the 19th century, as drawn by Prof. D. R. Gadgil in his "Industrial Evolution of India". The details of this account are put down in *Table 2** and they will also be used here.

Agriculture: Prof. Gadgil tells us that India was then predominantly agricultural. In addition to the farmers, village artisans followed agriculture as a subsidiary occupation. The farmers' condition was depressed, chiefly because of the heavy land revenue which was levied by early British rulers.

* All tables appear at the end of the book.

Dr. Buchanan showed how this was true of both South and North India. Land revenue often absorbed the whole rent of the landlord and its collection was rigid and strict, unlike the pre-British practice. It was much higher than the old rate, as we shall see in detail in Chapter V. Besides, in those days Government constructed irrigation works and kept them in repair.

Irrigation, rents: In the South, for example, dozens of large reservoirs were constructed and repaired, in the old days, by the Mysore Government. In the British areas, on the other hand, there were many pre-British works which were not repaired by the Government of the East India Company. In both the North and the South, there were also dams, reservoirs and canals, constructed and maintained by landlords. If the latter undertook these works, they also charged high rents. They were 25 per cent of gross produce in the South and 33 per cent in the North. The cost of cultivation was 45-50 per cent of the gross produce.

Prices and Wages: Sudden and violent fluctuations occurred in prices, especially those of foodgrains. This resulted from the lack of adequate transport and converted even a local famine into a calamity. Further, there were great differences in the prices of the same article at different places. One district may have a bumper crop and the farmers would, therefore, suffer from low prices. Another district, not very far, may suffer from famine and scarcity prices. The supply and demand for food could not come together; the markets were local, not national. Another feature of prices—and wages—was that they were extremely low. A ploughman received one anna per day and one rupee purchased 140 lbs. of rice in husk.

Industries: Spinning and weaving were the national industries in both the North and the South. They were, of course, in the handicraft stage. Women of all castes were found spinning, the spinning wheel was the support of the childless widow. Both the regions had also their artisan industries in every village with its blacksmith and carpenter, potter and shoe-

maker. In the towns, on the other hand, there were also those handicrafts which turned out excellent products, some with a worldwide reputation. (Both types of handicrafts are discussed at length later in this chapter.) The towns were of three types and had about ten per cent of the total population. (They are described in Chapter VIII.) In addition to the handicrafts there were indigo factories owned by Europeans in the North.

Transport, Trade and Banking: In both the regions goods were transported by boats, pack-bullocks and bullock-carts. But the roads were useless in the monsoon as there were no bridges. Indeed most parts of India had no roads worth the name. As a result, carts were primitive, transport rates were very high and prices in different parts differed widely. Another result was that trade was very restricted regarding volume, distance and type of goods. Of course, there was some trade in luxury articles in a few places in both the North and the South; for the ordinary purchases there were the weekly markets. In the North imports of cotton thread and cloth from Lancashire had begun and India had started exporting hides and skins to Europe. Thus the composition of foreign trade was changing. In the North, again, there were bankers issuing and discounting bills of exchange.

The Village Community: The village community in India had a peculiar form, which we will study in detail later in this chapter. Here we may note in brief that it was a self-governing and self-sufficient unit, with the artisans as village servants.

Conclusion: In the North as well as the South, the East India Company established peace; but the people were miserably poor, mainly because of heavy land revenue. Those in the South were worse off than their neighbours in the Native State of Mysore, under Purnea the famed minister. The decline of handicrafts had begun, making the position worse, by threatening to cut off an important source of income. We had started importing manufactures (thread and cotton cloth from Lancashire) and exporting raw materials (hides and skins to Europe).

Economic conditions in the two regions were very similar even at this early date.

Economic Transition in India

This old Indian economy was transformed in the 19th century; India went through an economic transition. Two major influence were responsible for this change: British rule and the new transport introduced by it.

Causes. British Rule: First came British rule from 1757 onwards. The Industrial Revolution began in England at the same time in about 1760. So Britain followed the policy of converting India into a market for her manufactures and a supplier of raw materials to her factories. British rule also resulted in new revenue, administrative and judicial systems, which had a profound effect on the Indian agricultural structure, as we shall see later in detail.

Transport: But the really important factor was the opening up of India by steamship routes, roads and railways. It was this that made possible the huge imports of British manufactures into India and the export of her raw materials. The result was a decline in our handicrafts. Other factors that brought about their decline were the abolition of courts, Government's industrial policy, etc. All these influences and their effects are described in detail in later chapters. But we must here study at length some of the prominent features of the old Indian economy, *viz.* the village community and the rural and urban handcrafts.

The Village Community & Rural Handicrafts

The village community in India had a peculiar and unique form. How did its features differ from those found elsewhere?

Its features: *Self-Government and self-sufficiency.* It was a simple form of self-government by the inhabitants of the village. It was a democratic little republic, which protected

the villagers from the oppression of the zamindar and the government. Its officers included the headman, accountant, school teacher, watchman, etc., and its servants were the priest and the artisans, *viz.* blacksmith, carpenter, shoemaker, potter, washerman, barber, etc. Thus it had to get from the outside only salt and spices, fine cloth and ornaments. The rest of its needs were produced in the village: food and cloth, implements and vessels etc., as also the services of priest, doctor, and artisans, as the village was isolated from the rest of the world by lack of transport.

Artisans as village servants: The special peculiarity of the Indian village community was that the majority of these artisans were village servants. They had plots of land at reduced rents and got a fixed share of each year's produce from every farmer. In return they had to render most of the servic

This village community was already ancient in the days of Manu and yet it flourished down to the 18th century, while dynasties and empires rose and fell. Under the British, however, it decayed. Why this decay?

Causes of decay: To get the maximum land revenue, the British made direct arrangements with the ryots, while formerly the settlement was with the village community. Similarly, there was administrative centralisation: judicial and executive powers were taken away from the village community and centralised by the British in their own hands. The new transport helped them in this and also made it possible for the villagers to get things from outside. This broke down the self-sufficiency and isolation of the village; cheap factory products from the West poured into the villages with the help of this transport; and later, factories were started in Indian cities. Village industry could not compete with these, because it suffered from certain defects, which contributed thus to its decay.

Defects of handicrafts: As the artisans were sure of customers, with no fear of external competition, there was no progress in tools or methods; both remained primitive. Nor was there division of labour or specialization among them, as they had to do all the miscellaneous work in connection with their occupations. There was no localization either, because every village had most of the artisans required by it. Thus the efficiency of rural artisans was low. The features of rural handicrafts are described at length later in this section, where they are compared with the urban ones.

Merits of the system : But the system lasted so long because it had merits also. It was a compact system of inter-dependence, and so it could not be broken easily. On the one hand, it supplied regular services to the villagers, even in times of trouble; on the other, it protected the artisans against external competition. It was also free from the evils of price mechanism, like violent changes in prices.

When the handicrafts decayed, what happened to them and to the artisans?

Effects on artisans : When the village crafts declined, a very large number of artisans changed their occupation. Those who remained in it became poor. But many became day labourers, some went to towns and a large number took to agriculture. Thus the pressure of population on agriculture increased and farms became smaller. The crafts themselves were changed.

Changes in handicrafts : This change in the handicrafts occurred in the second half of the 19th century. But there was no revolutionary change in the industrial structure of the village. There were still mainly the same old village servants, paid in kind, the same type of artisans, the same sort of organization and the same methods. But some changes did take place. There were more payments in cash. The income of the artisans fell and they were more ready to migrate. There was concentration, in large villages and towns, of certain classes of artisans like weavers, dyers and goldsmiths. They came to use mill-made materials like mill-yarn and synthetic dyes, sheet-metal and

rolled iron. And the tailors all over the country took to the sewing machine.

Urban Handicrafts

Description : These village handicrafts differed a great deal from the urban crafts. For one thing, the products of the latter were distinguished by their quality and range, which we now look at.

Textiles—Cotton : The textiles formed the chief urban industry and among them the most important were cotton textiles. The best known cottons were Dacca muslins, which were extremely fine and lovely like 'woven air'. There were other fine fabrics of many kinds, in which there was specialization by different provinces and they were found all over the country.

Masulipatam, for example, was noted for chintzes and Paithan for 'pitambars'. Other places were famous for their double fabrics, 'gabruns', damasks, fine saris, 'kheses', shawls, 'pugris' and figured or stripped muslins. Some of the cotton textiles had an export market: Dacca muslin, for example, was used for wrapping the mummies of Egyptian Kings in ancient times. In more recent centuries, the blue palampores and the punjan cloth of Vizagapatam were largely exported to Europe and the West Indies and the 'lungis' of the Ambala Division (in the Punjab) were famous all over the East.

Silks : "Indian Handicrafts", issued by the Government of India, notes : "Indian silks and brocades, muslins and prints found their way to both European and Asiatic markets. France and England had once to enact laws to keep out Indian fabrics and save their local manufacturers from ruin." Brocades were the pride of hand-made textiles, there were different varieties and several places were known for these products. Beautiful silks were produced in great variety and the more famous locations of the industry included Banaras (brocades), Burhanpur (gold saris) and Murshidabad (brocades and 30 other varieties of silk fabrics) ; Kashmir, Sambalpur (tasar saris) and Kathiawar (silk satins); Ahmedabad, Baroda, Cambay and Surat in Gujarat ('patola' silks, 'Bandhani' etc.); Yeola and Poona in Maharashtra; Mysore; Berhampur and Arni in Madras (saris). Thus the products had a wide range and were turned out all over the country, with specialization by different places. The quality was excellent and won world-wide reputation; there was, for instance, a great foreign demand for the Bengal products.

Embroidery, dyeing and printing: Many centres excelled in different types of embroidery, some of them unique. The same was true of dyeing, the rhythmic design and colour producing a charming effect. Similarly, "very many styles of calico-printing" were found in different parts of the country. Jaipur was "the very metropolis of the calico-printing craft" and several other centres in Rajputana were well-known for it. (The details are given in 'Indian Handicrafts' from which the quotations, too, are taken.)

Woollens, Carpets: The artistic woollens were chiefly made of 'pashm' wool and therefore called 'pashmina'. There were several forms of these, used as wraps; and of these "Kashmir shawls are world famous for their delicate workmanship". In carpets, too, Kashmir was the most famous producer, other important centres being Amritsar, Jaipur, Bikaner, Agra and Warangal, each well-known for its own varieties.

Non-Textiles: Metal-ware and jewellery: Many products of fine quality were made from brass, copper and bell metal. They were produced all over India. South India was renowned for its bronzes. Regarding inlay work, there were several important centres in the North doing 'bidri' work, with its richness and variety of designs. Moradabad and Hyderabad were particularly famous for inlaid metalware. 'Minakari' work (enamelling) flourished in a number of cities in the North, but "Jaipur craftsmen could enamel rainbow tints on gold." In Jaipur, again, engraving of brassware was done in three styles; other places practising it were spread over Northern, Western

and Southern India, the styles differing from place to place. Coming now to jewellery made of gold or silver, it was 'exquisitely patterned' and the "standards of this ancient craft were kept as high as ever". A list in 'Indian Handicrafts' (1953) brings out the great variety of ornaments among the traditional forms: 6 ornaments each for the head and the arms, 7 for the wrists, 9 each for the forehead and the ears, 14 for the neck and so on.

Carving in ivory and wood, marble and stone: "For sheer elegance and fine craftsmanship, the ivories of Mysore and Travancore are highly prized." Several other centres were well-known for a variety of fine articles made from ivory. The same was true of wood-carving. Many centres were famous for different types of artistic wood-work (including articles of sandal wood), which were produced particularly in several places in the South. "Marble inlay and 'jali' (fretwork) rank among India's most important and artistic work in stone". The chief centres of stone-carving are found in many regions, especially in Rajputana and South India, with a good deal of specialization among them.

Others: "The Indian potter displays great inventiveness of form and design." Here, too, there was specialization by different centres in various types of pottery. "Artistic glassware was produced in India in ancient times and found its way abroad. Pliny declared Indian glass to be superior to all others...... The 'papier mache' products reveal the artistic ingenuity of the Kashmiri craftsman". Toys were made from baked clay, wood and metal.

These products "have delighted the people of this country for ages and have been admired by those of other lands... The gorgeous 'Mashru' brocades of Aurangabad were once well known.... killed by changing fashions.... Numerous other arts and crafts.... have been dwindling for over a century.... through the competition of the machine", so that we have to visit the museums, at home and abroad, to see the specimens of these products.

"In ancient India there were craft-guilds ('Sreni') which were efficiently organized. 'These guilds safeguarded the professional interests of their members, regulated working hours and wages, enforced their decisions by fines and generally controlled and supervised the activities of the professional classes and artisans in the interests of the whole community... These guilds were governed by their own laws and the King was expected to recognize and respect these laws'."

Changes in Urban Handicrafts: In the nineteenth century, factory products from the West poured into India in increasing amounts. As a result, our urban handicrafts went through a continuous change in their organization. There was also a fall in the quality of their products.

The markets now became wider, especially after the coming of metalled roads and railways. In this situation, the capitalist-middleman became increasingly more important and the artisan sank deeply in debt to him; later, he became a wage-hand under the middleman. In the final stage, the middleman came to hire the artisans in his workshop. Thus they lost their independence and also their contact with the consumers.

The competition of factory products enforced a reduction in costs; so machinery was gradually introduced. There was also now more of specialization, localization and concentration in big towns. These changes were obviously beneficial to the handicrafts, and those noted in the earlier paragraphs were harmful. All of them are features of factory industry; the handicrafts adopted them to face competition from that source.

What were the factors that brought about these changes?

Causes of these changes: As we saw earlier, the new transport made the market wider; it brought Western factory products to India and they competed with the products of the handicrafts. In these circumstances, more capital was required. Only middlemen could supply it, so they came to control the industries. This cut off the direct connection between producer and consumer and it also made the artisans more and more subservient to the middlemen. The latter had to introduce new methods to face outside competition.

Comparison with Rural Handicrafts

These urban handicrafts differed from the rural ones in almost all respects. The difference was based on the difference in the nature of the market. For the rural handicrafts, for example, the market was the village; they satisfied the primitive wants of the poor villagers and so the products were cheap and crude. The organization also was, therefore, simple and there was no scope for a middleman. As the artisans were sure of a market, under the village community system, the technique and tools remained primitive. And, as every village had most of the artisans, there was no scope for specialization, localization or production on a large scale. As a result, they could not face foreign competition, because the costs remained high.

Let us now look at the features of the urban handicrafts.

The market for their products was the Court and the rich classes—princes, noblemen and officers, merchant princes and bankers. The quality of the products was, therefore, much superior; they were art and luxury products, yet they never sacrificed utility. The higher quality products had a worldwide market, especially after the revolution in transport; so foreign competition in their case was also keener. As the urban population formed only about ten per cent of the total, the number of these artisans was bound to be much smaller than that of village craftsmen.

To look after the quality of the products—and also the welfare of artisans—each urban craft had a guild of its own, as in many other countries. Other aspects of its superior organization were: some localization, a good deal of specialization and division of labour and a larger scale of production. Thus there were substantial economies in cost.

With the advent of British rule, guilds were weakened and Western factory products poured into the country. They beat our urban products in price, though not in quality. The new transport widened markets. To face the competition from the modern industry of the West, India's urban handicrafts had also to adopt the features of its competitior: machinery, new methods and more of specialization, localization and concentration in big towns. In this reorganization the middleman became indispensable, as only he could supply the larger capital required for it. As he became increasingly more important, the artisans gradually lost their independence and contact with the consumers. Thus after 1850 there was a continuous change in the organization of urban industry. Its troubles were increased when factories began to be established in India in the early 1850s. All these factors resulted in a rapid decline in the quality of urban products and in the importance of the crafts.

Thus the two groups of handicrafts were a complete contrast to each other. This is brought out in *Table 3*. The table may be used in another way also, by taking each aspect and studying it in regard to both the types, one by one. Thus, first the market for the two may be compared, then the nature of products, and so on.

But why did such excellent urban handicrafts decline? The causes of their decay are analysed in *Table 4*, so we will discuss them in brief.

Causes of Decline of Urban Handicrafts

Contact with the West—the Company's Policy: The urban handicrafts declined mainly because of the contact with the West. This contact resulted in the conquest of the larger part of India by the East India Company. The Company's policy in regard to the handicrafts was the principal reason for the decay of these handicrafts. We will study its details when we take up the history of Government's industrial policy in Chapter VI. There were other results of the contact with the West and these also led to the downfall of the handicrafts.

Abolition of Courts—loss of old demand: The Company defeated native princes and in other ways also took over many of their kingdoms. This meant the loss of almost the whole market for the products of urban handicrafts, the loss of demand from the princes, noblemen and officers. But the crafts decayed, though more slowly, even in the remaining Native States, as foreign influences entered even there.

The new demand: The place of the noblemen and officers was now taken by European officials and the new educated class of Indians. So there arose a new demand from European officers and also from tourists. This lowered the quality— because they wanted cheap things, and that led to hasty work and adulteration; and new fashions were introduced and copied badly; so there was no life and vigour in the products. The second element in the new demand was educated Indians. But that demand was very small, as they had to accept the ideas of the rulers.

Factory products from the West. The new transport, etc.: Machine-made goods from the West beat the products of our handicrafts in price, though not in quality; but now there were not many who appreciated quality. Modern means of transport made it easy to import and distribute these manufactures from Europe. Further, railway rates were so arranged as to encourage their import and to discourage the export of India's finished products. The production of arms declined because, under the Arms Act, Indians were prohibited to keep them.

Defects in the Handicrafts: The weak points of the handicrafts provided another set of causes of their decline. There was an absence of organization and so inability to use improved methods. Foreign rule indirectly weakened the guilds, which maintained the quality of the products and looked after the welfare of the artisans. The crafts did not make a proper search for industrial possibilities. Lastly, the conditions of supply of raw materials (and their preparation) were very bad.

Since Independence, the village community is being revived by giving it certain powers under the system of democratic decentralization, called 'Panchayati Raj'; and the handicrafts are given all sorts of aid as part of the Five Year Plan. As tokens of the helpful attitude of Government are pictures of bidriware, on the two-paise postal stamp, 'handicrafts' on the 30 paise stamp and the 'charkha' on the 2-annas stamp. Our exports of handicraft products were worth Rs. 40 crores in April 1967 to February 1968.

Questions for Revision

1. Describe the features of the Indian economy as found in the beginning of British rule.
2. "As early as the beginning of the 19th century, economic conditions in South India were very similar to those in the North." Discuss.
3. Outline the features of the village community in India in pre-British days. What were its merits and why did it decay?
4. **Discuss the causes of the decline of India's rural handicrafts and** describe the effects of this decline on the handicrafts and on the artisans.
5. Describe the old urban handicrafts of India and the changes they passed through as a result of contact with the West.
6. **"India's urban handicrafts differed from the rural in all respects and** the basis of this difference was the nature of their markets." Discuss.
7. Analyse the causes of decline of India's urban handicrafts.

Chapter II

HISTORY OF AGRICULTURE AND AGRICULTURAL POLICY

Section I. History of Agriculture

We have now finished a detailed survey of the old Indian economy. We are, therefore, in a position to study the changes that this economy went through, under the British, in agriculture and industry, transport and trade, currency and banking, and so on. We begin with agriculture, as it has been by far the most important occupation in India. Under British rule, and especially after 1860, it underwent several notable changes. Before that, of course, there were a few developments resulting from the contact with the West. For example, cultivation of jute for export spread from about 1830. Cotton also began to be exported and some new varieties came to be grown.

I. Period 1860-1880

A. *1860-70: American Civil War. The Cotton Boom:* But the first event in the West to affect our economy suddenly, and in a very important way, was the American Civil War, 1861-65. The North blockaded the ports of the South, which could not therefore export raw cotton to Lancashire in England. Thus arose a sudden demand for Indian cotton and its effects were remarkable indeed. The Government acted vigorously. It appointed Cotton Commissioners for Bombay and the Central Provinces and pushed forward roads and railways. Cotton prices soared and this induced the farmers in India to turn to cotton. The exports of cotton rose rapidly; for a few years the value of cotton exports was more than half the value of all exports. The following table gives an idea of the importance of this development.

Year	Price of cotton —annas per lb.	Exports to the U.K.—lakhs of bales.	Lakhs of acres under cotton in the C.P.
1859	2.7	5.1	—
1861	4.2	9.9	3.8
1864	11.5	14	6.9

World Market: But the real importance of this development was, that the farmer realized that his economy was part of the world economy. This resulted from the new transport—steamers, durable roads and railways. Non-local needs now determined the prices which the farmer received. The economic isolation of India's villages was broken forever. This in turn led to the commercialization of agriculture and localization of crops.

B. *1870-80. Many Adverse Factors*: But in the 1870s the farmers lost a good deal of the gains of the 1860s; at the end they were left very poor. This was due to several factors. When the price of cotton fell after the Civil War, trade was dislocated, particularly in Bombay and Madras. The farmers had spent the income from cotton thoughtlessly and had raised their standard of living. The rise in prices had also enhanced their credit and this, in turn, increased their debts. During the prosperity, again, came a revision in land revenue which was, therefore, increased a great deal and became a heavy burden. This further forced the peasants to borrow largely.

There was also general depression, especially in agriculture, all over the world. In India, in addition, there were several famines during the period. Then, again, with 1875 came a new policy of military expeditions, which resulted in more taxation. To make matters worse, the vast public works of the 1860s were completed; there was, therefore, so much less employment and income now.

Thus there was acute distress among farmers. Their position regarding debts was made worse by the law on the subject under the British. This gave more power to the creditor and removed many checks on the transfer of land. Now there was free transfer and absolute ownership. Land transfer therefore occurred on a large scale.

II. Period 1880-1895

Good Years. Exports and internal trade grow: But the wheel turned again and the adverse 1870s were followed by good years for a decade and a half. During this period, there was a huge growth in the export of raw materials. This was made possible by two factors. Railways were built and good roads constructed between 1850 and 1870; the Suez Canal was opened in 1869. The effects of these developments in transport were fully manifested now. The other factor was freedom from famines and the resulting prosperity. Internal trade in agricultural produce also rose rapidly. This made possible a better specialization of crops in different regions. The growth of internal and export trade also increased agricultural prices, particularly those of cash crops.

Tests of prosperity: Let us now apply certain tests of agricultural prosperity to India in this period. The area under the plough increased because of irrigation and cultivation of new lands. The spread of irrigation—and of transport—also increased the proportion of industrial crops, especially of jute and cotton, oilseeds and sugarcane. Localization, too, was extended, *e.g.* of cotton in Berar and of sugarcane and garden crops in the irrigated Deccan.

III. Period 1895-1914

A. *1895-1900. Two severe famines*: Another turn of the wheel was due after such a long period of prosperity. There were two countrywide famines during these five years. The first occurred in 1896-97 and was a great calamity. The other came in 1899-1900, during which the distress was very acute and mortality among cattle very high.

B. *1900-1914. Mild Prosperity*: In 1907-08 there was a famine in several Provinces, but the rest of the period enjoyed mild prosperity. This was the result of rise in prices and spread of transport, improved methods and growth in the area cultivated. The increase in the land under the plough resulted largely from the extension of irrigation, especially in the canal colonies in the Punjab. The percentage of area under food crops remained at about 88%, keeping pace with the growth in population. Among the industrial crops, oil seeds and cotton were the most important, the former largely an export crop. There were hardly any food exports from India proper, Burma exported large amounts of rice.

Period 1860-1914

Changes in Agriculture, 1860-1914: Their causes: The beginning of the First World War was a landmark in the economic history of India, as indeed of any other country. Let us, therefore, pause here and note briefly the principal changes in our agriculture up to 1914. To take the most vital change first, literally a matter of life and death, the nature of famines changed and their importance began diminishing. (We will discuss these changes at length in Chapter III.) The new transport, famine relief policy and extension of irrigation were mainly responsible for these happy developments. These factors also brought about another beneficial change, commercialization of agriculture. This, too, is dealt with in the next chapter.

Unfavourable changes: Among the unfavourable developments, there was first a huge growth in agricultural debts. That problem (studied in detail in Chapter IV) gave rise to another one, the transfer of land to moneylenders on a large scale. The last evil that emerged during these five or six decades was the increasing sub-division of holdings and their fragmentation. These adverse developments were the result, mainly, of decay

of handicrafts, growth of population and lack of enough industrial growth to absorb it. Besides, famines and other natural disasters had their usual share in depressing the position of the peasants. Indeed a study of India's agricultural history brings out the crucial role of the monsoon, which governed the rhythm of the farmer's prosperity and adversity. This is shown in the next chapter with the help of a table on 'normal' years and famine years.

IV. Period 1914-1929

Prices: Let us resume now the history of agriculture. During the fifteen years beginning with 1914, there was no large change in agriculture, but the farmer's position went through notable ups and downs. There was one all-India famine in 1918-19 and in 1920 the monsoon was poor in many parts of the country. But the important changes in the peasants' condition came about through price fluctuations. During the War and the post-War boom all prices increased, but those of manufactures rose much more than agricultural prices and farmers, therefore, suffered. The rise was equalised by about 1926. But when prices collapsed during the Great Depression, the difference between the two sets of prices reappeared, agriculture became unremunerative and farmers were in an utterly helpless position.

Industrial crops: Foodgrains retained their dominant position, at about 90% of the cultivated area. Next to them, areas under oil seeds and cotton were the largest. The former were largely exported, but there was much fall in their export during the period, due to the wartime and post-War conditions in Europe. Only in 1922-23 did they reach the pre-War level, even then their position in the world market was no longer as secure as before the War. Cotton was our most important money crop; the area under it grew under the impetus of high prices.

V. Period 1929-1939

The Great Depression: There were two events which most affected our economic history in this period, the Great

Depression and Provincial Autonomy. The Depression lowered agricultural prices absolutely—and also relatively to other prices. There was thus a great fall in the farmer's income, which also declined in terms of non-agricultural goods. As regards the absolute fall, the value of the main crops in eight provinces fell to less than half between 1928 and 1933. The relative fall is shown in the following table:

Year	Export prices	Import prices
1927–28	100	100
1931–32	59	72
1933–34	53.5	63.5
1936–37	57	63

The exports were largely agricultural and the imports were chiefly manufactures. Both sets of prices were falling after 1927-28, and the largest gap between them was in 1931-32. After that the two moved nearer. Export prices began rising after 1933-34, but it was only after 1936-37 that import prices started increasing. The farmers suffered very severely in this period. While their money incomes fell, many of their money burdens remained fixed, e.g. debt and interest, land revenue and rent. Thus arose the need for reducing the debt and interest. In the meantime, acute distress forced farmers to sell gold—'distress gold' as it was called, of which a huge amount was exported.

VI. Period 1939-1947

War. Non-food crops: During the Second World War there was a change in the position regarding food versus non-food crops. Let us take the latter first. The demand for these fell due to loss of markets; e.g. the exports of jute, cotton and groundnut fell to half or less in three or four years. But the farmers increased the cultivation of these crops in the hope of higher prices. The result was large surpluses.

Food crops: Food crops showed the opposite trend. Demand increased substantially due to several factors. Lack of shipping made imports of wheat difficult; so India had to supply large quantities to Western Asia. There were new recruits to the army and to war industries, so that consumption increased. Then there were the needs of the military, of a large foreign army in India and of a million evacuees and war prisoners. On the side of supply, imports of rice from Burma stopped in 1942. Transport bottlenecks made the position worse, which led to hoarding by producers, traders and consumers. This made the situation still worse. The result of these changes in demand and supply was a serious shortage of foodgrains and a rise in their prices, both absolutely and relatively; so government regulation had to be introduced.

Crop pattern: Another result was a large shift from non-food to food crops. In 1944 the area under foodgrains was 7% more than in 1935-38, and their production was 9% more. The wheat area remained steady, but the areas under rice and the cheaper cereals rose by 14% and 18% respectively. On the other hand, acreage under cotton fell by 40% and that under jute by 28%.

Prices: During the Second World War, unlike the First, agricultural prices increased more than those of manufactures: the former from 100 to 270, and the latter from 100 to 240. But after the War agricultural prices rose less than those of manufactures. During the War, thus, rural incomes grew relatively more, but the benefits were not evenly spread. The bulk of the gain went to large landholders—who had a substantial surplus to sell—and to traders. The rise in prices reduced the real burden of rural debts, but in this also bigger landowners gained more than the others. There was also an increase in the repaying capacity of members of co-operative credit societies.

Summing up: Division into Periods: We may now sum up this brief account. Let us, for that purpose, bring out the basis of the division (of the years 1860-1947) into periods. Before 1914 famines determined very largely the condition of agriculture. The years 1880-95, therefore, stand out as free of famines. That separates the periods 1860-80 and 1895-1914 from these middle years. These two periods, in turn, are subdivided mainly in accordance with the advent or absence of famines. In the first period, it is the second half that is famine-ridden, the worst decade since 1860. In the other period, it is the first half decade that saw two severe famines. But famines did not cause such havoc after 1914: and particularly after 1921 there were no countrywide famines. So the basis of division (into periods) also changes; but this new basis applies to the agricultural (and indeed economic) history of every country. The First World War, the Great Depression and the Second World War are very obvious landmarks.

Section II. Agricultural Policy of Government

In a predominantly agricultural and backward country, Government's agricultural policy has a vital part to play. But no concentrated and organized effort was made in this direction in India under the British. We may contrast this with the Community Development Programme of today.

I. Period 1860-1880

Limited and Ineffective Action: Down to 1866, the only effort made was to start botanical gardens for introducing new plants (or varieties) like tea, potato and cinchona. Then in 1870 came the Imperial Department of Agriculture, but it was abolished in 1878, on the ground that the Provincial Governments did not co-operate—at a time when there was no transfer of power to the Provinces. In the same decade, experimental farms were started to experiment on new methods etc. and to

popularize better implements and methods. But they failed because of inexperience of farm managers and their ignorance of Indian conditions and methods. In fact, the peasant had a good knowledge of agricultural technique; what he lacked was irrigation and credit. The Famine Commission of 1880 recommended that Government should immediately start Agricultural Departments and begin collecting agricultural statistics. Nothing was done.

II. Period 1880-1895

The same tale: In this period also there is a similar tale of ineffective and very limited action—and of inaction.

Takavi loans: Acts passed in 1883 and 1884 re-introduced a very old method of encouraging agricultural improvements. This was the takavi loans (also known as tagai or tagavi), small loans to farmers, who repaid them in instalments. These too, had only limited success as their administration was faulty. They depended upon one person, the Collector, and in many cases the peasant did not even know about them. They were not given in time and the period of the loan was not sufficiently long. Lastly, there was rigidity in collection of interest and principal. The result of all these faults in its administration was that only Rs. 6 crores were lent by 1900.

In 1889 Dr. Voelcker was appointed to suggest agricultural improvements. He toured the country and submitted a valuable report in 1893. No action was taken on it up to 1900.

III. Period 1895-1914

Several beginnings: New type of action was initiated in several directions in this period.

An Inspector-General of Agriculture was appointed in 1901. The Agricultural Research Institute and a few Provincial Agricultural Colleges and Schools were opened. More money was spent on Agricultural Departments, yet the staff and expenditure were very small. They did not, therefore, lead to any substantial results.

Crops: To improve the quality of cotton, seed farms were started for selective breeding and for distributing the better seeds. Research was conducted on suitable localities for different varieties of wheat; and new varieties of rice and groundnuts were introduced. In several parts of India improved implements were also introduced, e.g. light iron ploughs and small water pumps. Co-operative credit societies were started in 1904 and non-credit societies from 1912. This development is described at length in Chapter IV.

To sum up, these improvements were limited in scope, mild in nature and did not always reach the farmer.

IV. Period 1914-1929

The pace of agricultural improvements by Government remained slow; and the lines of improvement were much the same as before. A large amount of work was done in introducing improved varieties. The chief successes were wheat, cotton and jute, groundnut and sugarcane. This was the main problem taken up. To spread the knowledge of these varieties, and to keep them pure, special seed farms were started. Arrangements were also made for producing and distributing the seeds.

V. Period 1929-39

The Great Depression: Inaction during disaster: During the Great Depression the farmers suffered very severely, from the absolute and relative fall in agricultural prices. Yet India was the one important country in which Government did almost nothing to help them. The Government at the Centre hardly did anything. Under Indian conditions price policy was the one major, positive weapon to fight the Depression. But the British Government in India did not use this weapon.

Provincial Governments: By contrast, the Provinces undertook some measures which may be classified as negative and positive. The former gave relief to farmers in respect of land revenue and debts. In most Provinces, the old system of suspensions and remissions of land revenue was retained. Regarding debts, debt relief was the most important aspect of Government's agricultural policy in other countries during the Depression. In India, however, there was no moratorium on payments of interest or principal: nor was much done to reduce debts. In some Provinces, Acts to regulate moneylending were passed or only thought of. Popular Ministries, who took over after the Depression, passed a number of laws to deal with many aspects of the problem. They are discussed in detail in Chapter IV.

Positive action: The story with regard to the positive measures is similar. During the Depression, Provincial Governments were mostly indifferent. The later Popular Governments had only framed schemes, when the War ended their activities e.g. in the marketing of agricultural produce. In most other countries, this was greatly regulated and helped by Government. In India, too, more was done in this field than in any other; yet the positive work accomplished was small. (The problem is discussed at length in Chapter V.) Tenancy legislation was also passed in the 1930s, but the problem of assuring security and justice to the cultivating tenant still remained. (Tenancy laws are also taken up for study in Chapter V.) Nor did the Government help the Co-operative Movement to face the Depression, unlike the position in other countries. The Movement had, therefore, a very hard time: many societies were wound up, recoveries fell and overdues rose steeply.

VI. Period 1939-1947

War: Food Problem: During the War a food problem was created, with high prices and serious shortages. But Government had no well-thought-out policy, nor efficient machinery to execute it.

In 1942, the Food Production Conference proposed a plan for increasing food production on the usual lines. Thus was started the 'grow more food' campaign. Then occurred the Bengal famine in 1943 and Government was forced to act. A Foodgrains Policy Committee recommended measures for increasing their supplies, for improving the procurement machinery, for extending rationing and price control and for overhauling the administrative machinery. These suggestions guided Government in food administration. In January 1946 the policy announced was to supply the necessary quantity and quality of foodgrains: high priority was to be given to measures for increasing yields. But the implementation was still left to Provinces.

Meanwhile, prices continued to rise and that led to controls. There were six Price Control Conferences by September 1942. The last one gave the scheme for centralised purchase. Food was to be procured from villages for the urban population. There was rationing for it at one lb. per day per head. Government provided certain articles at fixed prices to 39.3 million people. In villages ration-cards were given to 74.5 million non-producers, but there was no obligation to supply food to them. Several problems of control arose, but controls kept prices in check and distributed food more fairly. The basic problem, however, was one of more production through higher yields.

Since 1947 : That problem remained unsolved after fifteen years of economic planning. But there has been a fine record in 1967-68, thanks mainly to the new hybrid seeds and to fertilizers, irrigation, credit and the strategy of concentration on areas with assured water supply. For the overall development of rural India, however, a vast programme of Community Development has been launched. It seeks to promote agriculture, industry and transport; to build up rural agencies for development and also community assets; and to secure co-operation, participation and even initiative from villagers in their own betterment. The progress under the Plans is given in *Table 19.*

Summing up : To sum up, right up to the end of the 19th century, the story is one of very limited and ineffective action—and even of inaction. Two great famines in 1896-1900 roused the Government from its deep slumber, but only for a little while. Under the Montford Reforms of 1919, agriculture became a Provincial, transferred subject under Ministers, but they were not given the funds required to introduce a dynamic policy. In this situation, even the Royal Commission on Agriculture (1926) did not make much impact on the agricultural scene; land revenue and tenancy were excluded from the scope of the Commission's survey. The Great Depression brought about a striking change in Government policy in all major countries; but in India Provincial Governments did little, and the Central Government still less. Indeed the latter made matters worse through contraction of currency, which lowered prices further; the aim was to maintain the ratio of 1 sh. 6 d. This matter is discussed at length in the chapter on Currency.

Questions for Revision

1. What were the major changes in Indian agriculture between 1860 and 1914? How were they caused and what were their effects?
2. Compare the effects of the Second World War on India's agriculture with those of the First World War.
3. Describe the part played by Government in agricultural improvement in India under the British.

Chapter III

FAMINES, IRRIGATION AND COMMERCIALIZATION OF AGRICULTURE

We have studied the history of agriculture and of Government's agricultural policy period by period. We are, therefore, in a position now to take up the various problems of agriculture and their history. As famines play a crucial role in our agriculture even now, let us begin with them.

Section I. Famines

The Nature of Famines

Up to 1900 and particularly before 1870, famines played havoc with India's agriculture and, therefore, with her economy. They took a terrible toll of men and especially of cattle. Sometimes a million people died in one famine; and those who did not were so weakened, that many of them became victims of disease and epidemic. Large numbers roamed the countryside with their cattle in search of fodder, food and work. Food prices rose steeply.

Change in it after 1870: After 1870 there was a change in the importance and nature of famines. With the help of the new transport, food could be easily despatched in a short time to the famine areas, so that deaths from famine declined steeply. Even then food prices of course went up, though not as much as in the earlier periods. Fodder scarcity was more difficult to tackle; much more fodder is required per head of cattle and it is a bulky commodity and, therefore, difficult to transport.

Another problem that remained was unemployment on a national scale during a major famine. But this was also faced on a much better footing, with the evolution of suitable famine

relief measures. There was, again, no need for people to migrate. Work and food were given them as part of these relief measures, which also tried to prevent epidemics from occurring. Thus the nature of famines changed in several respects.

Change in their Importance: Regarding their importance also there is the same happy tale to tell. Formerly there was no good transport, nor a well-thought-out famine relief policy, nor much irrigation. So a local scarcity became a serious famine. Thus famines were so important that periods of agricultural history were divided on that basis. A period of famines was a bad period for agriculture; freedom from famines meant good times for agriculture. Now it is the other way about: even a serious famine can be tackled rather easily and it is not much worse than a local scarcity of former days. This is seen in *Table 5*, where famine periods became shorter and shorter. Thus the importance of famines was slowly diminishing and the old type of famine was abolished by irrigation, transport and famine relief.

Effects of Famines

The importance of famines in those early periods can also be seen in the harmful effects of famines.

Those already described: While discussing the change in the nature of famines, we have already seen some of these effects, viz. deaths, starvation, mortality among cattle, epidemics and migrations in the old days; and also unemployment, high food prices and scarcity of fodder, which remained in the later periods too.

Effects on Population: The growth of population was checked by starvation deaths, but much more by under-nourishment. The latter resulted in a lower birth rate and in many more deaths from epidemics, due to lowered vitality. The growth of population during different decades shows very clear influence of famines, as described in Chapter VIII. There was also migration to towns, in search of work, which increased urban population. But this was generally temporary, except when the migrants found permanent work there.

Check an Agricultural Progress: More ruinous were the effects on agricultural progress. The farmers lost heart from fear of famines, their morale suffered. So they played for safety and also reduced their investment in land. The results of this defeatist mentality were serious.

The area cultivated fell, marginal lands would not be cultivated for fear of famines. There was a similar fall in double-cropped areas. Industrial crops were given up for food crops; and these latter for inferior ones like millets, which were more hardy; thus millets took the place of wheat and rice.

There was a check on investment in manures, better seeds etc. due to fear of famines. It also checked the improvement of cattle, who suffered most during famines and who were the most important capital of farmers. Thus intensive cultivation suffered a seback.

Effects on various classes: We have already seen above the effects on farmers. Labourers suffered the most as, being the poorest class, they had no savings. The lower artisans were in a similar position. Skilled artisans like the weavers suffered the most in another sense, they lost their skill. They had to do physical work under famine relief schemes; and the demand for their skill virtually disappeared in times of famine.

History of Famines

With this general discussion as the background, we may now look briefly at the history of famines in different periods.

(*I*) *1860-80. 1868-78*: *Period of famines. 1868, 1869. Rajputana*: In Rajputana, the 'Kharif' (or monsoon) crop failed completely in 1868 and locusts destroyed the crop next year. There were many deaths, more still among cattle. The majority of them died, as transport had not yet reached the interior. Vast masses of people moved about in search of food, fodder and work. Other famines followed in quick succession.

1873-74. In this year Bengal and Bihar were hit. Here modern methods of famine relief were first tried on a large scale. Regarding foodgrains, their export from that region was prohibited and there were official imports. To be able to buy this food, people were given jobs at famine works and there were no starvation deaths.

1876-78. The series of famines in these years covered almost the whole of India. In spite of large-scale relief works, masses of people migrated in search, not of food, but of fodder. Government opened the reserved forests to public grazing, yet a very large number of cattle died. But food was very quickly distributed through the railways. This was the most terrible and widespread famine since the beginning of British rule. The famines in this decade had very serious effects.

(II) *1880-95*. This period was, generally speaking, free from famines.

(III) *1895-1914*. *1895-1900*: *Two severe famines*: The famine of 1896-97 affected almost the whole country. But famine relief now was much better; the recommendations of the Famine Commission of 1880 were working very well. Soon after, in 1899-1900, came another famine over a large part of India. It was not so widespread, but certainly very severe. The distress was very acute and a great many cattle died. Government, therefore, took special measures regarding fodder: they threw open some forests and grass from forests was cut down and sold. Both these famines were very great calamities. The next decade and a half saw mild seasons, but in 1907-08 the monsoon failed (except in South India).

(IV) *1914-29*. *Famines in 1918-21*: There was good average rainfall during the War years. But the next two years were again bad for the farmer. 1918-19 saw a major all-India famine, happily the last one. Fortunately, again, governmental agency existed already for controlling food supplies; and it was used at once. Food exports were restricted and large amounts of Burma rice were brought in, as also wheat from Australia. Provincial food surpluses were proportionately distributed and rigid internal control was introduced. Government machinery for famine relief had now attained a high state of development and organization through much experience. Compared to the last great famine of 1899-1900, there was now better transport, stricter regulation of private trade in foodgrains and a better system of revenue remissions and suspensions. In 1920-21 again the monsoon was poor in many parts of India. The famine was less widespread, but its effects were felt more because of the previous famine.

(V) *1929-47*: There was good monsoon on the whole up to the Second World War and even during it, except for the great Bengal famine of 1943, which resulted from a combination of peculiar circumstances.

In the period since Independence, there have been two famine years in succession in 1965-67.

Famine Policy

Measures to deal with the problem of famines fall into two natural divisions: those providing relief when a famine occurs and those which try to prevent famines from occurring. Let us take them in that order.

(A) Famine Relief

Famine Commissions: The famine policy was based largely on the recommendations of Famine Commissions; we must therefore, have a brief survey of these.

1878-80. Famine Code: This Commission was appointed after the famines of 1876-78. It recommended a Famine Code

(a set of rules), which is the basis of the system of famine relief in India; so let us look at the main features of the Code. To deal with the problem of unemployment, relief works were to be opened for the able-bodied; the rest were to get free relief. As regards supplying food to both the groups, there was to be no interference with private agency for food supply, as far as possible. This would deal with the distribution of food; to increase its production, a programme for irrigation was given (which was completed by 1895). In the meantime, landowners should get relief through suspension of land revenue. They should also be offered loans for resuming farm work.

1898: This Commission was the result of the famine of 1896-97. Its recommendations were similar to those of the previous Commission. It also gave a programme of irrigation works, but the one followed was that of the Irrigation Commission of 1901-03.

1901: But soon enough came the great famine of 1899-1900, which led to the appointment of still another Commission. Its principal recommendations were as follows. "Prudent boldness" should be the motto, i.e. relief should be neither wasteful nor too small. There were special recommendations about fodder famine, which was a striking feature of the last famine. Lastly, there should be promptness in suspending land revenue and in giving takavi loans, which should also be liberal.

Relief Measures: Famine relief was one of the finest things evolved by the British in India through long experience, the system was perfected with thoroughness. Here the Government attitude was vastly different from its general economic policy relating to agriculture or industry, railways or currency. Famines brought acute distress to millions of the poorest and were literally a matter of life or death to huge numbers. Even the sentiment of ordinary human sympathy would, therefore, induce action; and the British rulers of India rose to the occasion. In this effort of theirs, roads and railways played a crucial role in rushing food to famine-stricken areas. To-day we can use helicopters to supply food immediately, as was done during floods in South Gujarat recently.

Pre-Relief Measures—Standing preparations: Before the time for famine relief arrived, certain steps were taken so that relief could be taken up systematically and in time. To begin with, standing preparations were made: facts about weather, crops, food prices etc. were noted and plans for emergency (e.g. for relief works) were kept ready. Government also kept a look-out for danger signals like fall in credit, rise in unemployment or in crime and failure of crops.

Preliminary Steps: If the situation showed need for relief, these measures were taken up systematically step by step. First there was preliminary action. The policy was explained to the public whose co-operation was invited. Lists were made of people requiring immediate relief and when their number increased poor houses were opened.

Relief proper—Four stages: Then came relief proper. In its first stage, test-works were opened to see how many joined them. If they showed increase in distress, and if death-rate did not fall, free relief was given to the infirm through village kitchens (and in towns through poor houses) and relief works were extended. This was the second stage. The third stage started when the next monsoon was near. People in large relief works were transferred to small ones near their homes. This was to prevent delay in farm work and spread of epidemics. Liberal loans were given for buying seeds, implements, cattle etc. In the fourth stage all relief works and free relief were gradually stopped. There was also suspension and remission of land revenue in part or full. (Suspension means postponement and remission is cancellation.)

(B) Prevention of Famines

Direct measures: Irrigation: But prevention is better than cure; some efforts were, therefore, made in the direction of prevention also. The direct and chief way to do this is irrigation. Some old irrigation works were repaired and new ones undertaken. The details of these are described in the next section. Here we may note that some of these works were 'protective', i.e. their aim was to protect farmers against failure of rains, they were not intended to yield profit. A Famine Insurance and Relief Fund was started in 1876, from which such works were built. At the end of 1939-40 the Fund had about Rs. 300 crores.

Indirect Measures: These aimed at improving the condition of farmers, so that they could face famines better. Among these there were, firstly, general measures: Government collected and published data about people's condition in various districts and also changes in it. There were surveys about geology, minerals, trade etc. Then there were measures for agricultural improvement, which we have studied under "Agricultural Policy" in Chapter II. But land revenue remained too high, except in Bengal where the Permanent Settlement was introduced in 1793. (We will study land revenue in Chapter V).

Section II. Irrigation

As we saw above, the best way to prevent famines from occurring is through irrigation. From a more positive point of view, the greatest factor in improving yields is adequate and timely water supply. Agriculture in India is a gamble in the rains: it depends largely on the monsoon, which lasts only about three months in the major part of the country. So there is a great need for irrigation. This may best be described through the advantages of irrigation.

Its benefits. Negative, relating to famines: Irrigation prevents famines and removes the fear of famines and abolishes, therefore, the evil effects of both; we have already discussed these while studying famines. In addition it cuts down the cost of famine relief and reduces the need for suspending and remitting land revenue. As the Irrigation Commission of

1901-03 pointed out, the savings from these two items would often make up the cost of irrigation works.

Positive benefits: But there is a more positive side to irrigation. It benefits directly the farmers, the people as a whole and the Government.

For example, it increases the farmer's income by raising the yield per acre and, therefore, enhances the value of land. To be specific, by assuring the farmer of the supply of water, it encourages better methods: use of better seeds and implements and more manure and fertilizers and pesticides, improvement of cattle and so on. Intensive farming is thus promoted, output can be increased and prices brought down to suit the poorest. Further, two or three crops can be taken per year. Lastly, irrigation can supply the amounts of water needed at different times in the season, neither too much nor too little, neither too late nor too early. Rain water can hardly ever satisfy all these conditions.

Besides, irrigation encourages the cultivation of more profitable crops, especially cash crops. It thus helps commercialization of agriculture and localization of crops; if there is no fear of famines, farmers need not produce their own food. Moreover, to pay the water charges and the higher rents and land revenue, they *have* to cultivate more profitable crops. As to food crops, irrigation encourages the growth of superior cereals. Extensive farming is also stimulated: irrigation increases the cultivated area by bringing under the plough marginal land, and even new land, as in the case of the Canal Colonies in the Punjab.

It brings profit to Government through water rates and through increase in land revenue and other taxes. The increased incomes of farmers can supply additional savings for investment.

When we consider all these benefits of irrigation, we understand why water is called 'life' in Sanskrit ('jeevan'); water spells life for men and cattle, crops and trees; its absence spells death.

History of Irrigation

Under the Company. Many works built by Muslim rulers fell into decay in the 18th century. So the East India Company restored old works on the Jumna, the Kavery and the Koleroon; and built new ones on the Ganga and the Godavari. The works in the North were generally canals and those in the south were anicuts (i.e. dams).

Under the Crown (I) 1860-80: The work was carried on with even more vigour in these two decades. As private companies had failed badly, the works were built by Government. The most important works undertaken in this period were canals in Bengal, Agra, the Punjab and the Bombay Deccan. After 1866 Government took up a big scheme of five "loan works". But there was no rapid progress during the period: there was no definite policy and so money was wasted. At the end of the period the irrigated area in British India was 29 million acres.

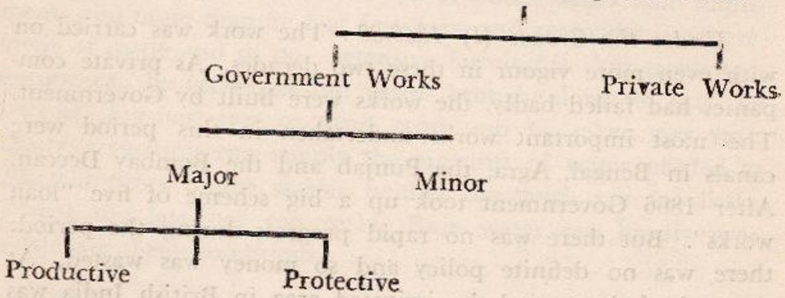
(II) 1880-1900: *Famine Commission's Programme, 1880. Canal Colonies*: In 1880, however, the Famine Commission gave a definite programme, which was carried out by 1895 mainly in the Punjab and the U. P. In the meantime, the famine of 1877-78 had also led to the creation of the Famine Relief and Insurance Fund. Out of this fund many protective works—canals, and railways also—were constructed after 1880. Another notable development in the period was the Canal Colonies in the Punjab. From 1892 onwards they brought under cultivation much unpopulated, waste land. They were a good investment and brought great relief from the pressure of population in that region.

(III) 1900-1914: *Irrigation Commission, 1901-03*: The next programme was given by the Irrigation Commission of 1901-03. It also recommended protective works, for regions

specially liable to famines, and liberal takavi for other works. Definite lines of policy were indicated regarding the selection, financing and maintenance of the works. As a result 43 protective works were undertaken in 1903-21. The irrigated area in the whole of India increased from 44 million acres in 1903 to 46.8 in 1913-14.

The First World War marked the end of an era; so we may pause here to study the classification of irrigation works.

Classification of Irrigation Works



Government Works: Productive works are productive in a narrow sense: the water charges would cover working expenses, and interest on the investment, after some years. Most of the major irrigation systems are in this class. Protective works are not productive in this sense, they are only a protection against famines, e.g. works in Bundelkhand and in the Deccan. But they are productive in a wider sense: they remove the evils of famines and fear of famines; they confer positive benefits also, as seen earlier in this section. Minor works are undertaken by the local Government. They are village tanks and require small expenditure, but were generally ignored by Government.

Private works. Wells—Government encouragement: Among private works, the most important were wells, which are suited to small peasants, very useful and found all over India. Though they are mainly private, Government encour-

aged them through takavi, liberal assessment and protection to tenants against higher rents. Field embankments retain moisture in the field and prevent erosion. Tanks are found particularly in South India; there were many of them in pre-British days, some very large. The peasants knew well the uses of all these works; what they lacked was loans of money, with which to undertake them. Yet private works covered 58% of the irrigated area in 1903, the rest (of course) were Government works. Up to 1900, Government spent only £ 25 million on irrigation, compared to £ 225 million on railways.

(IV) 1914-29: Much Progress: To resume the history of irrigation, there was much increase in the area irrigated in 1914-29. One reason for it was that Irrigation became a Provincial transferred subject, under the Montford Reforms in 1919. A Central Board of Irrigation was also set up in 1926 to report on irrigation schemes. Henceforth the works, whether major or minor, were to be classified only into productive and unproductive ones.

Important works taken up in this period included some large productive works. The very large "Triple Canals" Project in the Punjab on three rivers was completed in 1917. Other big works spilled over into the next period. The main part of the Sukkur Barrage in Sind, "the greatest irrigation work undertaken" till then, was opened in 1932. So also was the Sutlej Valley Project. Then there was the Kavery Reservoir Scheme. 'Unproductive' works of this period included the Godavari Canals, 1919, Bhandardara and Bhatgar dams in Maharashtra and the Sarda Canals System in the U. P., 1928.

In the 20th century, large works only were mostly taken up. Moreover, 92% of the irrigated area was in five regions; the Punjab had by far the most of it. The next was Burma, which is no longer a part of India since 1935. Sind and the U. P. came next and then Madras. For the larger part of the country, however, minor works are more important, as the canal system requires certain favourable conditions. But the area under wells did not increase after 1902-03, in spite of Irrigation becoming a Provincial transferred subject.

The Position in 1939-40, in million acres

Total cultivated area		:	244
Irrigated area		:	55
,,	by Government canals	:	25
,,	by private canals	:	4
,,	by tanks	:	6
,,	by wells	:	13.5
,,	by other works	:	6.5

Summing up: The pathetic dependence on rains was harmful to both man and cattle. This dependence can be removed by irrigation, which also confers positive benefits on all concerned. But it was only after the series of famines in the 1870s that Government adopted a definite programme. Yet the emphasis was still on productive works. Protective works received more attention under the recommendations of the Irrigation Commission of 1901-03, after two severe famines in four years—calamities have their uses. Yet the irrigated area increased by only about 6% in the next ten years. There was more progress after 1919, when Irrigation became a Provincial transferred subject; but the growth in irrigated area was only about 17% in the quarter century from 1913-14 to 1939-40. Thus the rate of growth increased from about 0.6% per year on an average to about 0.7%. And the emphasis on large works continued, the area under wells grew little. All irrigation projects were controlled by the Government of India and had to be approved by the Secretary of State. The total irrigated area was about 22% of the cultivated area in 1939-40; but under the Partition the great irrigation works of West Punjab and Sind went to Pakistan.

Since Independence: Many large multi-purpose works have been launched; but several problems of irrigation remain to be solved. There has not, therefore, been a corresponding increase in agricultural production. However, during the three five-year plans, irrigation potential has been doubled; and its utilization increased from less than 50% at the end of the First Plan to about 80% at the end of the Third. The details are given in *Table 20* and the Note on "Irrigation under the Plans".

Section III. Commercialization of Agriculture

Irrigation, as we saw, is the most important method of dealing with the problem of famines; it was also a leading factor in the commercialization of agriculture. But what is this commercialization?

Meaning: It means treating agriculture as a business—to get the maximum income out of it. So it led to cultivation for the market, not for self-consumption. More profitable crops or commercial crops came, therefore, to be grown progressively. They were called commercial crops, because they were meant for sale; and for the same reason, they were known as cash crops or money crops also. As most of them are industrial raw materials, they are also classified as industrial or non-food crops.

After 1850, several factors combined to bring about commercialization of agriculture in India; thus the basis on which agriculture was conducted was slowly changed. What were these factors?

Causes: *Transport, Irrigation etc.*: The new transport helped the farmer to sell cash crops in the national and international markets and to buy food from them. He had, therefore, no need now to grow all the agricultural products which he required. Irrigation was also spreading and to pay the water rate and the extra land revenue (or rent), more profitable crops *had* to be grown—and intensive cultivation to be undertaken. Transport and irrigation, combined with better famine relief, reduced the fear of famines. The farmers did not, therefore, stick to food crops only. They could also grow superior cereals rather than inferior, hardy ones like millets.

Then there was the change in marketing. The exporters built up an efficient marketing organization to move crops quickly to the ports. Cash payments were also introduced about this time for land revenue and rent; so the farmer needed cash, which he obtained through the sale of commercial crops.

History. 1860-80: Formerly the market for agricultural products was local; after 1850, it became national and international. This was largely the result of better roads, railways and steamships. Transport became quicker, cheaper and safer, so cheap and bulky goods also entered international trade. India began to export oilseeds and raw cotton, tea and coffee. This happened strikingly for the first time during the American Civil War (1861-65), when there was a great increase in the demand and prices, production and export of raw cotton from India. The Suez Canal, opened in 1869, brought the West much nearer to India.

In 1880-95, there was a great growth in the export of raw materials and a rapid increase in internal trade also. These developments helped to bring about a better crop specialization among different regions. In the next twenty years, commercialization occurred on a large scale in those areas in which crops were grown for export.

What is the role of this development in the history of India's agriculture? What is its importance? How, for example, did it affect farmers and farming? In a word, what were its effects?

Effects of Commercialization

Cash Crops. Localization: As we saw earlier, the area under industrial crops increased, but that under food crops did not fall very much; in 1949-50, for example, the latter was 82 per cent of the cultivated land. With the increased growing of cash crops, different regions began to specialise in crops best suited to them. e.g., in cotton by Berar and Khandesh (in Maharashtra), in sugar-cane and garden crops by the irrigated areas of the Deccan, in wheat by the Punjab, in jute by Eastern Bengal, in rice by Burma. In a word, we had localization of crops.

Market for Agricultural products. Farmer's income grows: Every region did not try to produce its own food now. The farmers grew the most profitable crops, sold them for cash and used it to buy food and other agricultural products needed by them. Thus a market for agricultural products appeared. The growing of the most advantageous crops also increased the farmer's income.

New Crops. Intensive cultivation: In fact, important new crops were introduced—like potatoes and groundnuts, tea and coffee, rubber and cinchona. The extension of irrigation at this time assured the farmer of water supply in certain areas; and there he was not afraid to spend more on manure, better seeds etc. There was thus more of intensive cultivation.

Village self-sufficiency broken. Growth of trade: Another important result of commercialization and localization was the breakdown of village self-sufficiency. In fact the world became one market, there were no longer only local markets in agricultural products. Today, for instance, India imports large amounts of American wheat. Thus both internal and foreign trade increased.

Summing up. Thus commercialization benefitted the farmers in a number of ways; the process was helped by the favourable railway rates for raw materials moving to the ports. The major portion was exported, but that resulted in the farmers' dependence on world prices. This was noticed first during and after the American Civil War in the case of cotton: and for all commodities and most strikingly during the Great Depression. Commercialization was, however, a slow process and in 1949-50 about 82% of the cultivated land was under food crops. But urbanisation has been increasing and so there is a progressive growth of the food market for Indian agriculture. Our food problem is still acute. In fact India (with a large majority depending on agriculture) should earn a substantial amount of foreign exchange through the export of food and non-food crops. The obvious method is intensive cultivation; in particular, taking two crops per year from irrigated lands and greater use of fertilizers and better seeds.

Questions for Revision

1. "After 1850, the nature and importance of famines in India changed completely." Discuss. What were the factors that brought this change?
2. "The measures for preventing and dealing with famines were among the finest things done by the British in India." How far is this true? Outline the famine relief measures evolved in India during British rule.
3. What are the advantages, negative and positive, resulting from irrigation works in India?
4. Bring out the landmarks in the history of irrigation in India between 1860 and 1929.
5. Discuss the forces that brought about commercialization of agriculture in India. What were its effects?
6. Outline the progress of irrigation in India under the Five-Year Plans. Discuss the problems that have yet to be solved and bring out the importance of the minor irrigation works.

Chapter IV

AGRICULTURAL CREDIT

Debts, Co-operatives and Land Mortgage Banks

We saw that the two great needs of the farmer are irrigation and credit. Having studied irrigation, we now turn to credit. In the absence of suitable credit agencies, the peasants sank deep in debt; let us take up that problem first.

Section I. Agricultural Indebtedness

Agricultural debts constitute a most serious problem in India; it has been called the greatest curse of the Indian peasant. It is certainly one of the severest handicaps of Indian agriculture. Dozens of measures were, therefore, passed to tackle this problem, particularly by popular Governments under provincial autonomy in 1937-39. In 1937, such debts were estimated at Rs. 1,800 crores.

Now there is nothing wrong in getting into debt as such. All businessmen borrow, but they can return the loans with interest; and yet make a profit through the transaction. What makes the Indian peasants' debt such a curse are certain unhealthy features of the problem.

Unhealthy Features: For one thing, agricultural debts are universal, found throughout India: in the Punjab, for example, only 17% landowners were free from debt. They are also chronic, a constant feature; the peasants are "born in debt, live in debt, die in debt." What is worse, there was a continuous and rapid growth in them. In the Punjab, again, Darling found them to be equal to about three years' net income from land in the case of landowners. This was because the debts were largely unproductive, the rates of interest were very high and the peasants were exploited in other ways also.

The result of all this was transfer of land to money-lenders, especially in 1860-1900. More and more farmers thus became tenants and, therefore, lost the incentive to improve the land; the 'magic of property' had vanished. Many of these, again, became landless labourers, losing even the limited interest they had in agricultural improvements.

Causes: What has led to this deplorable situation? The causes may be classified under four headings. The peasant had to borrow because his income was small and his expenses larger. He needed the money for several purposes. He was able to borrow, the money-lender did not mind lending him, because of certain developments. All these factors contributed to the peasants' indebtedness; the system of money-lending and the law on the subject (and its application) were additional factors. Let us analyse them in detail now.

(*I*) *Need to borrow—Poverty*: First, there was the need to borrow money and inability to repay it. This was the result of many factors, such as dependence on the monsoon, famines and loss of cattle from famine or disease; the pressure of population on land and the resulting small size of holdings, decline of handicrafts adding to the pressure on land; heavy land revenue and indifference of Government; adverse price fluctuations etc.

(*II*) *Purpose of Loans*: This leads us to the purpose of loans. A large part of the debt is ancestral. The heavy land revenue, with several defects in the whole system, is an important factor. Another notable item was traditional social expenses on weddings, death dinners etc. The peasants had also to borrow for cultivation expenses and even for domestic expenses, which went up during temporary prosperity and remained high even in bad times.

(*III*) *Ability to borrow*: The farmer's credit increased due to rise in agricultural prices, rents and land values. This, in turn, was the result of stable rule, the new transport and

the rise of towns. British law also gave the peasant the rights of absolute ownership and free transfer of land.

(*IV*) *The system of money-lending and recovery of debts*: The rates of interest were very high, which the backward agriculture of India could not bear. They had to be put up, because there was no Government system of easy credit. There was no other check on the money-lender either. Formerly the village community acted as a check on the rate of interest. Damdupat (double money) was a common practice, limiting total interest to the amount of the loan. Debts were also kept in check by many restrictions on the transfer of land. Under the British, the judicial system gave the money-lender great power over the debtor. The civil courts upheld contract rights and applied the law rigidly, not going behind the contract. Money-lenders manipulated accounts and the debtor was cheated and exploited in several ways.

Government Measures

Before the Great Depression: To solve the problem Government undertook several measures. Those adopted before the Great Depression may be classified into four groups.

(*I*) *To avoid unnecessary debts*: Debts incurred for weddings and death dinners can be avoided. Education would help in this matter, but literacy remained very low under the British. Suspensions and remissions of land revenue also come under this heading.

(*II*) *Improvement of Civil Law*: Changes in the Civil Procedure Code exempted the debtors from arrest and their cattle and implements from being attached. The debts could be repaid in instalments. Under the Usurious Loans Act, 1918, the court can reopen the transaction and reduce the rate of interest if it is too high. But the Act did not have much effect, mainly because the initiative was left to the court.

Under the Deccan Agriculturists' Relief Act, 1879, arrest or imprisonment for debt was abolished. There was provision for insolvency, so that the peasant could start on a clean state. Conciliation was provided for to settle the accounts. The courts had now to go behind the contract and reduce an excessive rate of interest. Creditors had to furnish accounts and give receipts for all payments. But the Act was ineffective and even harmful, as it only made money-lenders more cautious.

(*III*) *Restrictions on Land Transfer*: The right to mortgage and sell land was a cause of increase in debts, which in turn led to land transfer. Laws were, therefore, passed to restrict this right in the C. P. in 1898 and 1916, and in the Punjab in 1900. Non-agriculturists were not allowed to buy land from agriculturists, or to take it in mortgage for more than twenty years. But this left the way open for agriculturist money-lenders. Nor were the debts checked much, as the farmers' need for credit remained unsatisfied. Money-lenders became more cautious and peasants, therefore, found it more difficult to get loans.

(*IV*) *Supply of Credit*: So the crux of the problem is to supply loans to the farmer on suitable terms. The Government did this, firstly through the Acts of 1883 and 1884. Under "Government's Agricultural Policy" in Chapter II, we have seen how they failed due to faulty working. Cooperative credit societies were started through the Act of 1904. Their record is studied in the next section.

The Great Depression: *Provincial Autonomy, 1937-39*: But it was during and after the Great Depression that a series of measures was undertaken to deal with farmers' debts. During the Depression agricultural prices fell steeply, both absolutely and relatively. In relation to agricultural debts, this disaster resulted in suits, decrees and forced sales of land. And yet India was the one important country in which the Central Government did almost nothing to help the farmer. But the Provinces adopted many measures. Dozens of Acts were pass-

ed, of various types, but these came largely under Provincial Autonomy in 1937-39, i.e. when the Depression was over.

Short-term Measures. Temporary Relief: Some of these were short-term measures which reduced the burden of debt. Interest dues were scaled down, the general principal being 'damdupat' (double money) i.e. total interest was not to exceed the loan. The courts had to re-open the transaction and reduce excessive rates of interest. The principal was also reduced. There was provision for conciliation for voluntary reduction of the sum and, in several Provinces, the amounts were reduced to half. Compulsion was also used for bringing down the amounts of loans.

Long-term Measures. Control of money-lending: But even if these measures were completely successful, which they certainly were not, they would give relief for the time being only. There would still remain the need, therefore, for permanent relief through long-term measures. These related to the control of money-lending.

Registration and licensing of money-lenders was made compulsory. They had to maintain accounts and give annual statements to debtors, as also receipts for all payments made to them. The debtors were protected against threat and harassment and their property against attachment. Maximum rates of interest were fixed, being higher for simple interest than for compound interest, and higher for unsecured loans than for the secured ones.

Remarks: But the Popular Ministries resigned after about two years in office. They could not, therefore, take the necessary administrative measures to execute this scheme. The actual relief obtained by the farmers was, therefore, small.

The money-lenders remained by far the most important source of credit. To enable them to continue this function, they should have been paid the reduced amounts in a lump sum, through Land Mortgage Banks. The Banks could recover these from the farmers in instalments. Co-operative credit societies should have been extended and strengthened to seize this opportunity.

Further, such legislation is merely a temporary cure, it does not go to the root of the disease, which is the poverty of the farmer. It cannot, therefore, act as a permanent preventive. What is needed is increase in the productivity of agriculture and this requires a comprehensive and integrated programme of agricultural reform. This has been attempted, since Independence, through Land Reforms and Community Development Projects.

The Farmer's Credit Needs: But the farmer will always need different types of credit, as shown in *Table 6*. They are of three types, depending on the purpose of the loan. The period, the agency etc., differ according to the purpose and they should be kept separate. If short-term agencies go in for long-term finance also, their funds get tied up and are not available for seasonal loans. In other countries the practice ordinarily is as shown in the table. But in India the vast bulk of credit came from the money-lenders. We have seen how the takavi loans from Government failed in their aim. The joint-stock (or commercial) banks advanced a negligible amount to peasants. The indigenous banks largely financed the movement of crops and internal trade. To supply short- and long-term credit to farmers, co-operative credit societies and land mortgage banks respectively were, therefore, started. But they touched only the fringe of the problem. It is to these that we must turn now.

Section II. The Co-operative Movement

Aims: The co-operative movement aims at developing self-help and mutual help, for their own good, among men of small means. It thus secures for them the advantages which they would otherwise lack. Its principle is "each for all, and all for each." It combines the strong points of capitalism and socialism, because it retains the stimulus of self-interest, but on a collective basis. It assures to small men the advantages of large scale, including services of experts.

But it is a very difficult art, requiring vision and ability to deal with people and to organise them into a compact unit.

The need for co-operation in India is great, as she is a country of small farmers, artisans and shopkeepers. The farmer's poverty was the greatest obstacle to agricultural improvement; and the most important cause of his poverty was agricultural debts. The supply of cheap credit was thus as necessary for Indian farmers as water for their crops. Yet no efforts were made to organise rural credit for a century and a half after British rule began in India.

Its History: *Credit Societies, 1904*: At last an Act was passed in 1904 for starting credit societies on co-operative lines. A society would have at least ten members and their liability was to be unlimited, in the case of rural societies; regarding urban societies, they would themselves decide whether it should be limited or unlimited. The capital would come from entrance fees, sale of shares, members' deposits and loans from outside. But only members would get loans from the societies.

The Role of Government: Government had both rights and duties in relation to the societies. It helped them and so had control over them. The help was in the form of (i) exemption from certain payments, viz. registration fee, stamp duty and income-tax; and free audit by Government; (ii) loans, without interest, for the first three years; (iii) preference over ordinary creditors. Government control was through the Registrar, who supervised over, inspected and, if necessary, dissolved the societies.

By 1912 there were 8,000 societies, with 4 lakh members and Rs. 3.5 crores of working capital. In that year another

Act was passed, which allowed non-credit societies for purchase, sale, production, housing, etc. and also three types of central societies: unions, central banks and provincial banks.

Maclagan Committee, 1914: As a result, new types of primary societies sprang up and also central societies. By 1914 the numbers of societies and members were doubled and the working capital trebled. This was feverish growth; to inqure into the soundness of the movement, therefore, the Maclagan Committee was appointed that year. It reported that there was a lack of the true co-operative spirit, concentration on credit and very large overdues. So the administration was overhauled and non-officials' part in the movement increased. In 1919 Co-operation became a Provincial, transferred subject. The Provinces could now progress on lines suitable to local conditions; and several of them passed laws with new features.

The Great Depression, a Severe Blow: But in 1929 came the Great Depression and agricultural prices collapsed. This was a severe blow to the movement. Farmers could not repay loans, were unable to pay even interest, to the co-operatives. Thus a large part of the latter's funds was frozen. In fact, many societies had to be wound up. By 1934, the societies liquidated since the beginning were one-fourth of the total. This was a big waste of effort and money, resulting from hasty expansion. Unlike other countries, moreover, Government in India did not come to the help of the movement.

Provincial Autonomy, 1937-39: Then came Provincial Autonomy in 1937. The Provincial Governments ordered inquiries into the position of the movement. They also gave financial help to co-operative banks to put the movement on its feet. It was further helped by the laws relating to rural debts. But most of the ministries resigned early in the Second World War.

The War: During the War, agricultural prices rose substantially; so there was some improvement in the position of

the movement. Overdues of agricultural societies, for instance, fell from Rs. 11 crores to Rs. 4 crores in 1938-46. But the tendency was reversed from 1947. Besides, the higher prices benefited only a small section, the big farmers who had a surplus to sell. The movement did, however, enter a period of consolidation, with a new pattern in the form of multi-purpose societies.

Failure of the Movement: Yet the movement as a whole was a failure. For example, the number of agricultural credit societies was far more than that of all other societies put together. Besides, in spite of this emphasis on credit, co-operative credit to farmers was only 2—3% of farm loans. The concentration on credit is itself a weakness and proof of the lack of the true co-operative spirit. From the first the movement grew under official patronage, it was not spontaneous. It was taken as a cheap alternative to the money-lender. The overdues remained large, as also the number of weak societies. Further, half the working capital of primaries came from Provincial and Central Co-operative Banks, members' deposits were very small. Again, it was widespread in a few Provinces only. Thus, whatever the test applied, the movement cannot be called a success. Why this failure?

Causes of Failure

Lack of Education. Poverty: The average farmer did not even know how to read and write. This led to many evils: many things were lacking, namely democratic control, ability to conduct business, punctual repayment. There was less still of training in co-operation for the farmer or even for the officer. The movement lacked proper leadership. Able young men were pulled away to the city by its attractions and opportunities. To make matters worse, the vast majority could not pay even membership fees. It was they who needed credit most, but had no security to offer.

Government Attitude: The movement was started from the top by a Government which was "out of touch with public sentiment." There was also too much interference from it, and not enough aid. There was rigidity and even indifference in its attitude. Further, the movement was not spontaneous and there was no true co-operative spirit of self-help and mutual help behind it. It was treated only as a cheap source of loans, which were "repayable when able—and not always even then". This was partly because the movement was not "inter-woven with the pattern of rural life; it remained an outside force." And, of course, there is the basic fact that co-operation is a very difficult art.

Attempts have been made since Independence to remove these causes of failure, but the movement is far from dominating the rural scene. Today, co-operative credit amounts to about 30% of total rural credit, though it is largely given to the bigger farmers, who do not need it so much, as loans are related to assets.

Structure of The Co-operative Organization

At the top of the co-operative structure was the Provincial Co-operative Bank. It financed the other societies—central and primary co-operative banks—and mobilised their surpluses. Below it were central co-operative banks in district towns and business centres. They dealt with the primaries in their areas—guided, lent to and supervised over them. At the bottom were these primary societies, of many different types, agricultural and non-agricultural, credit and non-credit. Among the last, there were large numbers of societies for agricultural marketing, irrigation, consolidation of holdings, production and sale of ghee (clarified butter) and control of malaria.

Land Mortgage Banks

Co-operative credit societies do not lend money for long periods; so farmers have to obtain long-term loans from land mortgage banks. Land is offered as security for these loans. The money can be repaid in instalments over a period of 15-30 years. The rate of interest charged in India was 6 to 9%.

The banks obtained their capital through long-term debentures (guaranteed by Government), share capital, deposits and help from higher bodies, viz. the Central and Provincial Land Mortgage Banks. Thus, the organizational structure was similar to that of the co-operatives.

History: The first such bank was started in India in 1920. In the next 25 years, about a dozen Provinces and Native States established some 300 primary banks. Madras had the largest number and Mysore was next, but the other regions together had less than Madras, and the total membership was only a lakh or so. Thus the banks did not make much progress.

Their working: Nor was the working of the banks satisfactory. The loans given were almost entirely for repaying old debts. This was good by itself, as it gave the benefits of lower interest and instalments to the farmer. But the debts taken over by the banks were much less than one per cent of the total. The loans for permanent improvements were few, because farmers were heavily in debt, their holdings were small and fragmented and the bye-laws of the banks were unsuitable—e.g. repayment of loans began in a year, but returns on investment by the farmer did not start for five years. Then there were the defaults in payment. Indian agriculture was a gamble in rains and it could not afford an interest of 6–9% on unproductive loans, i.e. loans for repayment of debts.

Questions for Revision

1. What were the factors that brought about the heavy agricultural debts in the 19th century in India? What were the undesirable features of these debts?
2. Describe, and comment on, Government measures to tackle the problem of farmers' debts in India.
3. Analyse the credit needs of farmers. How far were they satisfied in India on proper lines?
4. Outline the history of the Co-operative Movement in India before Independence.
5. "The Co-operative Movement in India before Independence was a failure." Discuss. What were the causes of the slow progress of the movement?

Chapter V

OTHER PROBLEMS OF AGRICULTURE

MARKETING, LAND REVENUE, TENANCY, LABOUR

Section I. Agricultural Marketing

Among the other problems of Indian agriculture, that of marketing agricultural produce is a huge one; one estimate of the value of agricultural production is Rs. 1,200 crores for 1929. Yet the organization for its sale was very defective. The farmers suffered from many handicaps in this respect.

DEFECTS IN MARKETING

Transport. No Regulated Markets: The mileage of roads and railways, in relation to area and population, was very small compared to countries in the West. In particular, there was lack of enough good roads from the village to the market. We find similarly insufficient warehouses and absence of regulated markets. The marketing was done through money-lenders and middlemen.

Exploitation: The former had a hold on the farmers, who were heavily in debt to them. The money-lenders exploited this hold in various ways. Regarding middlemen, firstly there were too many of them and they forced the farmers to pay all sorts of charges. They used a great variety of weights and measures which, further, were manipulated against the farmers. The bargaining was secret and the middlemen favoured the buyers. Yet at the time of weighing, the price was cut on some pretext or the other.

Prices: Even otherwise the price was low, as all the farmers had to sell at the same time, just after harvest. This was because they were very poor, without savings, and had to

pay land revenue and rent at that time. It also resulted from lack of warehouses. Another reason was farmers' illiteracy and their ignorance of market conditions.

Marketing Costs: The price received by the farmer was low, also due to the costs in connection with marketing. They were the highest in the world and include costs of transport, storing, banking and insurance. As a result farmers received only half the price paid by consumers—or even less.

Government Measures

By the Central Government

Survey. Lines of Action: The first obvious task was to find out the facts through a survey; so the Government of India formed a Central Marketing Staff in 1935; in this it was followed by Provincial Governments. Under its direction, surveys were made of the marketing of many important crops and animal products. They also suggested lines of action, including legislation, and a model bill for control of markets was sent to the Provinces.

Improvement of Quality: To improve the quality of the products, a law was passed in 1937 for grading and marking them. It defined standards of quality and methods of marking. This applied to a number of products: in 1941, for instance, the 'Agmark' was applied at 760 centres. As a result, the prices of standard products were sometimes 50% higher.

Weights and Measures: The surveys also revealed a great variety of weights and measures. So Bombay passed an Act in 1932 to adopt standard weights and measures. Under the Government of India Act, 1935, such standardization became a Central responsibility; and a law defining uniform standard weights was passed in 1939, for the seer, maund etc. Since Independence, decimal coinage and metric weights and measures have been introduced, thus facilitating a great deal the calculations involved.

By Provinces

Regulated Markets: Several Provinces and Native States also passed laws, especially after 1936, to establish regulated markets. In the area notified, nobody could do buying or selling without a licence. A market committee would carry out the provisions of the law. The committee's functions were: to make bye-laws for regulating business, to inspect weights and measures, to publish marketing information and to allow no deductions from price, except as fixed by law.

Comments: In most other countries, agricultural marketing was greatly helped and regulated by Government. In India also, more was done in this field than in most of the others. Yet the positive work accomplished was comparatively small; most of the defects in agricultural marketing remained. The laws were passed and some Provinces set up an organization for systematic marketing, but it had not started working till 1939, when the War came and a large majority of the popular Governments resigned.

The best solution of the problem is co-operative marketing. That was tried with success in only a few cases. The correct way would be to link marketing and processing with loans in kind, i.e. for the co-operative to give loans in the form of inputs to farmers, against their crops; and to store, process and market the produce. Out of the proceeds from the sales, they would deduct the amount of the loan and interest on it. The loans can be in kind, at least partly, in the form of (better) seeds, fertilizers, pesticides etc. The repayment, too, can be in kind—in the form of foodgrains etc.—and thus help to solve the food problem.

Since Independence: The policy has been re-oriented under the recommendations of the Report on Rural Credit (1952). The majority of the 1800 markets in India are now regulated. More States have passed Marketing Acts, laboratories for testing quality have been increased, the marketing of more commodities surveyed, a Forward Markets Commission set up (1952), co-operative marketing extended and Warehousing Corporations established by the Centre and the States under an Act of 1956. More recently, the Food Corporation of India has been set up and minimum prices for foodgrains fixed. But the good crops of 1967-68 have revealed that marketing and warehousing facilities are still inadequate. A large extension of rural roads is also needed, as well as reduction in taxes on road transport; and the railways must acquire more closed-type wagons.

Section II. Land Revenue

(I) General Introduction

We noted several times earlier how land revenue, under the British, affected our agriculture adversely. In what sense was this true? And how did it come about? And were there no differences between Province and Province? Let us try to answer these questions now.

Land Tenures: Three main forms of land tenure existed in India under the British: the Zamindari in East India generally; the Ryotwari in Bombay and Madras Presidencies and in Assam; and the Mahalwari mainly in North and Central India. Under the last, land was held jointly by village communities, whose members were severally and jointly responsible for land revenue. It may be called a type of the Zamindari and, together with the latter, accounted for more than 60% of the land; the rest was under the Ryotwari. As we saw in the first chapter, the village communities protected the peasants against oppression by Zamindar or King before the British came. But the village communities decayed during British rule and custom no longer determined rent or land revenue.) Let us study the latter first, we will take up question of rent in the next section.

Excessive and Steeply Increasing: The land revenue system in India under the British was one of the principal causes of the poverty of the farmers. As a result they became very sensitive to famines. The land revenue was too heavy, fluctuating and uncertain, it was generally raised at each revision. It was, in the early period of British rule, 80% of the rental in North India and 90% in Bengal, while the ratio was only 5-20% in England in the 18th century. An idea of the steep increase in land revenue by the British is given in the following table :

Province	Land Revenue—in lakhs of £s. Pre-British	Land Revenue—in lakhs of £s. Under the British	Period of change etc.
Bengal	8	27	Became nearly 3½ times in 30 years.
Bombay	8	15	Nearly doubled in a few years, and was still increasing.
North India	20	29	Became nearly 1½ times in 11 years. 1807-18.

As Col. Briggs put it in 1830, such a land tax, taking away the whole of the landlord's rent, was never known under any Government in Europe or Asia (Quoted in Dutt, Vol. I). There were no clear limits fixed by law and the opinion of the revenue officials was final. V. V. Bhatt sums up the situation thus : before 1850, land taxes formed 60-100% of economic rental; after that, they were about 60%. As a result, the farmers could not save much, their investments fell heavily; even the old irrigation works fell into decay; and when famines occurred they had no savings on which to subsist.

Unequal Distribution of Burden : Further, the system of revenue assessment suffered from large variations. There was no uniform basis for it, and its burden differed as between

various Provinces and indeed even within the same Province. In Bengal, for example, in the areas under temporary settlement, the rate was 150% higher than in the areas under permanent settlement. Even within the latter, the maximum rate was seven times the minimum. Thus there was no single system of principles of assessment. The result was an arbitrary distribution of the burden.

Bases of assessment : This, in turn, was partly the effect of different bases of assessment, which were : net assets (i.e. rent minus cost of collection etc.), net produce (i.e. grosss produce minus cost of cultivation) and general considerations. Under the Permanent Settlement in Bengal, for instance, land revenue was 90% of the rent. After deduction of expenses, therefore, the zamindars were left with only a meagre portion of the rent. Among Ryotwari areas, the basis in Madras was 50% of the net produce at the maximum. In Bombay, several general considerations determined the land tax; rent was adopted as the basis rather late.

Other Defects : Again, unlike the earlier Indian rulers, the British collected the land revenue with rigour and strictness. It was a rigid system, its efficiency itself became a curse. The Indian rulers took up irrigation works also and maintained and repaired them. Under the British, on the other hand, many old works went out of use for lack of repair.

Having looked at the land revenue systems introduced by the British in a general way, let us now study the features of the systems in different Provinces.

(II) Bengal

The Permanent Settlement, 1793 : After their victory in the Battle of Plassey in 1757, the British tried several short-period settlements in Bengal. These had ruinous effects, as they increased land revenue by 250% in 30 years. Ultimately Lord Cornwallis, the Governor-General, appointed Sir John Shore to report on the matter.

Shore's minute: Shore recommended that the settlement should be with zamindars, not with ryots. The former were to be recognised as owners, with rights of inheritance, sale and mortgage. Regarding the rights of ryots, rents should be regulated by known rates. The revenue was to be permanently fixed, and it was to be 90% of the rental; by improving the estates and by cultivating waste lands, the zamindars would gradually increase the scanty 10% left to them. Thus it was to be a permanent, zamindari settlement and was introduced in 1793. It was later extended to Banaras, Northern Circars and parts of Karnatic. Permanent ryotwari settlement was introduced in two districts of Madras.

The Case for the Permanent Settlement

R. C. Dutt calls the Permanent Settlement the one act of the British, which most effectively protected the economic welfare of the people. In what sense is this true?

Prosperity. Agriculture extended: To begin with, he says, it permits the people to benefit by their industry, rather than discourage it by an uncertain and increasing land revenue. It acts thus as an incentive to agricultural enterprise and results, therefore, in agricultural prosperity. As a result, agriculture was largely extended and rents became three-fold. So land revenue, which was 90% of the rent in 1793, became 28% of the rent in 1903.

Protection against Famines: Since 1793 no famines in Bengal caused serious loss of life except, of course, in 1943 which was a rather special case. In other Provinces, land revenue was excessive and uncertain; so there was no motive for agricultural improvement and no savings. During famines, therefore, lakhs of people died.

Less Drain. No Re-assessment: The Permanent Settlement prevented the British Government from increasing the economic drain out of the country. It also removed the heavy expenditure on re-assessment and their other evil effects: harassment of farmers, deterioration of land just before re-assessment and use of arbitrary power by revenue officials.

The Other Side

Oppression of Tenants: But the system has many disadvantages. R. C. Dutt claimed that it permitted the people to benefit from their industry. But it was the zamindars who benefitted—from the industry of the actual tillers of the soil. The latter were oppressed in various ways, until they received some relief from Rent Acts from 1859 onwards. The zamindars did not become the 'natural leaders' of rural areas, as Cornwallis had expected from his English experience. The tenants, therefore, suffered from high rents, evictions, absentee landlordism, unsympathetic agents and many middlemen. Rents, for example, increased more than three-fold between 1793 and 1903.

Unfair Advantage to One Rich Class: On the other hand, Bengal had to sacrifice all future increase in land revenue. Bengal's income grew nearly four times by 1900, and later there was a rapid rise in prices. So land revenue became a much smaller part of this income. This income, again, had grown from social factors, like the growth of population and transport and from the rise in prices, including agricultural prices. But only the zamindars, a well-to-do class, benefited from this development. Further, land revenue in other Provinces had been growing, and also other taxes; so one rich section in one Province obtained an unfair advantage.

A Great Handicap to Government: With the passage of time, Provinces had to spend on many new items and so elasticity in revenues was necessary. Moreover, land revenue was the most important single tax for the Provinces, during the next century and a half. This land revenue being fixed, the Bengal Government suffered from a severe handicap.

The Drain. Re-assessment: The argument about preventing an increase in the economic drain does not apply to an independent India, and the evils of re-assessments are not at all serious now. They come after a long period; and the revision is much more rapid and simple, because of long experience and the existence of land records. Improvements are protected against increase in land revenue and rigidity is avoided by suspensions and remissions.

Zamindari was abolished after Independence and tenants were assured of fair rent, fixed tenure etc. at least in law.

(III) North India

Promise of Permanent Settlement: From Bengal we move westward to North India. Here also permanent settlement was promised after three short-period settlements. But it was never introduced, as it would rule out increase in land revenue. Several administrators, from Governors-General downwards, urged for it but the East India Company's Directors did not fulfil the promise.

1822. Mahalwari Settlement: In the meantime, land revenue was being continuously raised, from £ 20 lakhs in 1807 to £ 29 lakhs in 1818. The settlement of 1822 was made with landlords where they existed, and with village communities where they held land in common tenancy. The next three landmarks came at 11 years' intervals each, i.e. in 1833, 1844 and 1855.

The revision of the assessment was to be made village by village, and estate by estate; and as an estate was called a 'mahal' the settlement was known as Mahalwari. For landlords the revenue was more than 83% of the rental and for village communities it might be raised to 95%. To put it mildly, it was extremely oppressive.

1833. Bentinck's Moderation: The system broke down by its own harshness. So much land revenue just could not

be realized; the attempt would spell ruin and disaster. In 1833, therefore, Lord William Bentinck issued a regulation, which is the basis of land settlements in North India. The revenue was reduced to 67% of the rental and was to be revised every 30 years. This settlement was in charge of R. M. Bird, who gave much relief to the people, while the amount of the revenue was actually increased.

1844. Thomason's "Directions": In 1844 came Thomason's "Directions for Revenue officers" which remained, for many years, the standard of reference. Under them the settlement was to be for 20 or 30 years and all the proprietors of a 'mahal' were severally and jointly responsible for the land revenue.

1855. Further Reduction: Even this land revenue was found too high and was therefore reduced in 1855 to 50% of the rental. This was now the recognized principle all over India and was adopted in Madras and Bombay in 1864. But the rules were evaded in practice. In North India, for example, the 'potential rent' was taken as the basis. In theory, then, the revenue was reduced from 83% of the rental in 1822 to 50% in 1855, a very substantial relief.

(IV) Bombay Presidency

Steep Increase from 1818: The Peshwas' Kingdom was taken over by the Company in 1817 and, as elsewhere, land revenue began mounting up. It was £ 8 lakhs in 1817, 11.5 next year and 15 in a few more years, i.e. it was nearly doubled. But the British ended revenue farming and introduced the Ryotwari settlement. Under it, the peasant proprietor holds the land directly from Government, there are no intermediaries. The village officials' powers were, however, progressively reduced and, as in Madras, the village communities disappeared in a few years.

1825. One-third of Gross Produce: In Madras, Munro had reduced the land revenue to one-third of gross produce and the same standard was adopted in the Deccan in 1825. But this high standard had ruined agriculture in South India and the same thing happened in Western India. A new effort was, therefore, made by Goldsmid and Wingate in 1835.

1835. New Basis: Character of the soil: texture, colour Depth: They gave up yield, or gross produce, as the basis of assessment. Instead the soil in each field was classed according to its character and depth. In the former they considered the texture of the soil and its colour. Soil of the first order, for example, had fine uniform texture and was deep black to dark brown. The second order soil was also uniform, but coarser and red in colour. Lastly, the third order soil was coarser and light brown to gray in colour. Regarding depth, the officers argued that in these parts fertility of soil depends on its power to absorb moisture, and this varies chiefly with depth. So depth was taken as the main basis of estimates. After classifying soils on the basis of their character and depth, each class was given a value in annas, as shown below:

Class	Relative value, in annas. (1 Rupee=16 Annas)	Soils of the 1st order	Soils of the 2nd order	Soils of the 3rd order
		Depth in cubits (1 cubit=1.5 feet)		
1	16	1.75	—	—
4	10	1.00	1.25	—
6	6	0.50	0.75	1.00
9	2	—	—	0.25

Thus, in class 1, only soils of the *1st.* order were placed, and that also if they were at least 1.75 cubits deep. To go in class 4, soils of the 1st order had to be only 1.00 cubit deep, but those of the *2nd.* order had to be slightly deeper, as they were inferior in character and colour; and so on.

Fixing the Total Revenue: This 'annewari' classification was only used to distribute the total land revenue among various soils. The total revenue itself was determined by purely practical considerations like the "capability of the land", the estimated value of lands and the general circumstances of the district. The settlement was to be for 30 years and improvements were protected against increase in revenue.

Comments: R. C. Dutt commented that the produce of the soil was the ancient and correct—and more precise—basis for assessment. The new method was absurd, though Wingate succeeded because he worked it with moderation. But on this unreliable basis, there was an increase in land revenue. That resulted in poverty, widespread distress, increasingly heavy debts and transfer of land to moneylenders. In 1864 the maximum limit of land revenue was fixed at 50% of the net value of the crop; this limit was also adopted for Madras.

But the assessment was revised during the American Civil War, which raised agricultural prices, particularly in the cotton tracts. It was, therefore, fixed at a high level, which was one of the causes of the Deccan Riots by peasants in 1874. So the Land Revenue Code of 1879 based the assessment mainly on the rents paid; rental value was accepted as the basis as late as 1939, i.e. after the advent of Provincial Autonomy.

(V) Madras Presidency

In Madras also the Ryotwari System was introduced; there were three stages in the process. It was ushered in by Read and widely extended by that fine administrator, Sir Thomas Munro. The period of early Ryotwari extended up to 1812.

Middle Ryotwari, 1812-55: But there was no proper survey with boundary maps and records: and many methods were used. The assessment was unscientific, the revenue was heavy and unfairly distributed. The general level was 50% of gross produce on the wet, and 33% on the dry lands. Since the cost of cultivation was 45-50% of gross produce, the farmer on dry lands was left with a net income of only about 20% of gross produce. But some abuses were also removed and, in 1855, Government undertook a professional field survey, together with a detailed classification of soils and their valuation.

Late Ryotwari, from 1855: In 1864 it was decided to limit the land revenue, at the maximum, to half the net value of the crop. This would leave the farmer a net income of 25-27.5% of gross produce at the minimum. The revision was to be every 30 years and the ryot was to have absolute right in the land, including the right to sell or mortgage. This raised his credit, increased his debts and led to transfer of land to money-lenders.

The soils were divided into dry and wet, and classified according to productive capacity. This was done by calculating the money value of the average, estimated crop and deducting from it the cost of cultivation. Allowance was made for the cost of transport to the market, trader's profits, the uncertainties of the monsoon, etc. Improvements by the ryot were not to be taxed.

Summing Up

There is not much point in describing the history of land revenue systems in all the regions. The principal types have already been covered. To sum up, then, the land tax was based on different considerations in the various regions. The difference became greater after Independence, when the Native States merged with the rest of India. When Land Reforms were introduced, and Zamindari was abolished, the former tenants had to pay as land revenue the same amounts which they paid as rent before the Reforms.

The Burden of Land Revenue: During the last 80 years, the burden of land revenue has generally been falling. Up to the First World War, for example, the amount of land revenue did not change much, but agricultural prices rose very steeply, During the Great Depression, of course, farm prices collapsed, thus increasing the burden of the land tax very heavily. But the prices rose sharply again during and after the Second World War, and the burden of the tax diminished correspondingly. We must remember, however, that it is the larger landowners who benefit much from the rise in prices, as only they have a substantial surplus to sell.

Since 1930 there has hardly been any major revison in land revenue assessments. They have been due for revision, but something or other intervened: first the Great Depression, then the War, then Partition, Land Reforms and planning. Other taxes have been rising, as also government expenditure and prices. Land revenue, too, must be raised, if the Fourth Plan is not to be cut down. The case for such a rise has become stronger now, with huge Government expenditure on agriculture, rise in farm incomes and the saturation point in other taxation. But land revenue has actually been abolished in some regions. There is, however, the mention of the idea to mop up farm surpluses for investment through saving schemes.

Section III. Growth of Tenancy and Tenancy Acts

While discussing the Permanent Settlement we saw how the first Tenancy Act was passed in Bengal in 1859; and earlier in the course of our study of agricultural policy, we looked briefly at such Acts in both Zamindari and Ryotwari Provinces. But the problem is sufficiently important to claim a separate study, as 75% of the land came to be cultivated by tenants.

Growth of Tenancy

The idea behind Ryotwari is to link the cultivator directly to the State, without any intermediary between the two. Then he would retain all profit from farming and, therefore, have incentive to improve his land and his methods. Yet tenancy developed even in Ryotwari areas and sub-letting spread progressively. Under the landlord tenure, of course, almost all the land was cultivated by tenants, i.e. 62% of the land under the plough, made up of 38% under temporary settlement and 24% under the permanent. Ryotwari thus covered 38% of the land, most of it under temporary settlement.

Its evils: Under both the systems, intermediaries took the maximum from the man behind the plough. Incredible as it may seem, Bengal offered examples of fifty or more intermediaries for one piece of land; the tiller of the soil was, therefore, not left with enough to feed his family. Even otherwise, the rents were exorbitant and so the tenant had no incentive to improve the land. The position was made worse by insecurity of tenure; the tenancy would be transferred to another for a higher rent. Crop-sharing was the common practice and the landowner generally claimed half the crop, without contributing any labour or capital. To such rack-renting were added illegal exactions like premiums and a variety of other, personal services.

Tenancy Acts

Bengal, 1859. Ineffective: Ultimately even the passive British Government in India had to take some steps and try to improve the position. The first Tenancy Act of 1859 was for Bengal, coming 66 years after the Permanent Settlement. It gave occupancy rights to tenants cultivating the *same* land for 12 years: their rents were not to be increased, except on reasonable and specific grounds as provided for in the Act. But the Act was ineffective, as zamindars prevented a tenant from becoming an occupancy tenant, cultivating the *same* piece of land for 12 years. Old tenants were ejected and rents continued to increase.

Measures of 1885 and 1928: A quarter of a century passed before the Government woke up from another long slumber and the next measure came in 1885. To acquire an occupancy right under it, it was enough to cultivate *any* piece of land,

not the same one, for 12 years. It was applied to non-occupancy tenants as well. It was also ineffective. Increase in rents continued, on the ground of rising prices, right up to 1928, that is for 43 years, when occupancy holdings were made transferable.

Other Provinces: The Bengal Acts were copied by other Zamindari Provinces like the U.P., Bihar, Orissa and the Punjab; and also by the Ryotwari Provinces of Bombay and Madras and, of course, the results were similar.

Other Adverse Developments; Scramble for Land: In the meantime, the problem was made more acute by several factors. The rapid growth of population increased the pressure on land, leading to a scramble for land. The position was worsened by the decay of rural handicrafts; it forced more and more artisans to turn to land for their livelihood. Other non-agricultural classes also began acquiring land, particularly moneylenders and traders. Farmers were getting more and more deeply into debt and their land passed to moneylenders on a large scale. The prestige attaching to landownership strengthened the tendency. The scramble for land became all the greater.

Their Effects: The result was a great increase in the number of tenants. In 1921-31, for instance, their number rose by 62%. After that, sub-tenancy also increased. On the other hand, the number of occupancy tenants fell steadily and there was a large increase in landless labour. The latter class grew by 49% in 1921-31, so that from being 13% of the agricultural population in the 19th century, it became 30% by 1950-51. This was largely the result of tenants and small proprietors losing their hold over land. They, therefore, lost all incentive to improve the land, to put in hard work and to use better methods. Thus the land deteriorated, its productivity declined and rents continued to increase. As noted above, intermediaries arose even in the Mahalwari and Ryotwari areas; in all 75% of the land came to be cultivated by tenants.

Provincial Autonomy, 1937-39 : Under Provincial Autonomy, popular governments were in power in 1937-39 and they naturally tried to redress the grievances of the tenants. The principal features of the measures undertaken may be grouped under the three F's of Irish land legislation : Fixity of tenure—no arbitrary ejection of tenants; Fair rents—limit on increase of rents, without which fixity of tenure is of no use; and Freedom of transfer—making land heritable and sometimes even transferable. In addition, tenants were to get the benefit in rent of suspension of land revenue, compensation for improvement of land and protection against personal service. Thus the landlord's privileges were curtailed a good deal. But early in the Second World War the majority of provincial governments resigned; and in their short tenure of about two years, they could not do much to implement these ideas.

The Need. Land Reforms since 1947 : There was also the need for completely overhauling the whole complex of land relations and establishing an efficient system of land use. This was attempted after Independence in a very comprehensive way through the various Land Reforms. But legislation is one thing, its successful implementation another. The problem admittedly is very complex; and it is made more difficult of solution by the ignorance and helplessness of tenants, on the one hand, and by the greed and political influence of landowners, on the other. The principal Land Reforms are : abolition of Zamindari, ceilings on holdings, tenancy reform, consolidation of holdings, co-operative farming and help to landless labour.

Section IV. Agricultural Labour

If the lot of the tenants was miserable, that of agricultural workers was no better. If the former were a large class of crucial importance to India's agriculture, so were the latter. We will, therefore, study the economic condition of this class now.

Surveys : 1950-51, 1956-57 : We do not know much about the condition of agricultural labourers during British rule. But within three years of Independence, in 1950-51, a survey was made to ascertain the position. Another enquiry was conducted in 1956-57, so that a comparison between the two reveals the effects on this class of India's First Five-Year Plan, 1951-56. The more important data are given in the table, for the sake of convenience in comparison. But the second enquiry differed from the first in some of the concepts, definitions and methods. Its findings, therefore, are not strictly comparable with those of the first. But even allowing for some margin of error, the condition of agricultural labour could not have improved substantially, if at all. Anyway, we are not primarily concerned here with that, but with the condition of this class during British rule or (in the absence of data on that) just after it ended.

1962 : Since then, there has been a survey of the rural situation by the National Council of Applied Economic Research. It has revealed that the situation in 1962 was still grim. The per capita daily income of a villager was 68 paise. But the bottom 60% of the households accounted for only 31% of the total income. (At the other end, the top 5% claimed 22% of the total income.) Thus the vast majority lived on 35-40 paise per day and 60% of all families had to incur fresh debts. The per capita income of the ten million at the very bottom was only 27 paise per day, that of the bottom 50 million was 32 paise per day. These would very largely be agricultural labourers. Their income per head was about 30 paise per day in 1950-51, during the first enquiry mentioned above. Let us now study the findings of that enquiry and compare them with those of the second.

	Agricultural Labour in India	1950-51	1956-57
Number	Number of agricultural workers—millions	35	33
Landownership	Households of agricultural labourers who were landless —per cent	50	57
Employment	Casual adult male workers		
	—unemployed for —days	90	128
	—employed on wages for „	200	197
	—self-employed for „	75	40
Payments	Payment entirely in kind to —per cent	31	40.5
Wages	Wages per day of casual adult male workers—paise..	109	96
	—of women „ ..	68	59
	Wages in Plantations „ ..	125	—
	„ „ Factories „ ..	360	—
Income	Annual income per family of agricultural labourers— Rs..	447	437
	—per capita — Rs..	104	99.4
	Income per family		
	—from cultivation of their own land— Rs..	60	30
	—from non-agricultural labour .. .. — Rs..	53	35
	Wholesale prices of food articles — index no.	100	91
Expenditure	Expenditure per family—Rs..	467	617
	Deficit „ „ „	20	180
Debts	Families in debt—per cent	45	64
	Average debt per family, Rs.	47	88
	Purpose of debt		
	—for consumption expenditure —per cent	—	46
	—for social purposes „ ..	—	24
	—for productive purposes „ ..	—	19

Their number and ownership of land: As we saw in the last section, in the 19th century this class formed only about 13% of the agricultural population; by 1950-51 it was more than 30%—a result of decay of rural industries and of transfer of land from peasants to moneylenders. The absolute figure was 35 millions in 1950-51 and there was a slight fall, by the time of the second enquiry, to 33 million. This may partly be the result of a change in concepts and definitions at the time of the second enquiry. 50% of the households were landless during the first enquiry and 57% during the second, partly the result of resumption of land for 'personal cultivation' by zamindars. Thus the land reforms did not 'reform' the condition of the most needy class living on land.

Employment: Casual workers' families formed 85% of the total in 1950-51; the rest were attached to particular landowners. The adult males in the former class were unemployed for 90 days in the year in 1950-51 and for 128 days in 1956-57, a substantial rise. They were employed for wages on 200 and 197 days respectively—thus little change—and so self-employed for 75 days and 40 days respectively. This heavy decline in self-employment explains the substantial rise in unemployment and was the result, mainly, of increased landlessness among them.

Payments in kind: What did this employment fetch them? 31% workers received payments entirely in kind in 1950-51 and 40.5% in 1956-57, probably the result of a fall in food prices from 100 to 91. It was cheaper for the landowners to pay them in kind. Incidentally, this shows that money economy had not at all become universal.

Wages: But how much they did receive? Taking again the casual adult males, the most important class, their wages per day were Rs. 1.09 in 1950-51, falling to Re. 0.96 in 1956-57, a fall of 13%. We may compare this with the wages in plantations, Rs. 1.25 per day and in factories, Rs. 3.60 per day—in 1950-51. Women in agriculture received much less, Re. 0.68 in 1950-51 and Re. 0.59 in 1956-57. But the fall in wage rates may also be partly due to change in methods of computation in 1956-57.

Income: In addition to wages, the workers had other income also. The total average income of the family was Rs. 447 per year in 1950-51 and it fell slightly to Rs. 437 in 1956-57. This works out at per capita incomes of Rs. 104 and Rs. 99.4 respectively. Of the total income of the family, Rs. 60 came from cultivation of its own land in 1950-51 and Rs. 30 only in 1956-57, a result of increased landlessness. But even in 1950-51 only 13.4% of the total income was derived from cultivation of own land, as much as 64% from agricultural labour, 12% from non-agricultural labour and 8% from non-farming work. There was a heavy fall in the family's income from non-agricultural labour also, from Rs. 53 to Rs. 35.

If income fell to some extent, food prices declined more, from 100 to 91. But these are wholesale prices and we do not know about the movement of the retail prices, which the labourers had to pay. Anyway two-fifths of them were paid *entirely* in kind. They certainly spent a smaller proportion of income on food, 77% instead 85%, taking the average for families of *all* agricultural workers.

Expenditure: The expenditure on clothing and footwear remained at 6%, but that on fuel and lighting went up from 1% to 8%, a surprising development. The bare necessities of life thus accounted for more than 90% of the expenditure. The family's total expenditure increased sharply from Rs. 467 to Rs. 617 per year—while its income declined from Rs. 447 to Rs. 437. The deficit, therefore, rose steeply from Rs. 20 only to the staggering figure of Rs. 180 or about 40% of the income in 1956-57.

Debts: How did they make up this deficit? Largely by savings, sale of stocks, remittances received and loans. The proportion of families in debt increased from 45% to 64%, another substantial increase—and still another instance of

worsening of the already pitiful condition. The average debt per family was not quite doubled, rising from Rs. 47 to Rs. 88. Regarding the purpose of the debt we find that, in 1956-57, as much as 46% was for consumption expenditure and 24% for social purposes and only 19% for productive purposes. In that year, again, 34% of the loans were from moneylenders, 44% from friends and relatives and only 15% from employers.

Summing Up

To sum up, then, the position of this class was already wretched in 1950-51: 90% of family expenditure was on bare necessities and income per head was less than 30 paise per day or five annas—less than one-third of a rupee. The position became markedly worse in the next six years. Landlessness increased substantially, and therefore, also unemployment, so that the workers were self-employed for only about half the days as before.

Payment in kind increased, denying the labourers the advantage of lower prices. Wage per day declined, remaining definitely lower than that in the plantations and very much lower than the factory wage. Incomes fell, due to the heavy fall in income from cultivation of own land and from non-agricultural work.

But expenditure mounted up steeply, so that there was a very large deficit in the family's budget. This was met by debts, which rose sharply. The proportion of families in debt increased a good deal, and the debt per family was nearly doubled. Nearly half the debt was incurred for consumption expenditure, one-fourth for social purposes and only one-fifth for productive purposes. And yet more than nine-tenths of the expenditure was on bare necessities.

Government Measures

Minimum wages: Thus the condition of this, the poorest, class in the country became more wretched in the course of the

First Five Year Plan. This happened in spite of several measures by Government. The Minimum Wages Act of 1948 was applicable to agriculture; and the rates fixed for adults in various occupations in different States varied generally from Re. 1 to Rs. 2, the more common rates being between Rs. 1.25 and Rs. 1.50. But as we saw earlier, the actual wage received was substantially lower in 1950-51, and lower still in 1956-57, though minimum rates had already been fixed over the major part of the country by 1956-57. Of course, there are difficulties in fixing minimum wages in agriculture, and more still in implementing them.

Increasing employment. 'Bhoodan': The First Plan tried to provide more employment to this class through programmes of agricultural production, land reforms, co-operation and village industries—and the Centre assigned Rs. 20 million for resettling the landless. Then there was 'bhoodan', land gift from the landed to the landless, beginning with 1951. By 1955 about 4 million acres were donated, but only about 2 lakh acres were distributed among some 60,000 families.

One principal solution of the whole problem is to transfer a part of this population to other occupations; but that is a long-term task, and part of the bigger problem of rapid industralization and diversification of economic activity. In the meanwhile, the Third Plan had a massive rural works programme of employment for 100 days a year for 2.5 million persons, involving an investment of Rs. 150 crores.

Questions for Revision

1. What were the defects in agricultural marketing in India under British rule? How and how far were they removed?
2. Analyse the defects of land revenue systems introduced by the British in India, especially as compared to the earlier systems.
3. Examine the case for and against the Permanent Settlement.

or

"The Permanent Settlement was the one act of the British which most effectively protected the economic welfare of the people." Discuss.

4. Compare the features of land revenue settlements of Bombay, Madras and North India.
5. Bring out the principal stages in the evolution of Tenancy Legislation in India under the British. How far was it effective?
6. Describe the condition of agricultural labour in India in 1950-51 with special reference to employment and wages, income, expenditure and debts. How had the condition of this class changed by 1956-57?

or

"India's First Five-Year Plan was no blessing to her agricultural labour." Discuss.

Chapter VI

MODERN INDUSTRY AND ITS PROBLEMS

Section I. History of Factory and Mining Industries

Having concluded the history of agricultural problems and handicrafts, we now take up a study of modern industry, the next most important sector of the Indian economy. Cotton and jute mills were started in the early 1850s and they remained our foremost modern industries. The next five or six decades may be divided into three periods, which mark three stages in our industrial growth.

(I) 1860-80. The beginnings: In these two decades, the only new important industry was coal-mining (employing 20,000), which made steady progress during the period. The other two industries together had 70,000 workers and they, too, registered steady progress, except for cotton before 1870. The Madras tanning industry developed a prosperous export trade in hides and skins to the U.K. and (later) to Germany. But handicrafts decreased rapidly in importance, and the artisans thus thrown out could not be largely absorbed by the few new industries. Thus there were only beginnings of modern industry yet—and not much achievement.

(II) 1880-95. Real Progress: During the next fifteen years also handicrafts continued declining while no new industry was started which could be called a major one. But the established industries progressed rapidly; the number of workers in the three major industries increased from less than one lakh to 2.6 lakhs. Another favourable development was the rise of three types of industries with small units.

Small-Scale Industry: There were first the *processing industries*: cotton and jute presses were started, as also rice and timber mills—the last two mostly in Burma. They were

seasonal industries and carried the raw materials only a stage forward. Next there were the *subsidiary industries,* like engineering workshops and iron foundries, which arose from the growth of factories and railways. In the last group, the *semi-factory industries,* Madras tanning was the most important. It was a purely export industry, very prosperous now and showing a large increase in exports. The other notable industries in this group were brick and tile factories.

(III) 1895-1914. Progress begins all over India. Minerals: There was a serious check to industries in 1895-1900 because of famines. Cotton was depressed up to 1905, but jute progressed rapidly. The minerals too made rapid progress, especially coal and the two minerals which were almost new, viz. petroleum in Burma and manganese in Madras and the Central Provinces. India became the largest producer in mica.

But this large growth in minerals was very small compared to our needs, so imports were far greater than our production. Further, the growth was one-sided; there were no manufactures from minerals. Of the six important minerals, four were consumed directly viz. coal, petroleum, gold and salt; the other two were exported—mica and manganese. The only successful attempt to produce iron was at the Barakar works and the Tatas had just begun production in 1911. Thus there were almost no metallurgical industries, a serious handicap to industrialization.

Small-Scale Industry: There was a good deal of progress in the processing industries. The rice mills spread into India proper, particularly into Bengal and Madras; and flour and oil mills also grew in number. Among the subsidiary industries, there was an increase in engineering and railway workshops and in iron foundries. The factors responsible for this increase were extension of railways and use of cycles, motor-cars and tramways, and of workshop motors and water pumps. In the semi-factory type, Madras tanning was now decaying, due to the discovery of chrome tanning in America. Madras now exported *raw* hides and skins in increasing amounts.

Summing up: We may sum up by saying that the real industrial progress took place in the small-scale type. Modern factory industry was still very limited; in 1911, for instance, only 21 lakh workers were engaged in units employing 20 or more each; and only four industries employed more than one lakh each: tea, cotton, jute, and coal. Further, the plantations were partly agricultural, and mineral development, as we saw, was one-sided. There was also an absence of industries with complicated processes.

Industrial Position in 1850 and in 1914. Losses and Gains: If we compare the industrial position in 1914 with that in 1850, we find the following account of losses and gains. The losses, of course, were in the handicrafts: village industry was decadent and the majority of urban handicrafts declined. The gains were in modern industry: plantations, textiles and coal employed a large number and small miscellaneous industries grew substantially.

General Survey up to 1914

The line of development was similar to that in other countries. The beginning was made with industries producing consumption goods, cotton and jute. The reasons for this choice are obvious. They do not involve complicated processes, special skills or huge amounts of capital; the markets already exist within the country and the period of waiting is not long. But this position continued more or less unchanged in periods (II) and (III) also. The only notable change was the development of three types of small-scale industry. Regarding factory industries, the established ones made rapid progress in period (II), i.e. in 1880-95. In period (III), progress began all over India and the minerals recorded rapid growth; but the real industrial progress was in the small-scale type. Then came the landmark of the First World War.

Thus the total industrial progress was small, due to certain deficiencies in our industrial equipment. What were these deficiencies?

Deficiencies in Industrial Equipment in 1914

Capital: We had to import all capital goods, i.e. machinery, equipment, spare parts etc. Regarding money capital, our savings were small as India is a poor country. Industrial finance was unorganised; modern banking existed only in the few important trade centres and it preferred the financing of trade. There were no institutions to supply long-term finance to industry.

Labour: Our labour was inefficient and there was a scarcity of skilled labour and of training facilities. Wages and working (and living) conditions were very unsatisfactory. Combined with illiteracy, these explain the inefficiency.

Power: Our coal was located in a corner of the country, the railway freights were high and the quality of coal is not very good. Oil, similarly, was found then largely in Burma only and hydro-electric power was very costly.

Metallurgical Industries: We also lacked metallurgical industries, especially iron and steel, until the end of the period; and the whole fabric of industrial growth rests on these. We had, therefore, to import railway equipment and all machines, down to the smallest. This was a tremendous handicap in competition with other countries.

Railway and Government Policy: Railway routes and rates did not favour industry, except foreign industry. The general Government policy was that of *laissez-faire*, of indifference and even opposition to industrialization by India. The currency and exchange policy was also unfavourable to our industries.

Markets: Being a poor country, India had to depend largely on foreign markets. Some countries had a long start over us and England exploited even our home market in many cases.

We resume now the history of Indian industries in different periods.

(IV) 1914-29: The First World War was very favourable to industrial growth; and especially during the post-War boom (1918-20), many new enterprises were started. But 1920-22 saw an acute depression, followed by low economic activity. Chiefly due to currency policy, this condition continued right up to the Great Depression.

War, post-War boom. Huge profits: With the rise in prices, industrial profits rose rapidly during the War, which also stopped foreign competition for some industries. Thus the prices of manufactures increased, while those of raw materials rose much less and wages increased little. The end of the War brought an immediate increase in demand for all sorts of goods. During this post-War boom, prices rose rapidly and there was extraordinary industrial prosperity.

1920-22. Depression: During the boom, however, wages and other costs also increased substantially. Machinery ordered at boom prices arrived during the depression. It also increased productive capacity at a time of falling demand. Acute exchange difficulties intensified the trouble. Again, most of the growth was not healthy and huge dividends were paid without adequately strengthening the reserves. Many unsound concerns were, therefore, wiped out.

Summing up for 1914-29: Industrial Deficiencies

To sum up, there was much growth in the larger industries, but the main features of the situation changed little; e.g. organized industries employed less than one per cent of the population. The results of India's growing industrialization since 1914 can be seen in the changes in the composition of her

foreign trade. The reader may refer, for example, to the relevant columns in *Table 17* at the end of the book. There was some improvement regarding our industrial deficiencies also.

Capital: Capital became bolder, as there were now large investment facilities. In industries like tea and jute, the share of Indians increased. But a large part of industry was still controlled by external capital and it shared the benefits of fiscal protection. (We will discuss the problems of foreign capital and protection at length in later Sections.)

Labour: Efficiency of labour was still low, but it improved a good deal in this period. There was also satisfactory progress in training foremen and supervisors.

Metallurgical industries, fuel and power: Most progress was made in the iron and steel industry; it was now definitely established. But the other metal, and chemical, industries did not flourish still. The more important problem of power was not yet solved. A large amount of hydro-electric power was produced in certain areas, but not at all as cheaply as expected. A large part of it was supplied by the Tata companies to the Bombay area from 1915.

Government policy also became more favourable.

(V) 1929-39. The Great Depression: The Depression did not have the same effect as in many other industrial countries, e.g. production in the major industries did not fall so much. One reason for this situation was the large part played by handicraft industry in India even at that time. The fall in the farmers' incomes affected, therefore, the handicrafts rather than the factories. There were also the protective duties; and the 'Satyagraha' Movement of the early 1930s encouraged the use of Indian products.

(VI) 1939-47. The War and after. New factors: The War created a far more urgent demand for industrial products

than the First World War. There were several new factors in the situation like the fall of France, bombing of British factories, large-scale sinking of British ships and Japan's victories in the East; and in India, hyper-inflation and a sellers' market.

Production increases substantially. New lines: The result was considerable increase in industrial output in India, in cotton and jute, in coal, iron and steel, but particularly in certain new lines. Many new engineering and chemical industries were started; for example, there were some 250 trade workshops and two dozen railway workshops, producing about 700 different items of munitions. Dozens of firms were also licensed to produce lathes, machines and machine-tools; hundreds of new items of engineering stores were manufactured. The Hindustan Aircraft Company (at Bangalore) assembled the first plane in 1941. A heavy chemicals industry was started, producing sulphuric acid, caustic soda, bleaching powder etc. These industries were thus trying to make up some glaring deficiencies in our industrial equipment. The growth in the production of manufactures increased the value of their exports, as in the preceding period, and also the number of factory workers.

Laying up trouble: But the difficulties of importing machinery, as in the First World War, led to multiple shifts and tremendous overworking of existing equipment. It was, therefore, urgently in need of repairs and replacements; it had also become out-of-date. There was, further, a neglect of long-term factors like proper location, scale of production, search for future markets and sound financial organization (as during the First World War also).

1945-47. Critical years: These neglected factors made themselves felt after the War. Even before its end, production was falling: now it fell further and continued to be much below capacity in most industries. (It is so even today.) The Partition of the country disrupted the whole economy; in particular, it had a serious effect on India's jute and cotton

industries, which lost large sources of their raw materials. The developments since then are too many, varied and vital to be compressed in a few words; several of them, however, are indicated in the following Sections and in the next Chapter.

General Survey: from 1914: Industries received a great stimulus in period (IV) during the War and the post-War boom. But the main features of the industrial situation remained more or less the same. The deficiencies in our industrial equipment were, however, removed to some extent by 1929. The outstanding event of the next period was the Great Depression, but it did not have the crippling impact that was felt elsewhere. Then came the Second World War, which was an even greater stimulus than the First War. The industrial deficiencies were made up to a larger extent, through the production of heavy chemicals, machines and machine tools. But some of the mistakes of the First War were repeated. These and the Partition made the post-War years a critical period for our industries. Since planning began in 1951, however, there has been considerable advance, especially during the second and third Plans.

Section II. Government's Industrial Policy

In this growth of modern industry, and in the decline of the handicrafts, what part did Government play? As we saw while studying the latter, the East India Company's policy was one principal factor in their decline. The later policy under the Crown was similarly a major explanation of the backwardness of our factory industry. A summary of the whole history of this problem will be found in the column on 'Trade Policy' in *Table 17* (on Foreign Trade) and at the end of this Section. Let us see the details now.

Under the Company. Indian Handicrafts Strangled

Discouragement: During the East India Company's rule, several measures were taken to discourage our industries and to encourage the sale in India of British manufactures. In

1769, for example, the Company's Directors ordered the encouragement of the production of *raw* silk in Bengal and the discouragement of the production of silk *fabrics*. In the same year, silk-winders were forced to work in the Company's factories under severe punishment. In 1813 when the Company's charter was renewed, Parliament inquired into how Indian industrial products could be replaced by the British; and British manufactures were forced on India through the Governor-General and Commercial Residents.

Tariffs: On the other hand, Indian handicraft products were shut out from England by prohibitive tariffs (or by a ban on imports). 67% was a common level of duties and there was a case of 400%. But British goods were forced on India free of duty. Thus British manufacturers strangled India's handicrafts through political injustice. Later, the same process was repeated in the case of factory industries.

Inland Duties: In 1835 British cotton manufactures were imported into India at 2.5% duty, while Indian cottons consumed in India had to pay 15%. There was the same level of duty on Indian sugar and boots and shoes. These duties were levied on 235 articles, that is, on almost everything of personal or domestic use. Bribes had to be paid to customs officers and some articles had to pass through ten customs houses. The result was ruin of small traders, repeated delays and serious hindrance to trade. By 1853, however, these duties were gradually removed.

Under the Crown. Little Change up to 1914.

Pressure from Lancashire

Government attitude changed little under the Crown. At the best it was a policy of absolute *laissez-faire* (i.e. non-intervention); at the worst it served British interests at the cost of the Indian. For example, the Famine Commission of 1880 recommended encouragement to industries as the most important remedy for famines; but Government took no action on it. On

the other hand, under pressure from Manchester, the centre of cotton mills in Lancashire in England, most of the import duties were removed by 1882. It was because Manchester complained of "unfair competition" of Indian mills in the Indian market, that the first Factory Acts were passed in India in 1881 and 1891.

Cotton excise, 1896-1926: It was again to satisfy Manchester that an excise duty of 3.5% was levied on Indian mill cloth in 1896. It was not removed till 1926, when the industry was in a very bad way. The duty did not really benefit Lancashire, as 94% of our cotton manufactures, being coarse, did not compete with it. But the poorer sections in India, consumers of coarse cloth, suffered under it. Lancashire, however, sent 60 members to the British Parliament: so it was they who dictated industrial policy in India. Thus the policy was not framed in the interests of India, who could not send one member to the Parliament.

Need vs. Policy: What was needed was protection for our young industries and handicrafts, against the established industries of England. The policy adopted was the opposite one. In general, there was in India free trade, which favoured the import of British manufactures and harmed Indian factories and handicrafts. The latter, therefore, continued declining till the end of the century, in both urban and rural areas.

Morley's veto, 1910: At the turn of the century, some Provincial Governments began taking a more active interest in industries. But the European businessmen in India resented this and so in 1910 Lord Morley, the Secretary of State, reversed the policy. This indifference of Government to industrial development in India continued right up to the First World War.

1914-29. Large Changes

There were, however, large changes in Government organization and policy for helping industries, during and after the War. During the War, as in other countries engaged in it, Government introduced control over economic activities and helped industries both directly and indirectly.

Indirect help: In the case of some products, export was prohibited and there were large Government purchases as in jute and tea, mica and manganese. This added to the prosperity of the industries concerned. There was a control of supply and distribution of coal to the various industries. Government itself started factories to manufacture acetone, army clothing and leather goods. To develop manufacturing resources for the War, a Munitions Board was set up in 1917.

Industrial Commission, 1916-18: Government also appointed an Industral Commission to inquire how it could give direct encouragement to industries. But the Commission was specifically asked not to review tariff policy. It recommended energetic state intervention and offered many detailed suggestions. Its Report was, in the main, accepted by the Imperial and Provincial Governments.

Revenue Duties. Discriminating Protection, 1923: The desire to shut out other countries from the Indian market, and the needs of War finance, led to heavy revenue duties on imports. These served as protection to industries. Deliberate protection was also given some years later and that was the most important help extended to industries. This new fiscal policy was proposed by the Fiscal Commission of 1921. The majority recommended discriminating protection, i.e. there should be discrimination in selecting industries for protection and in the degree of protection, so that the burden on the consumer may be the minimum. There was to be a Tariff Board, which must observe the triple formula: the industry must have natural advantages; it was not likely to develop as rapidly as desirable without protection; and it would ultimately be able to face world competition. These recommendations were accepted and a Tariff Board was appointed in 1923. The problem is discussed at length in the next Section.

A Provincial Subject, 1919: In the meantime, under the Montagu-Chelmsford Reforms (1919), 'Industries' became a

Provincial subject and the Provinces implemented the recommendations of the Industrial Commission. Departments of Industries were started by them and some of these began supplying trade information, technical aid and help in starting industries. There were surveys of industries in the United Provinces, and of cottage industries in Bengal and Madras.

Research and technical education: Several institutes were started for research into soap and glue, forest products, tanning and leather trades, etc. The Provinces also passed laws, enabling industries to tax themselves and to use the money for research, as in the case of indigo and lac. There was some progress in technical education too; most Provinces established small weaving schools.

Direct help: Financial aid to large units mostly failed, but that given to small firms was more useful. Lastly, the stores purchase policy of the Government of India was changed. Preference was to be given to Indian manufactures, if the price was 'reasonable'. But in practice this was often not done.

1929-39. The Depression. No positive policy: During the Great Depression, Government did not adopt any positive policy, at a time when other contries undertook many new measures to direct and control economic life. Even the lesson of the War seemed lost on it. Hitler came to power in 1933, but the Government of India did not consider how India might contribute to industrial production, in the event of another war. Indeed its attitude remained obstructive even during the Second World War.

1939-45. War: little change: As we saw in the preceding Section, Britain's need for industrial production from India was far greater during the Second World War than in the First. Yet Government's attitude towards industrialization in India did not change substantially. There were two reports on how to increase industrial production, but neither was even published in India. Nor did Government accept proposals for producing several means of transport—motor-cars, aircraft, ships and locomotives—in spite of acute shortage of transport, which hindered even production for war.

Training and Research: But in training and research there was some progress. For training, there was a Government of India scheme and that of 'Bevin boys' in British factories. On research also some money was spent; as a result, many new methods of production were evolved and a number of Indian substitutes found, for materials which were formerly imported. Government had set up a Board of Scientific and Industrial Research in 1940.

The major developments since Independence are mentioned in the following Sections. To these one may add the tremendous growth of the public sector, with some six dozen undertakings, many of them in basic and key industries; their range and scale are noteworthy. But their problems of management and costs are still being tackled.

Summing Up

1757-1857 : To sum up, then, in general the same basic policy was pursued in all the periods. It was initiated within a dozen years of the Battle of Plassey. It was continued, without much fundamental change, right up to (and during) the Second World War, nearly two centuries later. It might be summed up as "promoting industries in England at the cost of Indian industries". In the early 19th century, even Parliament did not make a secret of it. Any agency, from the Governor-General downwards, could be used for the purpose. Particularly striking is the contrast between two sets of tariffs: those in England on the products of India's handicrafts and those in India on the products of England's factories.

1858-1914. There was little change in this policy under the Crown for nearly six decades. Lakhs of people died in famines in 1868-78, partly because of the decline of handicrafts, which made the artisans resourceless. So the Famine Commission of 1880 urged encouragement to industries, as the most important remedy for famines. Government took the opposite step, facilitating imports of manufactures from Lancashire. The pressure from Lancashire was successful in other similar directions too. Morley, the philosopher, had similarly to accept the philosophy of European businessmen in India in 1910.

1914-1929. Dire necessity forced some change during the First World War. An Industrial Commission was appointed, which recommended energetic State intervention. But the actual intervention by the Centre was not quite 'energetic'. The Provinces under the Reforms of 1919 were more active, but they suffered from shortage of funds. The Centre did take one positive step, discriminating protection, from 1923. But here, too, neither the triple formula, nor its application, was particularly satisfactory. And Indian industries suffered under the 1sh. 6d. ratio, imposed in the interests of the British in 1926.

1929-1947. No positive policy was adopted during the Depression. The Second War, like the First, brought about some welcome changes, but the basic attitude remained obstructive. No wonder, then, that on the eve of Independence, India's industrial structure was neither integrated nor advanced, neither balanced nor developed. This history of well-nigh two centuries may be contrasted with the very substantial achievements, through really 'energetic' State intervention, in less than two decades after Independence.

Section III. Problems of Modern Industry

For introducing modern industry in a country, several problems have to be solved. First of all, the Government must be sympathetic and its policy helpful. We have studied at length the history of Government policy, including the policy of protection; but the latter is sufficiently important to be studied separately and we will take it up presently. Then there are the problems of industrial finance and management. These raised controversies about foreign capital in India and the managing agency system, which are dealt with next. Modern industry has resulted in concentration of population in urban areas; this problem is taken up in Chapter VIII. But the more important problems are those of people working in the industries, i. e. of industrial labour, and these are discussed at length in Chapter IX.

Protection

The need for protection: England passed through the Industrial Revolution first, from 1760 onwards, and thus became the 'workshop of the world'. She, therefore, needed markets for her manufactures and also raw materials to produce these goods. So the policy of free trade was eminently suited to her needs and she adopted it for herself and imposed it on India also. Now other countries, like Germany and the U.S.A., that introduced modern industry later, had to struggle against the manufacturing industries of England, who had a very early start in her favour.

So they adopted a policy of industrial protection. The aim was to shut out foreign competition from the home market, generally with the help of import duties (or protective tariffs). It was thus a part of the fiscal policy of the country, i.e. its taxation policy, and was, therefore, called fiscal protection also.

Adopted in India, 1923. The Triple Formula: Regarding the adoption of this policy in India, we saw in the last section how the Indian Fiscal Commission of 1921 favoured discriminating protection with the triple formula. Let us first look at this formula in detail. Firstly, the industry must have natural advantages which would facilitate its growth. These included an abundant supply of raw materials, cheap power, a sufficient supply of labour and a large home market. Then the industry must be such as not likely to develop at all, or at least not as rapidly as desirable in the interests of the country, unless it was given protection. Lastly, the industry must be one which would ultimately be able to face world competition, without the help of protection. This triple formula, in essence, means

that protection should be temporary, and given only when it was indispensable for the permanent development of an industry.

Protection to Various Industries

Iron and Steel, 1924: Government accepted this policy and from 1923 appointed an *ad hoc* (or separate) Tariff Board to examine the case for protection of each industry. But it was not bound by the report of the Board and modified, or even rejected, its recommendations in several cases. It was through such protection that the iron and steel industry was successfully established. In 1924 import duties on steel bars and wrought iron were increased, and bounties were given on the production of steel rails and fish plates. Both the bounties and the duties were to continue for three years. But Belgian and French currencies depreciated further that year; and these countries could sell steel in India at much lower prices. Next year, therefore, the duties in India were substantially increased. When the measure was reviewed in 1927, after the three-year period, the duties on British steel imports were kept at a lower level than those on Continental imports, as the prices of British steel goods were steady. This time protection was granted for seven years and it was renewed in 1934. It was continued up to 1941, when imports shrank heavily under war-time conditions.

Cotton Textiles, 1927: The second major industry to receive protection was the cotton textile. During the post-war depression the industry was in difficulty and there was unfair competition from Japan, who later depreciated the yen. But Government did not accept the recommendations of the Tariff Board and levied only a 5% duty on imports of cotton yarn in 1927. Full protection was, however, granted in 1930 with 15% duties on British imports and 20% on the non-British. The duties on plain gray goods of non-British origin were increased in 1932 to 50% and in 1933 to 75%. This protection was withdrawn only in 1947 on the basis of a Tariff Board Report.

Matches—1928, Sugar—1932: The Tariff Board recommended protection to the sugar industry for 15 years, but the

Government granted it for only half the period in 1932. It was the first case of protection to an agricultural interest. Earlier, in 1928, protection was given to the matches industry by converting the revenue duty of Rs. 1.50 per gross of boxes into a protective duty. One peculiarity of this measure was that no time limit was fixed about it—contrast this with the treatment of the sugar industry—and the industry in India was virtually a monopoly of a Scandinavian combine.

Seven Other Industries: Protection was also given to the engineering industry in 1924, to the paper industry (1927) and to heavy chemicals (1931). Altogether eleven industries received protection prior to the Second World War; these included the industries producing gold thread, printer's ink and tin plates. In some other cases, duties on raw materials were removed to help the industries using them, namely the galvanized hardware, chemical and cotton textile industries.

Criticism

There is no doubt that the policy benefitted about a dozen industries; and in particular it saved a major industry like the cotton textile and helped the firm establishment of a basic industry, viz. iron and steel. But the policy was defective in several respects. First of all, the triple formula itself was too rigid and it was applied equally rigidly. The importance of an industry to India's economic development was not considered and no stimulus was, therefore, given to many deserving basic industries like the chemical and metallurgical groups. Thus it was mostly consumer's goods industries which benefited and so the industrial development of the country was slow and lop-sided.

The Working of the Policy: Defects: There were several defects in the actual application of the policy, apart from the rigid interpretation of the triple formula. There were long delays in granting protection. One reason for this was that a separate Tariff Board was appointed for each case, there was no permanent Board. There was, again, too much discretion

in the hands of Government. As we saw in some cases earlier, it often rejected the Tariff Board's recommendations for protection, without giving any explanation for its decision. It was, therefore, said with some truth that discriminating protection amounted, in practice, to an indiscriminate refusal to grant protection. Lastly, the effectiveness of protection was reduced in some cases by excise duties, in 1934, on the production of sugar, matches and steel.

The whole policy changed after Independence. A second Fiscal Commission was appointed in 1949. Its recommendations re-oriented the policy towards developmental protection; and now there is a permanent Tariff Commission, in place of *ad hoc* Boards set up to inquire into the claims of various industries for protection.

Section IV. Foreign Capital in Indian Industries

Its amount and importance: In the introduction of modern industry in India (after 1850), the leading part was taken by foreign capitalists, who were mainly British. The amount of such capital was huge. For example, the number of companies working in India, but incorporated abroad, was 517 in 1914 and their paid-up capital £ 30 crores. These figures increased to 819 and £ 55.4 crores respectively by 1925-26. This was much larger than Indian capital, though the number of Indian companies was much greater—which also shows that the foreign companies had more capital per unit and greater economic power.

The type of industries it entered: The British capitalists were chiefly interested in processing raw materials like jute and hides, tea and coffee; they also monopolized coal-mining. Thus they chose the most obvious lines of development and did not turn to industries which were basic, or required long waiting or competed with industries in England. On the other hand, they controlled several crucial lines of business like banking, shipping, insurance and railways. Through these they helped their own nationals and handicapped Indians.

Other objections to foreign capital: There were other objections to foreign capital in India. It resulted, in many cases, in waste of invaluable and irreplaceable natural resources; and the profits of this process went out of the country. The foreign concerns, with their large resources, also hindered Indian firms from entering the particular fields. They insisted, too, on having their own nationals as Directors and officers. So Indians could not get any training in management or in higher technical jobs. And the foreign companies kept their technical processes secret.

Benefits of foreign capital: In spite of all this it was desirable to have external capital, as Indian capital was very shy at the time. These ventures also offered other advantages. They broke some of the barriers to industrial development: they created an interest in the survey of the country's natural resources and induced some Indian businessmen to start the modern type of industries. Indians also learned from them the method of finance and management, known as the managing agency system. These foreigners also bore the initial cost of development and re-invested, in new industrial units in India, a part of their profits. They created a certain amount of employment and imported new techniques into the country.

The kind of restrictions needed: Summing up the two sides, then, foreign capital did play a useful role, but restrictions had to be imposed on it in the national interest. The discussion also indicates the kind of restrictions needed and the purpose behind them. There had to be some control by Indians who would safeguard the country's interests. For this purpose it was proposed that the companies should be incorporated in India with rupee capital, so that Indians could invest in them. In fact a part of the shares should be reserved for Indians, who would thus have some control over the management of the concerns. With the same end in view, some directorships also should be reserved for Indians. These directors should see, among other things, that Indians obtained facilities for training in the various firms.

Protection. Committee of 1924: The problem of foreign capital became particularly prominent, when Government adopted the policy of protection for Indian industries in 1923. It was feared that foreign concerns would take advantage of the new policy and grow and extend their activity. Indeed an "External Capital Committee" was appointed the next year to go into the problem. The majority of the Committee believed that the restrictions suggested, as given above, should apply only where a definite concession (like a bounty) is given. A general imposition of such restrictions would be too severe and would, therefore, be evaded; or it would scare away foreign capital. Pandit Malaviya, in his Note of Dissent, differed from the majority in this matter; he insisted that the restrictions should apply to all concerns.

Nobody, however, will differ from the Committee's view that "The real solution of the problem of external capital lies in the development of India's own capital resources," and that to draw out the vast store of dormant capital in India, "banking facilities must be increased and extended."

The advent of Independence has changed the whole complexion of the problem. The Industrial Policy Resolution of 1948 imposed some restrictions on external capital. But the need for foreign capital is all the greater, as India has launched a programme of rapid industrialization. In April 1949, therefore, the Prime Minister gave a three-point assurance to remove the fears of foreign investors.

Section V. The Managing Agency System

Its Role, Functions and Merits: We saw above how British concerns introduced the managing agency system in India and how Indian businessmen took it up. These managing agents did much pioneering work. A century ago, when Indian capital was very shy, they started many industrial units and financed them too. They issued shares and held a large part of them. Even later on banks only made advances on the personal responsibility of the managing agent.

The managing agency was a private partnership of three or four persons, who were usually related and it was often hereditary. Through it the new concerns could also consolidate their position in the initial difficult period. But pioneering and financing were not the only functions of the managing agents. As the name indicates, they also managed the concerns and were in charge, in that capacity, of the purchase of various stores and the sale of the products.

Its Abuses—in Management : Role of different parties : In spite of these services of managing agents, there were protests against their position. That was because the system had room for grave abuses. As it was often hereditary, the business could easily go into incompetent hands. There was a lack of drive and initiative, and efficiency suffered. The Directors had no real responsibility, so they tended to be indifferent and uninformed. Of course, they could well be merely creatures of the agents, who could get them elected as they held a good many shares. The shareholders too were powerless and, therefore, irresponsible; and also unwilling to invest more in the concern. Thus its management suffered in various ways. Some managing agents, again, had a variety of interests which it was difficult to reconcile.

In Financing : The financial aspect too led to serious abuses. The agents tried to maximize their incomes through various charges and commissions. The commission itself was often based on production, not on profits or even sales, so that the agent's income was not linked with his efficiency. There were also allegations of secret commissions for various purchases and for the sale of the products. Further, there was an interlocking of funds of the various concerns managed by an agent; and their transfer from strong units to weak ones—very dangerous for the former. Thus the whole system was open to exploitation and even fraud. And the combination of financing and management led to a terrible concentration of economic power in a few hands, while the interests of the majority shareholders suffered.

Regulation: Companies Act, 1936: It was no wonder, then, that restrictions were imposed on the system, through the amendment of the Indian Companies Act in 1936. In the original Act of 1913 there was no reference to the managing agents. But in the amendment, the duration of a managing agency was limited to 20 years. It could, however, be renewed by a special meeting of the shareholders. There were also restrictions on the transfer of an agency; and the agents could be removed for fraud, insolvency or breach of trust. Further, they could nominate only one-third of the Directors of the Company; and they could not carry on business which was harmful to the shareholders of the companies under their management.

The financial aspect was also regulated. The funds of a company could not be used for developing another company. And the basis of the agent's remuneration was made uniform : it was to be net profits, not output or even sales. Lastly, extra remuneration could only be claimed through proper sanctions from the Directors.

One can see how the measure still left loopholes. The agents got their own men to acquire shares in the companies; and thus controlled the Board of Directors, who connived at the former's misdeeds. For example, they indulged in stock market speculation with the shares of the companies under their control. Anyway, the measure was not rigorously enforced by the British Government in India, who were anxious to help the British managing agents in the country. The Act was, therefore, modified four times, and made more stringent, in the thirteen years after Independence. Regarding the finance needed by industry, several Corporations have been set up, which underwrite shares; help industries in rationalization and in developing new lines; and supply medium and long term loans to small, medium and large units. *Tables* 21 and 22 deal with these Corporations. The managing agency system is now to be abolished.

Section VI. Our Export Industries

In recent years, the problem of earning foreign exchange, and therefore of promoting exports, has become specially prominent. But at all times a country has ultimately to pay for its imports with exports; so let us survey our important export industries.

Textiles: Among all the export industries, the most important was jute. Jute manufactures were more than 14% of total exports of merchandise from British India in 1936-37, one of the last 'normal' years before Independence. They have retained that first place, being Rs. 170 crores, or more than 20% of the total, in 1964, compared to Rs. 127 crores worth of tea exports (which hold the second place). The exports of raw jute were 7.5% of the total in 1936-37, but the major jute area has gone to Pakistan since Partition.

Our other chief textile, cotton, accounted for only about 2% of the total exports in 1936-37; in 1964, however, it provided 8%, becoming the third most important export industry. Thus the two major textiles together obtained about 28% of our export earnings in 1964. They are the type of industries a country begins with; they do not involve complicated processes. Raw and waste cotton was, in 1936-37, the most important group of exports, with 23% of the total as its share. There has been a great fall in this item since Independence due, again, to the creation of Pakistan. By itself the export of cotton manufactures rather than of raw cotton, is of course an improvement. Wool, raw and manufactured, accounted for less than 2% of total exports in 1936-37. Handicrafts earned foreign exchange worth Rs. 49 crores in the first 11 months of 1967-68.

Plantations: Tea was second in the list of export industries in 1936-37, the value of exports being more than 10% of the total. It has retained this second place; its exports were worth Rs. 127 crores in 1964 out of a total of Rs. 835 crores. Jute manufactures and tea thus accounted, in 1964, for 36% of our exports, compared to about 24.5% in 1936-37. A notable improvement, but there are other sides to the story. For one thing, it is risky to depend so much on two items;

for another, they are not the products of any basic or advanced industries. We may compare the position of tea with that of coffee, which accounted for less than half a per cent in 1936-37. Another plantation product, cashew kernel, earned Rs. 28 crores in 1964.

Minerals: In 1936-37, the share of metals and ores was a little more than 4%. Iron ore has become a much more important export since 1947, the figure for 1964 being Rs. 37 crores; and that for the first 11 months of 1967-68 being Rs. 75 crores.

Leather, Hides and Skins: The exports of leather were 3.75% of the total in 1936-37 and of raw hides and skins 2.26%. In 1964, exports of leather earned us Rs. 27 crores, and those of raw skins Rs. 9 crores; so we have lost particularly in the latter.

Non-industrial exports. Oilseed group: Among the non-industrial exports, oilseeds and their products occupied a prominent place in 1936-37, the share of oilseeds being 9.4%, of oil cakes about one per cent and of oils less than half a per cent. The export of the first two is not a very happy feature, as oil cakes are a good manure and good fodder and we are short of both. In 1964, the exports of oil cakes were worth Rs. 36 crores, and those of vegetable oils Rs. 15 crores.

Others: Grain, pulse and flour were another major group in 1936-37, accounting for nearly 8% of the total. But since Independence we have lost on this front also; some of the leading food-producing areas have gone to Pakistan and we have now a chronic food problem. However, sugar earned foreign exchange amounting to Rs. 23 crores in 1964 and tobacco Rs. 24 crores.

Summing up: To conclude, then, jute manufactures and tea have improved their position substantially, which is truer still of cotton textiles. But raw jute and raw cotton suffered very serious setbacks, as also the oilseeds group. The position of the group of grain, pulse and flour deteriorated greatly. Industries with advanced technology accounted for only small quantities. Thus India is not yet an industrialized country of the advanced type. More recently things have been looking up, we have secured some export orders in international competition. 1964-65 was the last normal year in recent times; 1965-67 witnessed two severe famines, a war, devaluation and recession in industry. It must, however, be added that later estimates place exports in 1964-65 at about Rs. 800 crores and imports at nearly Rs. 1400 crores.

Questions for Revision

1. Bring out the stages in India's industrial growth between 1860 and 1914.
2. What were the deficiencies in India's industrial equipment in 1914? How far were they removed in the succeeding periods?
3. Compare the effects of the First World War on Indian industries with those of the Second World War.
4. "British manufacturers used political injustice to kill India's handicrafts and even to discourage her factory industry." How far is this true?
5. "Before the First World War, industrial policy under the Crown was no better than that under the Company." Discuss.
6. "During and after the First World War there were large changes in Government's industrial policy". Comment.
7. Analyse the role of foreign capital in India's industrial development.
8. Comment on the working of the policy of discriminating protection in India.
9. Examine the contribution of the managing agency system to India's industrial development. What were the defects of the system and how far were they removed before Independence?
10. Write a note on India's export industries.
11. Distinguish between the functions of the various Corporations set up since 1947 to finance and develop industries, with special reference to the period of the loan and the size of the unit helped.

Chapter VII

MAJOR MODERN INDUSTRIES

Factories, Mines and Plantations

1. The Cotton (Mills) Industry

We have now surveyed the general industrial development in different periods, Government's industrial policy during each of them, as also other general problems common to all modern industries, like those of protection, foreign capital, managing agency and exports. It is time, therefore, to study in detail the history of our major modern industries. These include factory industries, minerals and plantations. In the early 1850's were started the two textiles—cotton and jute—and coal-mining. Of these, cotton has been the most important. The mills industry is to be distinguished from hand-spinning and hand-weaving; the last remained quite an important industry.

The development of this mill industry in various periods is analysed in *Table 7*. But before taking up the details, let us study some broad features revealed by the table.

Broad features of its History: (i) *Continuous growth*: Even when circumstances were unfavourable, the industry continued to grow. This is because India produces raw cotton and the home demand for the product is always there, as cloth is a necessity. In the earlier stages, the industry prospered at the cost of the handicraft industry; later it was helped by the *"Buy Swadeshi"* movement and, from 1930, by protection against Japanese imports. But the progress of the industry was not rapid throughout, periods of rapid growth alternated with those of slow growth.

(ii) *Localization. Dispersion*: This growth was accompanied by dispersion of the industry. The table below shows the predominant position of Bombay Presidency and Bombay City in the beginning. But from 1887 mills came up rapidly in cotton tracts and the industry spread out.

PERCENTAGE OF MILLS

	Bombay Presidency	Bombay City
1879	75	50
1894-95	70	47
1953 (the centenary year)	44	14

But the number of mills is not the best test. For example, mills in Sholapur are bigger than those in Bombay City and the latter are bigger than those in Ahmedabad or in small towns. Thus in 1953, when the industry celebrated its centenary, though Bombay Presidency had only 44 per cent of the total mills in the country, it had 60 per cent of the spindles and looms. A good idea of the position is also given by the percentage of workers.

Year	Percentage of workers			
	Provinces			
	Bombay	Madras	U.P.	Central India States
1919	69	5	5	2
1937	53	11	7	6

Thus while Bombay lost 16 points, the other three regions together gained 12 points.

(iii) *Per capita Consumption* : In spite of this growth and dispersion of the industry, the average consumption of cloth per head remained very low. This quantity is obtained by totalling all cloth available for use (i.e. production by mills and by hand-looms plus imports and minus exports) and dividing it by the number of people. Before 1926, this figure was generally less than 14 yards; in 1926-36, it was generally above 15 yards. This just provides a man with a pair of dhoties and a pair of shirts per year. As this is the average, the majority had less than that for use. This is another example of the low standard of living under the British.

(iv) *Exports and imports* : In the beginning we used to export yarn to China and Japan. Some mill yarn has always been used by our handlooms. Spinning was, therefore, more dominant than weaving for the first half century. But after 1890 India's yarn exports to Japan fell and later Japan also captured our yarn market in China; and we came to export *raw* cotton to Japan. On the other hand, we built up markets for our piecegoods, mainly in the countries to our immediate West. About 9 to 15 per cent of the output was exported in 1895-1914. But in 1936-37 the exports of cotton textiles from British India were only about 2% of the total exports of merchandise. In 1964, however, they became about 8%, the third largest export group. Regarding imports, they used to arrive in the beginning from Lancashire in England, especially the finer varieties. But the home industry itself began producing more and more of finer goods and so these imports declined. About 1930 imports from Japan threatened the industry, but protective duties saved it.

(v) *Protection* : The history of protection granted to the industry has already been narrated in the last chapter; it is also described in short later in this chapter.

(iv) *Comparison with Jute Industry* : Another major industry of ours was jute, the other important textile. The two had some similarities and more differences. These are brought out after the study of the jute industry, which follows in the next section.

THE TABLE

And now the table. It may first be studied period by period, i.e., influences, general condition etc. in the first period, as shown at length below; then again, all the columns against the second period, and so on—that is 'horizontally'. Then it should be studied vertically, i.e. influences in the first period, then those in the second and so forth for each heading. This will bring out the history of each feature, and changes in it, from period to period, as seen just above. The 'horizontal' study will show the interrelation, during each period, between the various features, e.g., between the influences, general condition, number of mills and workers, exports and imports. Such a double study will also leave a more lasting impression and should be extended to all such tables, e.g., to those on foreign trade and currency. The tables, further, can be extended to bring them up to date for studying more recent developments, that is for a study of 'Indian Economic Problems.'

History of the Industry in Different Periods

(I) 1860-80 : Slow progress in the '60s : During the Civil War in the U. S. A. (1861-65), the price of raw cotton rose steeply. There was also tremendous speculation during that War in India, so that when the War ended a severe depression set in. The 1860s were thus not favourable to the industry. The number of mills increased from 12 to 20 only, in the eleven years 1861-72. But in the next seven years, 36 new mills were started. As spinning was dominant, we had a surplus of yarn which was exported to China and Japan; and as we produced coarser goods, the finest were imported from Lancashire in England. The industry was highly concentrated in Bombay Presidency and particularly in Bombay Island.

(II) 1880-95 : Rapid, all-round progress : The next fifteen years witnessed steady and rapid growth. In all the three five-year periods, the number of mills and workers increased substantially. There was also progress in several other directions : machinery was improved from 1885; finer yarns were produced; the products had more variety; new markets were exploited. Thus there was all-round progress. The home market for coarse yarns was also captured at the cost of hand-spinning; spinning by mills had continued to grow faster than weaving up to 1890.

Regarding foreign markets for yarn, the exports to Japan and China increased rapidly up to 1890, particularly those to China. After that, we began losing in Japan, who set up mills in her own country and started buying our *raw* cotton. The localization had begun to change; mills grew rapidly in cotton tracts and Bombay City and Presidency lost relatively; thus there was some dispersion.

(III) 1895-1914 : Rapid progress from 1907 : The first half of this period was full of troubles for the industry. There were the 3.5% excise duty on mill cloth from 1896 to 1926, the two severe famines up to 1900, plague in Bombay in 1896, leading to migration of labour, the great American speculation in raw cotton (whose price shot up) in 1902, and finally depression in China, our chief yarn market at that time. Thus the industry was depressed during those years and yet it did experience some growth; the number of both mills and workers increased. But the progress was more rapid in the later years. The trend towards finer quality was continued and, as in the previous period, first spinning grew faster and then weaving. Our market for these piecegoods was in the African and Asian nations around us and the cloth exports amounted to 9 to 15% of the output.

(IV) 1914-29 : Prosperity up to 1923. Up to 1923 the industry benefited from several favourable factors. During the War the U. K. suffered from shortage of shipping and high freights. This reduced the competition from Lancashire to very small proportions. The high revenue duties in India also helped to cut off imports. Both in India and the Middle East there was good demand and prices ruled high, being three times the pre-War prices in 1918-20. Wages, on the other hand, did not increase during the War and they formed much the largest part of the total cost of production. It is no wonder then that the industry prospered. The difficulties of importing machinery and mill stores kept the number of mills down; but multiple shifts were worked and the labour force grew substantially.

Depression from 1923 : Then came the reaction. The industry had over-capitalized, placed large orders at high prices and frittered away its resources in record dividends. Now cloth prices fell steadily from 1921 until they reached the pre-War level in 1932. This occurred during the expansion of the industry (and, therefore, of output) and wages also rose. Towards the end of the period, Bombay city suffered from long strikes. The depression in the industry softened, to some extent the attitude of Government. It removed the excise duty in 1926 and levied a five per cent duty on yarn imports in 1927. The Tariff Board had recommended a larger degree of protection and there was unfair competition from Japan, who later depreciated the Yen.

Other Developments, 1914-29: Let us now look at other developments during the whole of this period of a decade and a half. There was a further dispersion of the industry, which implies that Bombay City lost more ground; Ahmedabad was the second most important centre of the industry. Compared to 1914, cloth production grew by 46% in 1920 and 150% by 1929. The decline in imports from Lancashire stimulated the production of finer cloth in India, a trend present in the previous two periods as well. The huge expansion in the output of cloth was accompanied by rapid growth in its export to the Middle East. But exports of yarn declined, especially those to China. Imports, as we saw earlier, fell considerably during the War, but those from Japan were growing substantially, particularly during the last years of the period.

(*V*) *1929-39*: *Protection*: This threat from Japan became more severe in this period and prices slumped. The Great Depression also contributed to the fall in prices. The industry was in no condition to meet this threat, as it had expanded production, with machinery ordered at boom prices. Yet it suffered less than other industries from the Depression, due partly to the 'Swadeshi' movement as part of the 'Satyagraha' against British rule. But the main factor was protection, especially against Japanese imports. The 20% duty on non-British goods in 1930 was revised several times, reaching 75% in 1933.

(*VI*) *1939-47*: *Prosperity. Imports and Exports*: The effects of the Second World War were similar to those of the First. The industry prospered, as imports from the U.K. fell substantially and those from Japan were cut off, on her becoming an enemy country. Our production, therefore, increased and there were huge gains in exports also. The industry benefitted from large War orders and keen demand in other countries. Indeed, exports increased by 350 per cent in 1938-42. Today, cotton manufactures are India's most important exports after jute manufactures and tea. In 1964, cotton fabrics, yarn and clothing accounted for 8% of our exports.

Problems: But the industry also developed problems. Unlike the First World War, this one led to higher costs resulting from increase in wages, dearness allowance and taxes. Machinery was overworked because of the difficulty of importing it—as in the First War. Sixty per cent of it was old, 150 units were uneconomic and the cost of modernization was estimated at Rs. 180 crores. After Partition, another problem was added: the supply of raw cotton became insecure, as important cotton tracts now formed part of Pakistan. But the industry made a serious effort at putting its house in order, by undertaking renovation and rehabilitation after Independence. However, two famine years, in 1965-67, reduced the home demand and the supply of raw cotton, thus raising its price. Several mills were closed down.

1953: A word about the position in 1953, the centenary year. There were 457 mills with 7.64 lakh workers. There had been more dispersion in the meantime. Bombay State accounted for only 44% of the mills, the share of Bombay City being 14%. Madras State came to have about 20%, the second largest. In fact, however, the real share of Bombay State was larger than that indicated above; it had 60% of the total looms and spindles.

2. The Jute Industry

Jute mills were started at about the same time as the cotton mills. The two industries had also other common features—and of course differences. It is fitting, therefore, that we now study the jute industry and its history.

(I) 1860-80. Rapid growth: The first jute mill was established in 1855 and a number of mills came up after 1863. The industry grew fairly rapidly in this period, jute being our monopoly. It captured the markets in Asia, Australia and partly those in America, which the Dundee mills (in the U. K.) had supplied to. Jute mills were even more localized than the cotton, the centre being Calcutta. But unlike cotton, jute was mainly European and was also better organized. In 1886, it formed an Association to prevent competition and regulate output. The products of the industry are gunny bags and 'hessian' (i.e. jute cloth), coarse carpets and rugs, thin rope and cordage. During the early '70 exports rose rapidly. In 1881 there were 5,000 power-looms.

(II) 1880-95. Rapid progress: This period saw the same rapid progress in jute as in cotton, because it was free from famines. But there was large increase in exports also, unlike the situation in the cotton industry, which relied more on the home market. Jute being our monopoly then, it was natural that foreign demand for its products should be more than home consumption. But progress was not as continuous as in cotton, because jute is a fluctuating crop and the demand for its products is also less stable. The industry had, however, a fine organization and adopted short-time working in slack periods. The workers in the industry increased from 27,000 to 75,000 in this period; but the number of mills rose from 22 to 29 only. Thus unlike the cotton mills industry, there was enlargement of mills, rather than increase in their number. Twenty-six of the mills were located in the Calcutta area. Hessian increased much faster than gunny bags right up to 1914.

(III) 1895-1914. Rapid growth: Like the two earlier periods, this also was a period of rapid growth. It resulted from better machinery (and therefore economy of labour) and from still greater enlargement of mills, compared to the previous

period. During famines (1896-1900), of course, the growth was not rapid, as there was less demand for gunny bags for exporting agricultural products. But the rest of the period was one of great prosperity, due to increased exports at higher prices.

Favourable factors and difficulties: There were two sets of favourable factors: one was the organization of the industry. It was most efficient and was a contrast to the position in the cotton mills. The industry was highly localized, the mills were far bigger, almost all of them had both spinning and weaving and the machinery was up-to-date. Though more than half the shares were owned by Indians, the management was European. The Association was well-run and distributed seeds to farmers. The other favourable factors were India's monopoly in raw jute and its nearness to the mills, absence of a cheaper, efficient substitute, low taxation and plenty of cheap labour. As a result the number of mills grew to 64 and the labour force to 2.16 lakhs in the course of this period. Of course, there were difficulties too. They consisted in fluctuations in the jute crop (and therefore in its price) and in the demand for the products.

(IV) 1914-29. (a) 1914-19 Huge profits: The War strengthened the position of the industry. On the one hand, wages did not rise, nor the price of raw jute, as its exports declined. On the other hand, the demand for jute manufactures increased considerably, because of the wartime need for sandbags, grain bags, gunny cloth, etc. Thus the industry made huge profits. The number of mills increased to 73 and the labour force grew from about 2.2 lakhs to nearly 2.6 lakhs.

(b) 1919-29. Crisis: After the War and the boom, however, the industry faced a crisis mainly because of worldwide depression. There were other causes also. Costs increased due to rise in wages and in the price of raw jute. There was also serious shortage of coal in 1919 and 1920. On the other hand, War orders ceased, while there were new companies and projects for large extensions, which were inspired by high War profits. Fortunately, the companies agreed to work short-time from 1919; and from 1921 to 1929 the mills worked only four

days in a week. There was also a "no expansion" agreement in 1924. In spite of the difficulties, however, the industry made considerable progress. The wartime expansion was well consolidated and exports maintained their very important position. Indeed they were the only important manufactures exported from India, being 14 per cent of our total exports in 1930-31.

(V) 1929-39. Slump: But during the Great Depression there was a slump in international trade, which particularly affected agricultural commodities, and so the demand for jute manufactures fell heavily. Prices, therefore, declined and stocks accumulated. There was also competition from paper, cotton, hemp etc. In 1932, therefore, an Enquiry Committee was appointed. Following its recommendations, the Central Jute Committee was established in 1936 and the Government of Bengal decided upon crop restriction. In 1931-32 there were 103 jute mills, with 2.77 lakh workers in all and a capital investment of Rs. 24 lakhs.

(VI) 1939-17: War and Partition: Like the First World War, the Second one also improved the fortunes of the industry, due to sudden increase in the demand for its products. But the Partition of the country created a major problem; all the 112 mills were in India, while 75 per cent of the land under jute went to Pakistan. Jute manufactures have, however, retained their first place among our exports; indeed their share has gone up from about 14 per cent in 1936-37 to more than 20 per cent in 1964. This progress is largely the result of rationalization and modernization. Modernization of the equipment in the spinning sector was almost completed during the Third Plan (1961-66), that in other departments was begun and the production of carpet backing cloth was largely enlarged. Exports of jute manufactures were worth more than Rs. 200 crores in the first 10 months of 1967-68.

Summing up and labour: Thus the industry recorded rapid progress in all the periods, except during the two decades beginning with 1919. The organization of the industry and the efficiency of the plants were of a high order; but not the efficiency of labour. The workers were drawn from a distance, recruited through 'sirdars', who thus obtained a financial hold over them. They considered factory work a temporary phase in their lives, mainly because of the unsatisfactory situation regarding housing, wages and working conditions.

3. Cotton and Jute Industries : A Comparison

Similarities: They are both textile industries and therefore consumption industries, not basic or producers' goods industries, and not giving rise to any other important industries. Being easy to establish, the textiles are generally among the first to start, and so it happened with these two in India in the early 1850s. They, therefore, became our most important industries. Further, both are highly localised and both have spinning and weaving in almost all mills.

Differences: But the differences between the two are greater still. The jute industry was in a better position than cotton in several respects. We had a monopoly of raw jute in those days and there was more localization in the industry. The mills were far bigger, the machinery up-to-date and the Association took joint action in the form of distribution of seeds, 'no expansion' agreement and shorter working week. The industry was managed by Europeans and was favoured with low taxation; while the cotton mills, which were mainly owned and managed by Indians, had to put up with the excise duty from 1896 to 1926. Again the industry did not suffer so much during famines and faced the Great Depression also better than the Bombay cotton industry. Unlike cotton again, the jute industry is mainly an export industry. Other uncertainties which jute had to face were fluctuations in the crop and in the demand for its products. A broad survey of the six periods reveals, however, that the industry made rapid progress in all of them except during 1919-39. But in cotton, periods of rapid growth alternated with those of slow development.

4. The Iron and Steel Industry

Our two major textiles were only consumption industries. They were severely handicapped by the absence of basic industries like chemicals and engineering. A beginning in the development of the latter was made by the establishment of the iron and steel industry to which we, therefore, turn.

(i) *The Bengal Iron Company*: The history of the foundation of this industry is indeed a romance. It is practically the result of the keenness and foresight of one man, Jamshedji N. Tata. But there were earlier pioneers: the first successful enterprise was at Barakar, which started making pig iron in 1875. It was taken over by the Bengal Iron Co. in 1889 and made steel at a profit after 20 years' labour. In 1907 it produced 50,000 tons of pig iron and in the next ten years the works were remodelled and extended. It made good progress between 1914 and 1930. The pig iron industry did not suffer much in the post-war depression, as India's pig iron was the cheapest, and the company's capacity increased to 2 lakh tons of pig iron.

(ii) *The Tata Iron and Steel Company. Beginnings. War*: But the real beginning of the industry was made at Jamshedpur in Bihar by Tata. The company was floated in 1907 with Indian capital. The first iron was made in 1911 and the first steel in 1913. Then came the War, which was very favourable to the industry's growth. Imports of steel were difficult, so Indian companies tried to maximize output. By 1916-17 the old Tata plant was in full production, which was 1.5 lakh tons each of pig iron and steel ingots and one lakh tons of finished steel. The heavy war demand also led to large extensions; the third blast furnace was installed in 1919, the fourth in 1922 and new mills for increasing steel production in 1924.

The Slump, 1921. Protection, 1924: Meanwhile from 1921 came the slump and continuous fall in steel prices, under severe foreign competition. The cost of steel, on the other hand, increased considerably because of higher wages and coal prices. Thus the Company was in a very difficult position and was, therefore, given protection in 1924 for three years; import duties on steel bars and wrought iron were increased and bounties were given on the production of steel rails and fish-plates. But the steel industry in the world remained depressed

and Continental exchanges collapsed. Thus the price of steel fell sharply and there were large imports. Special bounties were, therefore, given in October 1924, for one year and additional bounties for two years in 1925, when the duties also were increased substantially.

Extensions: The Tata Company was the only important producer of steel and, due to protection, it improved its position after 1923, in spite of difficult conditions. In 1924 a fifth blast furnace was installed and the capacity was now 9 lakh tons of pig iron. Other greater extensions followed. In 1927-28 the Company produced 4 lakh tons of rolled steel. The extensions, combined with improved methods and lower price of coal, reduced costs. In 1927 when protection was due to expire, it was extended for seven years, with lower duties on British steel, as the prices of British steel products were steady. In that year, Rs. 50 lakhs were spent on new extensions, which were to cost Rs. 3 crores and to take five or six years.

Variety of Products: Among the products were coke, coal tar and ammonium sulphate (by-products of the coking of coal), sulphuric acid; plates, tin bars, black sheets and steel sleepers. Many allied industries were definitely established at Jamshedpur, e.g. those producing railway wagons and engines, agricultural implements, cables and wire products, tin plates and enamelled iron-ware. Most of them suffered during the Depression and protection was, therefore, given to them.

Good Use of Protection: The seven-year protection was due to expire in 1934; but it was renewed up to 1941, when imports shrank heavily under wartime conditions. The industry fully justified the protection granted to it and made remarkable progress. Capacity was enlarged, processes improved and costs lowered. The Tatas have also a fine record of labour welfare activities and collective bargaining with the workers. It was but fitting, therefore, that a 15 paise postage stamp was issued, bearing the photo of J. N. Tata and of the Tisco works and carrying the legend 'Golden Jubilee of India's Iron and Steel Industry, 1908-58.'

(iii) *The Indian Iron and Steel Co.*: It has its works at

Hirapur in Bengal, where its first blast furnace began producing in 1922. It turned out pig iron only for the time being: the capacity was 3.5 lakh tons per year and the bulk of it was exported.

Our pig iron industry was now securely established. Its production rose rapidly after the First World War. Imports fell and became very small and exports were large.

(*iv*) *The Mysore Iron and Steel Works*: They were started in 1923 at Bhadravati in the State of Mysore.

The Second World War. Boom: During this War there was a boom in the industry due to large war orders from Government and railways. As a result, production of finished steel reached the peak in 1941-42 at 13.6 lakh tons, but imports were still about 3 lakh tons. In the meantime, in 1940, imports of certain types of iron and steel products were banned to conserve dollar exchange. This, combined with the increased war demand, intensified the scarcity in India. Controls were, therefore, introduced in 1941; there was virtual rationing for civilian users and a black market developed. After 1943, and particularly after the end of the War, production fell chiefly because of transport difficulties and labour troubles. In 1947 the production was 8.7 lakh tons only, demand being about 25 lakh tons. Since Independence, three large plants have been set up in the public sector with the help of foreign countries; and a fourth will come up in a few years. In the meantime, the Tata works have been expanding, as also those of the Indian Iron and Steel Company.

The Engineering Industry: It is an old-established industry though it imported most of its raw materials. The products had a large variety, from nuts and bolts to railway bridges; and the industry was carried on in all parts of India. In 1924 it was given protection, in the form of 25 per cent duty on all fabricated steel. By 1927 the industry was doing well and so the duty was reduced to 17 per cent. The industry has made rapid progress since Independence and has been earning increasing amounts of foreign exchange. Its importance

has been recognised through the 10-paise postage stamp, which carries the picture of an electric locomotive.

5. Coal-mining

Large amounts of coal are required by all these industries, particularly by the iron and steel industry. It is natural, therefore, that coal-mining should develop along with them; it was also helped a good deal by railways, as we shall presently see.

(*I*) *1860-80*: *Steady Progress. Imports*: Coal-mining was the only important mineral industry in this period, during which modern methods were introduced in it. There was steady progress in it due to two other developments also. The E. I. Railway was opened and it needed large quantities of coal and also supplied cheap transport for it. Railways in other parts, too, were rapidly extended. The other source of demand was the cotton and jute mills, which were started in the 1850's and grew rapidly in these two decades.

The Bengal coal-fields were by far the most important, so Western and Southern India were at a disadvantage. Their needs could not yet be satisfied by internal production. Imports from the U.K. were, therefore, substantial, increased during the period and 70% of them were consumed by Bombay Presidency.

(*II*) *1880-95*: *Rapid Growth*: There was rapid progress after 1886, so that the number of coal-miners more than doubled in this period, increasing from 20,000 to 43,000 in 1880-1894. A great handicap was heavy freights by both rail and water, so imports increased in this period too. Exports also began, but they were very small compared to the imports.

(*III*) *1895-1914*: *Very Rapid Progress*: Coal (and other minerals) made rapid progress in this period also. Coal benefitted, among other things, from wide use of improved machinery by the mines and the growth of transport and factories. The result was a growing excess of exports over imports. Indian coal captured the demand of the railways completely and the labour force was more than trebled, becoming 1.5 lakhs in 1914-15. Yet demand increased faster than supply. Ninety-five per cent of this supply came from the Bengal fields. But this concentration in Bengal, high railway and water freights and the rather low quality were handicaps in competition.

(IV) 1914-29: Changing fortunes. Slow progress till 1917: Up to 1917 progress was slow, chiefly because of wagon shortage. Shipping difficulties put a stop to imports, thus giving a dominant position to Indian coal in the home market. They also reduced exports to a very low level, but there was a revival with the record output of 1919.

Feverish Growth, 1917-22: In 1917 Government became the large buyer and so it controlled the movement of coal. This Government buying led to a rapid rise in prices and started a feverish growth, which was also due to industrial expansion; but demand exceeded supply. New mines were, therefore, opened and old ones extended, but the industry was essentially small scale. From 1909 to 1926 Indian coal satisfied 94—98 per cent of the home demand. Thus the growth of the industry depended on internal consumption.

Depression, 1922-25: Now the demand fell while supply increased. As to demand, the boom in industries ended and they were depressed for some years; there was also the use of substitutes like electricity and petroleum products. As in the previous period, railways were the biggest buyers and the iron and steel industry became the second largest; so protection to it helped coal-mining too. Regarding supply, there was the large increase in the number of mines during the boom; and also electrical working and machine-cutting. The labour force increased, therefore, to only 1.7 lakhs by 1929. There were about 550 mines, most of them owned and managed by Europeans.

(V) 1929-39: During the Great Depression, the consumption and price of coal fell and many mines had to be closed

down. The revival came in 1934 and 1937-39 was a peak period.

(VI) 1939-47: The War. Complications: The War led to industrial expansion and, therefore, to a rise in the demand for coal. In fact a coal famine developed and prices shot up. Production, however, fell because of labour shortage and so Government had to control prices and regulate distribution. To stimulate production, it offered a production bonus and concessions in depreciation and in the excess profits tax. These measures, combined with the import of modern machinery, led to a substantial increase in production which was 49 million tons in 1945.

Summing up: To sum up, the progress of the industry became faster with each succeeding period up to 1914; after that it had changing fortunes.

Since 1947: During the Five-Year Plans, output increased from 38 million tons in 1955 to 54.5 in the Second Plan (1956-61) and 70 in the Third. This was below targets in both cases, which was largely due to the failure of the Public Sector, i.e. of the National Coal Development Corporation.

6. The Plantations

Features: After the mills and the mines we take up the plantations, which were in fact the first type of modern industry introduced in India. From the beginning they were purely European; there were no labour laws for them and they had greater control over their workers. Other peculiarities of plantations were that they were partly agricultural and the major part of their products was for export, particularly important being the tea exports both then and now. Let us, therefore, study the tea plantations in detail and compare them with coffee. Of course there were others like indigo and rubber, but their importance was not at all comparable to that of tea.

(A) Tea Plantations

Almost from the beginning, tea enjoyed steady growth and continuous good fortune, except in 1866-69 and 1919-21. Its real beginning was in 1856, and from 1859 there was amazing growth in output and in the number of estates.

1860-1900 : Speculation and depression, 1859-69 : During 1859-66 there was a speculation mania and the reaction came in 1866-69. Tea properties fell in value, the 'bubble' concerns failed and there was a severe depression. Until 1900 thereafter, there was steady progress and prosperity. The yield was raised by better methods of cultivation and more use of machinery in manufacturing. As a result, production rose faster than area under tea. Assam was by far the most important tea region, but the industry now spread to the Punjab and the Nilgiris. Yet in 1896, Assam had 67 per cent of the area under tea, Bengal 24 per cent and thus the other areas together had less than 10 per cent.

1900-1914 : Remarkable Growth : In this period, there was remarkable growth in area and production and so rapid fall in prices. India became by far the most important exporter and captured the U.K. market from China. Exports to Russia also developed and home consumption increased.

1914-29 : Records rapidly broken : During the War tea prices rose high, but wages were stationary, which led to intensive tea production. In both production and export, records were rapidly broken; about 1925, India supplied 40 per cent of tea in the world market. There were high profits, new gardens and extensions of old ones. But in 1919-21 there was severe depression in the industry, because of the rise in the exchange ratio and the fall in price resulting from the general depression. Unlike other industries, however, tea recovered with remarkable rapidity; and from 1921-22 there were rising prices and production, beating even War records.

1929-47 : In the early years of the 1930s and of the '40s, the industry suffered setbacks. In 1931 prices began to fall

disastrously, due to increased production in Java and Sumatra—and 90 per cent of our tea was exported. Early in the Second World War, again, tea suffered from the loss of markets on the Continent. But when Japan entered the War against the Allies, our competitors in the East could not export their tea to the Allies; and India benefitted from this development. *After Independence* tea remained one of our most inportant exports and the Second Plan target of exporting 70% of the production was duly achieved. Indeed, tea occupies a good second place among our exports. Its share of the total export trade went up from about 10 per cent in 1936-37 to 15 per cent in 1964, in spite of increase in costs after Independence. In the middle '60s Ceylon became the greatest exporter of tea for a while; but India has regained her first position. There is a report today (7-6-68) that the two are to set up a joint consortium for marketing tea in selected areas.

Labour : During the speculation craze the demand for labour increased; so coolies were brought from Bengal through contractors, who benefitted a good deal from the system. Imperfect transport killed many on the way and the rest were ill-treated, deceived about prospects and became virtual serfs. The law allowed imprisonment for refusal to work and there was illegal whipping. In 1870-1900 a slight improvement occurred but the system of recruitment was still like 'a vile pest to society'; and the climate of Assam is unhealthy and the workers were far from their homes. A realistic picture of these workers' condition can be seen in Mulk Raj Anand's novel 'Two Leaves and a Bud'.

During the First World War, industrial wages were not increased in spite of the rise in the cost of living. The adverse effects were felt by workers in all industries, but the conditions in tea were horrible; the very low standard of living was further lowered. In some parts, the distress was so acute that many strikes and disturbances occurred, and in one locality there was a wholesale migration. Ultimately in 1932 the law gave the right to labourers to be sent back at employer's cost, in certain circumstances. But hours of work, and other conditions of employment, were only regulated after Independence in 1951—70 years after the first Factory Act and 30 years after the first Mines Act; the planters were British. The details of these laws are given in Chapter IX.

(B) Coffee Plantations—and Comparison with Tea

Coffee began to be grown largely from 1823; but it started flourishing from 1860 only, at the same time as tea. But its centres were in Mysore and other parts of South India, unlike tea which had its principal location in Assam. The planters, however, were Europeans in both cases.

1860-79. Rapid Progress: During these two decades there was continuous progress and prosperity. In the 1860's exports increased tenfold and the rapid growth continued till 1879. Tea, on the other hand, had an acute depression from 1866 to 1869.

1879-88. Severe Check: Coffee had a similar severe check a decade after that of tea was over; and for a much longer period, in 1879-88. The setback resulted from plant disease and fall in prices. The cause of the latter development was progressively greater production of cheap coffee in Brazil, which dominated the world market. And coffee depended even more than tea on exports, 98 per cent of production being sent out. As a result, tea growing replaced coffee in some areas.

1889-1947: Prosperity up to 1896: From 1889 to 1896 there was a rise in coffee prices, because of political troubles in Brazil; so the industry had a brief period of prosperity. When those troubles ended, prices fell again, and so did the area under coffee in India (as in 1879-88). The industry became relatively unimportant. Labour in the industry declined from 58,000 in 1911 to 40,000 in 1921; in tea, on the other hand, it rose from 7 lakhs to 7.5 lakhs. These figures also bring out the relative importance of the two plantations.

In 1935 Government passed an Act, levying a cess to help the industry. But exports continued falling. In 1930-31 they were worth about Rs. 190 lakhs and in 1939-40 less than Rs. 75 lakhs. The area under coffee fell from 2.6 lakh acres in 1900-01 to 1.8 in 1938-39, Mysore claiming more than half of the latter. Then came the War and the industry lost its most important markets on the Continent. An Act of 1943, therefore, laid down that the crop was to be sold through the Coffee Board's pool; this helped to maintain prices.

Thus tea enjoyed almost continuous progress apart from a few short depressions; but the position of coffee worsened almost continuously after 1888, except for the brief period when Brazil had political troubles. The position of tea among our exports, too, was by far the more impressive. In 1936-37, for example, tea accounted for about 10% of our total exports, but the share of coffee was less than half a per cent; in 1964 the exports of tea were worth Rs. 127 crores and those of coffee Rs. 14 crores only. The importance of tea to India has been recognised in the issue of a postage stamp (of 15 paise denomination), with a girl plucking tea. The 4 paise stamp has coffee berries on it.

Labour: But the condition of labour on coffee plantations was much better than in the case of tea. The workers came from nearby districts and were thus nearer home. The climate is not unhealthy and the law, too, was not so harsh.

7. The Sugar Industry

1860-1914: Decline in 1890-1900: Till 1863 India was a large exporter of sugar, but after that the position became progressively worse. The industry had a particularly bad time in 1890-1900. Imports had been rising steadily before this, coming mainly from Mauritius and Java. But when beet sugar from Europe poured in, the price fell steeply. Over 180 small factories in the U.P. and many in Bengal had to close down. The area under cane also fell, due chiefly to a rise in the prices of other crops.

Causes of Decline: Unstable basis: These troubles of the industry resulted from certain defects in it. Its basis was unstable: the units were small, the methods crude and wasteful; almost no machinery was used, and sugar was manufactured from gur, not directly from cane juice. The system of cultivation was also backward and so the yield was very low. (These defects continue today to a large extent.) To make matters worse, Government refused permission to extract rum from molasses.

1914-24: War and Import Duties: The imports fell only gradually. The chief factor in the improvement was import duties. In 1916 the 5 per cent duty was raised to 10 per cent, and in 1921 and 1922 to 15 per cent and 25 per cent respectively. In the meantime, prices rose during the War reaching a record in 1920; so production of sugarcane also increased. Thereafter prices fell steadily in the 1920s, but the area under cane did not decrease much. In 1921 sugar factories employed 22,400 workers.

1925-39: Protection from 1932: From 1925 the *ad valorem* duty was changed into a specific one. It was also raised in 1930 and 1931, till it increased from Rs. 4.50 per cwt. to Rs. 7.25. In 1932 the industry was given protection, the first to an agricultural interest. The Tariff Board had recommended it for 15 years, but Government granted it for half the period. There was also restriction of output by world producers. The result was amazing growth: within two years, the number of factories increased by 400 per cent and production by 700 per cent, which implies much more output per factory—and imports fell steeply.

But many more factories were planned and over-production was feared. To prevent this, and to increase efficiency, Government levied an excise duty and took over power to fix the minimum price of cane in 1934. This checked the increase in the number of mills and concentrated production in the more efficient mills. As between 1926-27 and 1935-36, production increased from about 1.2 lakh tons to 9.6 and imports fell from 8.3 lakh tons to 2. Thus the position was completely reversed.

1939-47: War. Handicaps and Defects: During the Second World War, transport difficulties created a sugar famine; so sugar control was introduced. In 1947 India had 134 sugar factories. She is now the largest sugar producer and the industry is second only to the cotton mills industry in importance. It earned foreign exchange worth Rs. 23 crores in 1964, compared to nearly Rs. 70 crores by the cotton textiles. Yet the industry suffers from several handicaps and defects, some of them very old. The yield of sugarcane is very small and hence its price is equally high. The crushing season lasts for a brief period; and the efficiency in factories also is low due to defects in size, design and lay-out. Their location, too, is unsatisfactory: 75% of them are in the U.P. and Bihar. In Bihar, production is very large and consumption very low. In Bombay and Madras, on the other hand, consumption is very large and the output is small. Then again the agricultural and manufacturing sides are separated and bye-products (like bagasse and molasses) are not utilized.

The position today: The additional difficulties in recent years are the results of Government policy: heavy taxation, wages fixed by it as well as the high price of cane. This keeps the costs at a high level, much higher than elsewhere. In 1967 sugar was partly de-controlled, so that consumers get a rationed quota at low prices and have to pay about 2.5 times as much for extra purchases.

Questions for Revision

1. Outline briefly the history of the cotton (mills) industry in India between 1860 and 1947.
2. Bring out the principal developments in the history of the cotton (mills) industry of India with reference to localisation, per capita consumption and exports and imports.
3. Narrate the history of the jute industry of India before Independence, bringing out the factors that influenced its fortunes.

4. What similarities and differences are revealed by the history of India's cotton and jute industries?
5. Describe the development of the iron and steel industry of India, with special reference to the share of Tatas, and the contribution of protection to its growth.
6. Describe the changing fortunes of coal-mining in India before 1947, bringing out the factors responsible for the changes.
7. Outline the peculiar features of plantations in India. Bring out the similarities and differences in the history and features of our tea and coffee plantations, with special reference to the condition of labour.
8. Narrate the history of India's tea plantations.
9. Describe the fortunes of India's sugar industry with special reference to its handicaps and defects.

Chapter VIII

TOWNS AND POPULATION

Section I. Towns in India

The proportion of urban population in a country is an index of its industrial position. Having studied almost all other problems of industrial development, let us now take up a survey of towns in India.

TYPE OF TOWNS IN PRE-BRITISH INDIA

In pre-British days the urban population in India was not more than ten per cent of the total. It was distributed over three types of towns. The type of the town determined its importance, change in it and also the nature of industries in it. All this is brought out in *Table 8* which we will study now.

(I) Sacred Places: Sacred places (which included places of pilgrimage) were bound to be limited in number; they could not increase indefinitely. They would also have only some types of industries, with a narrow range of products. These consisted generally of metalware—largely sacred vessels made from brass, copper and bell metal. The famous examples of this type of towns were Banaras, Gaya, Puri and Allahabad in the North, and Nasik and Madura in the South.

(II) Dynastic towns: The dynastic towns (or capital towns) were either seats of Courts or capitals of Provinces. They included Dacca, Murshidabad and Lucknow in the North, and Paithan and Devgiri, Bijapur, Ahmednagar, Golconda and Tanjore in the South. They formed the most important and numerous class of towns. They were numerous because there was a large number of kingdoms. They were important because they had the patrons of the finer type of urban handicrafts—princes and noblemen, officers, bankers and merchant

princes, with all the pomp and pageantry of that bygone age. They could appreciate beautiful things, were in a position to pay the price and vied with one another in showing off their rich possessions. They had the desire, and the ability and willingness to pay (for luxury products), which constitute the demand for a commodity. The result was the development in these towns of excellent artistic handicrafts, some with world-wide reputation.

The products of these luxury industries included exquisite textiles and embroidery, excellent gold and silver work, carving in wood and ivory, stone and marble. When the British annexed the native kingdoms, the Courts disappeared, the handicrafts crumbled away rapidly, some of the capitals became half-forgotten villages. These handicrafts have already been discussed at length in Chapter I.

(III) Trading (or Commercial) towns: Towns like Mirzapur, Patna and Saugor owed their importance to a strategic position on a trade route. They were, therefore, more stable than dynastic towns: princes may come and go, yet trade might continue fluorishing. But they were not many, as internal trade was restricted in regard to distance, quantity and nature of goods. This was the result of inadequate roads and primitive means of transport.

A Test of Industrialization

There are several tests to find out the industrial position of a country: proportion of labour in industries (which we studied in Chapter VI); proportion of national income from them; composition of exports and imports. We had a brief look at the exports in Chapter VI and will study foreign trade in detail in Chapter XI. But the best general test of industrialization is the rate of growth of towns and the nature of towns. We have just finished a study of the nature of towns in pre-British days and some changes that occurred in it during the early British period. Let us now take up later developments.

Urbanization under the British—its Extent and Growth

1801-72: In the beginning of the 19th century, India's urban development was quite advanced, looking to the fact that we had no organized industries—factories, plantations or mines. The urban population was 9—10% of the total, about that of France at the time. Between 1801 and 1872 (the year of the first population census), there was a slight fall in this proportion; only port cities (like Calcutta, Bombay and Madras) grew and, on the other hand, many capital towns decayed. Thus there was industrial stagnation.

1872-1961: The urban population at later censuses is shown in the table. This reveals that the proportion of urban population grew very slowly up to 1941; only in 1941-51 is there any notable rise in urbanization, due to industrial growth during the Second World War. In France by this time the urban population was 52%, and in the U.K. about 80%.

Year	Percentage of urban population to total population
1801	9—10
1872	8.7
1921	10.2
1931	12
1941	14
1951	17.3
1961	17.8

Growth of Cities at the Cost of Towns

One adverse feature of urban development was the growth of cities at the cost of smaller towns. In 1931-41, for example, the population in cities grew by 80%, compared to 15% for the whole country's population; in the same decade, total urban population increased from 12% of total population to

14% only. In the earlier periods also, there was an increase in the bigger towns at the cost of the smaller ones. The reasons for this tendency were several.

Causes: There was concentration of trade in the bigger centres, because of greater facilities and larger markets, especially at railway stations. Further, the rise in wages in the smaller towns did not keep up with the rise in prices, as much as in the bigger industrial centres. We saw a similar position when comparing rural wages with those in plantations and factories in Chapter V. Then there was administrative centralization. All those living on the administration of justice, revenue etc., the legal profession and others have to come together at the district headquarters. So these generally grew at the expense of the other towns in the district.

As a result, more than half the urban population was in cities, i.e. places with one lakh and more people each. This creates difficult problems of crime, overcrowding, housing and transport, sanitation and water supply and so on.

Few Industrial Towns: Another unfavourable feature is the lack of new industrial towns. In the West they made up for the decay of old towns; but not in India, as the growth of industries was very slow. Besides, the small urban growth in India was much more due to the growth of commerce than that of industry. In fact, there were hardly any industrial towns except, of course, Jamshedpur—which came up just before the First World War—Ahmedabad and a few jute towns in Bengal.

Causes of Growth and Decay of Towns under the British

We have seen a few forces that promoted, or prevented, the growth of towns in India; let us study them in detail now. They are classified in *Table 9* and there is a Note before it on the two tables on towns.

(1) *Trade routes*: The same broad forces worked on both the sides. Trade routes, for instance, helped the growth of towns and also brought about the decay of old towns. Railways are a common factor under this heading. They increased trade and thus created new towns and enlarged old ones. But they also left aside old towns, like Mirzapur, Saugor, Patna and Ferozpur, and thus contributed to their decay.

The other new, favourable trade route was the shipping route. Through it, Rangoon became an important port for the export of rice and Karachi for wheat. The former developed industries later. On the other hand, change in a river's course affected old towns adversely, as in the case of the Irrawaddy in Upper Burma and the Ganges in Lower Bengal.

(2) *Industries*: The other force which had permanent effects was the growth or decay of industries. It is the most important factor elsewhere, in the development of new towns or the expansion of the old. Not so in India, where there were very few creations of factory industry. The examples of these are Jamshedpur, Ahmedabad and a few jute towns in Bengal. On the other hand, the decline of urban handicrafts in India was a very powerful force bringing about a decay of old towns. Its influence was greater than that of trade routes, which promoted or hindered the growth of towns. When the British annexed native kingdoms, the urban handicrafts received a severe blow and a host of dynastic towns crumbled away. The well-known instances of this process include Mandalay (in Burma), Paithan (in Maharashtra) and Malda, Santipur and Murshdabad in Bengal.

(3) *Natural calamities*: *Famines, etc.*: Unlike these two factors, natural calamities had only a temporary effect. Famine, that curse of Indian agriculture right upto 1900, helped urbanization. The national unemployment during a famine drove people to towns in search of work. But the effect was temporary, except where permanent jobs were available. Anyway irrigation and the improvement of transport and famine relief changed the whole position regarding famines and that was a

great check to this mass migration. Epidemics like plague and influenza, on the other hand, drove town-dwellers to the open country, e.g. plague in 1896 and influenza in 1918 in Bombay. Here, too, the effect was temporary: when the epidemic was over, people returned to towns.

(4) *Other adverse conditions*: Other adverse conditions worked in a negative way. The class of landless labourers grew, as peasants increasingly lost their land and village artisans were forced from their old crafts. But the result was only negative, that is, people were available for migration to towns—if they could find work there. On the other hand, bad housing and sanitation in cities discouraged villagers from settling there; the most notable examples are the 'chawls' of Bombay and the 'bustis' of Calcutta. But by themselves these adverse conditions did not have much effect. A factor which had still less effect was the migration to towns of wealthy landlords and others, who were lured by the attractions of urban life like theatres, shops and parks; and facilities like hospitals, schools and colleges.

Summing up: Thus urban growth under the British was very limited: many dynastic towns decayed, some port cities grew. The growth of cities was at the expense of smaller towns and there were only a few industrial towns.

Having discussed one aspect of the history of India's population, we may now take up the others.

Section II. Population

RATE OF GROWTH. *The rhythm, determined by famines*:

Period	Growth %	Causes for slow or rapid growth
1872-81	+ 1.5	Famines, 1868-78.
1881-91	+ 9.6	No famines.
1891-1901	— 0.2	Famines, 1896-1900
1901-11	+ 6	Hardly any famines.
1911-21	— 0.3	World War; famines, 1918-21; influenza, 1918.
1921-31	+11	No famines.
1931-41	+14.3	No famines.
1941-51	+13.4	Hardly any famines.
1951-61	+21.5	No famines.

Thus from 1921 there was a constant and rapid growth. Before that it was slow and irregular, largely as a result of famines which killed large numbers directly; many others lost vitality and therefore died of epidemic or disease. During two such decades the population fell, that is, the number of deaths was greater than that of births.

In the first six decades (i.e. up to 1931), fast and slow growth (or decline) alternated. We see here a rhythm, determined almost entirely by famines. It corresponded, therefore, to the rhythm of prosperity and adversity in agriculture, which also influenced the other sectors of the economy, as the vast majority lived on agriculture. Even in recent years, the famines of 1965-67 have had such an effect on the entire economy.

Size: By 1951 the total population became 36 crores (44 crores by 1961 and 50 crores in August 1966), which was second only to China's. It was 15% of world population, while our area is only 2% of the world's i.e. our density of population was far more than the average for the world as a whole. Thus an acre of land had to support so many more people. Let us then look at the density a little more closely.

Density: The density of population is measured by the number of people per square mile. The density in India was 193 in 1921; but as population has been growing rapidly since then, the density also increased and became 287 in 1951 (and 384 in 1961). This was much more than the figure for other agricultural countries like Brazil with 15, Indonesia 108 and China 123. The situation was equally bad regarding the break-up of the total population into age-groups.

Age Composition (or Age Structure) 1-15 years: In 1951, 38.3% of the population was in the age-group 1-15 years, compared to only 27% in the U.S.A. This is because of the very high birth-rate and it creates huge problems. So many babies, children and mothers have to be cared for and the children have to be educated and later we have to find jobs for them.

15-55 years: In the age group 15-55 years, there were 53.4% of the people. This is roughly the working population, the labour force of the country and makes up the human assets of the country. But in India even this group creates a problem, because it is not possible to find employment for all these people. Each Five-Year Plan created more jobs than the previous one—and yet unemployment also increased with each Plan.

55 years and more: In the age-group 55 years and more, we had only 8% people, compared to 17% in the U.S.A. and more than 21% in both France and the U.K. This is because many people die before they are old and it deprives the country of the experience and maturity of people in this group.

Sex Ratio: Another vital break-down of the population is in sex groups. In 1901 there were 972 women per 1000 males.

Since then, this sex ratio has been falling and in 1951 it was 966 in villages and only 860 in towns. Thus there was a shortage of women, especially in towns. This is partly due to the fact that more males are born—a fact peculiar to India. Another reason is as follows: in other countries, more males die after the age of 12 than females, while in India there is a high death rate among young mothers. This shortage of women, together with the ban on re-marriage of widows among 'higher' castes, creates an important social problem. It is worse in cities, where there are housing difficulties and high cost of living and, therefore, a still smaller proportion of women. The sex ratio was 940 for the whole country in 1961.

Expectation of life: Average expectation of life at birth has been steadily increasing since 1931, when it was 27. This is due to improvement in public health and sanitation measures. It was 32 in 1951 (42 in 1956-61 and 50 in 1966), compared to more than 66 in the U.K. and the U.S.A. In fact the expectation of life in India is one of the lowest in the world, a result of high death rate, which in turn was caused by poverty and low standard of living. The death rate was particularly high among infants and young mothers. This leads us to the study of death rate and birth rate.

Birth Rate and Death Rate: In 1881-1935, the birth rate in the U.K. fell from 32.5 per 1000 to 15.5 and in Germany from 37 to 16. But in India it was 45 or more up to 1940 and 40 in 1941-50. The reasons for this high rate are: marriage is universal, early marriage is common and the vast majority were too ignorant, poor and prejudiced to use birth-control devices. The birth rate rose to 44 in 1950-60.

On the other hand, death rate has been falling steadily from 48.6 per 1000 in 1911-20 and was only 27.4 in 1940-50 (22 in 1950-60 and 16—17 in 1967). The result is a rapid growth of population. Of course, the fall in the death rate is good in itself, as it means that people live longer. This fall has been brought about by the improvement in public health and sanitation measures; for example, malaria is almost eliminated, thus preventing one million deaths a year. In spite of this decline, death rate in India remained twice as high as the rate in advanced countries.

High Infant Mortality: If we break up the death rate, we discover that the high rate is due, very largely, to high death rate among infants and young mothers. Infant mortality in India is among the highest in the world. Only some decades ago, 20% of infants died before the age of one and 20% of total deaths were due to this infant mortality. The situation, though better, is still bad enough and results from several factors: low vitality of mothers who have married early, lack of milk and even of sufficient food, resulting from poverty; absence of proper care of babies; ignorance; and congestion in the cities, where infant mortality is very high indeed. Our infant mortality is about 90 per 1,000 live births per year, while in advanced countries it is only 20–25.

Deaths among young mothers: The death rate among young mothers is also very high in India and the reasons for this are similar: lack of proper medical care during and after child-birth, poverty, malnutrition and excessive pregnancy. A woman's life is held cheap in India even by women themselves. Maternal mortality in India is around 8 per 1,000 deliveries per year; while in the richer countries it is about 2.

Rural vs. Urban population: In the first Section of this Chapter, we have already discussed in detail the three types of towns in pre-British India and changes in their importance, the factors that promoted, and those which retarded, the growth of towns during British rule, the degree of urbanization, the growth of cities at the cost of towns and the absence of a class of industrial towns.

Occupational Distribution: The trend towards urbanization itself indicates a change in the occupational distribution of population. With an increase in the proportion of urban

population, a large percentage becomes occupied in industry, trade, transport, services, etc. But as seen earlier, the growth of towns was very slow; and in 1951 nearly 70% people depended on agriculture and only 10.5% on industry and 6% on commerce. We may compare this situation with that in other predominantly agricultural countries. The percentage of population engaged in agriculture was 20% in New Zealand, 16% in Australia and 26% in Canada, in contrast to 70% in India.

Is India Overpopulated? Finally there is the problem of overpopulation. Now our per capita national income is very low; in fact there is appalling poverty, in spite of rich natural resources. "India is a rich country, inhabited by poor people." On the side of population, there were hardly any famines, or other natural disasters, after 1921 to check its rapid growth. Vigorous measures for famine relief, helped by modern means of transport, prevented any large-scale deaths during the famines of 1965-67. This is another proof of the change in the nature of famines. In fact, there was improvement in sanitation and medical facilities. These factors halved the death rate in the next three decades. As a result, each of them shows growth in population by at least 11%. Birth rate, on the other hand, remained high at about 45 or more. There was little of artificial birth control.

The result is that we have serious problems of food shortage, unemployment and supplying the various social services, particularly education and medical aid. To take but one aspect of the problem, population grew by 39% in 1921-51, but the cultivated area increased by only 5%. Thus the pressure of population on land has been increasing, i.e. an acre has to support progressively more people. There is no doubt that we would be better off if we were fewer. Thus India is definitely overpopulated and the position is worsening with the passage of time. This tendency had a serious effect on the result of economic planning after Independence. Income per head increased only half as fast as total national income; the growth of population ate up half the gain from planned economic development. To put it in another way, income per head would have increased twice as much as it did, if population had remained stable.

But now, it seems, Government has realised the seriousness of the problem. And the 'loop' or I.U.C.D. (intra-uterine contraceptive device) may help us to solve the problem. There has also been a large number of operations for sterilisation, particularly on men (vasectomy). Incentives are given, and nationwide publicity undertaken, by Government in all States.

Summing up: Thus the history of India's population reveals a few healthy and many disquieting features. The former include increase in the expectation of life, fall in death rate and especially in infant mortality and the growth (though slow) in urbanization. As against these, there are the many and persistent unhealthy features: high birth rate, rapid rate of growth since 1921, the huge size, increasing density, unfavourable age composition, falling sex ratio, rise of gigantic cities, the overpopulation.

The Population Explosion, a Menace

The Problems created: In the last few years we have become aware of a population explosion, which is the great problem before us just now. The total population became 500 million in August 1966, is now about 525 million; and in one year there is a net addition of 13 millions. To provide for these alone, we need 43.3 lakh jobs, 1.26 lakh schools, 3.72 lakh school-teachers, 26 lakh houses, 1,880 lakh metres of cloth, 125 lakh quintals of food; and doctors and nurses, medicines and hospitals. As it is we are short of almost all these.

Further, the health of mothers and babies suffers, due to frequent pregnancy and insufficient resources. The pressure of population on land is already tremendous and millions barely manage to subsist. The low standard of living is perpetuated. At a heavy cost we are increasing our national income, but half

of it is eaten up by the rapid growth in population. We have to run fast to remain where we are. On the other hand, precious natural resources are being used up. The population explosion is, therefore, compared to atom bombs: both are a menace to the human race.

Government Policy: Dr. S. Chandrasekhar, an eminent population expert, took charge of the Ministry concerned early in 1967. He is tackling the problem energetically and on many fronts. He launched a vigorous programme of mass motivation and of implementing the cafetaria approach. Under the latter all scientific methods, of checking birth rate, are offered to the public.

The Loop: The intra-uterine contraceptive device (IUCD)—or Dr. Lippes' loop—for women is however an ideal contraceptive, a most powerful weapon, for several reasons. It is highly effective and therefore reliable. It is equally acceptable because it is simple, not time-consuming—the insertion takes 3–5 minutes only, harmless—it is non-irritant, very cheap —costs 25 paise only, a one-shot treatment—can be retained for a long time. In this it is like sterilization; but unlike the latter it is reversible, can be used for spacing babies and can be made easily available: it is manufactured in India in sufficient quantities.

Prophylactics: Prophylactics (preventive devices) are the most popular among the conventional contraceptives, they have found a great acceptance in the rural areas. The demand this year was likely to be 200 million, but the production is only 60—70 million. Government is, therefore, establishing a factory in Kerala, with a capacity of 144 million a year. And there are already expansion plans to double it. Private units are also expanding capacity to produce 112 million a year. All conventional contraceptives are supplied free; so also services, like loop insertions and sterilization—and compensation is paid for bus fare etc.

The Targets: The Government's aim is to reduce the birth rate from 41 per 1,000 in 1965 to 30 by 1971, and to 25 by 1975. 4 million men have already undergone vasectomy, thus preventing 10-12 million births. The target for 1967-68 was 1.5 million sterilizations and 2 million insertions of the loop. Government launched a vast loop programme in July, 1965. Within the next year 5 million women would have planned, spaced families. But they are only 5% of the women in the reproductive group—and 10% of those in the group with 3 children or more. The task before us is thus a huge one. Or look at it this way: to reduce the birth rate to 25, half the couples in the child-bearing group must practise birth control regularly—and their number will go on increasing.

The Financing: The three Plans allocated Rs. 70 lakhs, 3 crores and 27 crores respectively to family planning. They were obviously meagre sums for such a huge task. In the Draft Fourth Plan, however, a sum of Rs. 95 crores was suggested and finance is not to be allowed to slow down the programme.

The Organization: But the finances must be properly used, to implement the programme through an effective organization. This organization has undergone far-reaching changes since 1963. The programme in rural areas was made part of the extension activities. The technical direction at the Centre was greatly strengthened and, in 1965, a Cabinet Committee for family planning was set up. Next year a new Department of Family Planning was created.

All media for mass contact are used: booklets, posters and flash cards; exhibits, hoardings and bus boards; radio, films and publicity vans; stories, commentaries and advertisements in the press. A simple symbol has been adopted for the programme: an inverted equilateral triangle in red. The slogan that goes with it is: two or three children are enough. The postal department has issued a 5-paise stamp on family planning; it depicts a couple with two children, standing on the triangle.

Thus "after 16 years the programme has come of age. It is now well-staffed, mass-based, politically supported and adequately financed."[1]

The Difficulties: No doubt there are still difficulties other than finance. They are inadequate transport and communications, illiteracy and poverty, insufficiency of contraceptives and trained staff—doctors, nurses, mass contact personnel, etc. This last is the single greatest difficulty. For instance, Indian women prefer loop insertion by women doctors, who are not forthcoming, in sufficient numbers, for this work. Old beliefs and prejudices are, however, no longer serious obstacles. Many surveys have revealed that two-thirds of the people are in favour of birth control, for economic and health reasons.

The farmers' 'conservatism' and illiteracy have not come in the way of the Agricultural Revolution. So too with family planning. India has somehow to match its Agricultural Revolution with a "Population Revolution". If it does, it will be a triumph without parallel in man's history.

Other Proposals: *Raising the marriage age*: There is one child less for every 2—3 years by which a girl's marriage is postponed. Today the law allows a girl to marry at 15. This age should be raised by 2—3 years—of course the big problem here is enforcement of the law. This raises another problem: what are the girls to do in the meantime, since only primary education is available in most of the villages? Well, they—as well as the boys—can be made to do for a year some national work, which will also be good training for them. There is any amount of work to be done: in adult literacy, building schools, hospitals, roads.... This does not necessarily require a lot of money, it is a question of will to achieve and of organization.

[1]K. S. Sunder Rajan in 'Finance and Development', December 1967. This, the article by V. S. Nanda in the July 1968 issue of 'Span' and that by Dr. S. Chandrasekhar in the 'Times of India' on 23-6-1967 are the chief sources used for much of the material.

Relaxing legal restrictions on Abortion: In Japan this led to a great fall in the birth rate after 1945. It would also eliminate the abortions by quacks, which result in deaths of (or permanent injury to) thousands of women every year. The Law Department at the Centre has drafted a Bill for the purpose.

Remarks: Looking to the magnitude of the problem, Government targets are not too ambitious. And the position will become worse before it becomes better. Economic development will raise the standard of living; that, and the improvement in medical and sanitation facilities, will reduce the death rate further. The problem thus will become more acute. Even to stabilise the population, therefore, we will have to reduce the birth rate to, say, 20 per thousand, in the next 10–12 years. To achieve this, we must create an awareness of the need for family planning and then its acceptance and continuation, especially in the villages. For this purpose we must take advantage of all occasions—fairs, cattle shows, marketing trips.

The next problem will be to see that contraceptives become readily available to all, at nominal prices (with a heavy subsidy), near their homes. This will involve their large-scale production within the country—and a huge network to distribute them, through all possible channels. In the meantime sterilization facilities should be vastly extended. Of some 90 million couples in the reproductive group, about 56 million have three or more children each. These should be persuaded to go for sterilization. The remaining couples should space their families and postpone the arrival of babies by two or three years. To bring pressure on all these couples, we must withdraw concessions like paid maternity leave, and other maternity benefits, beyond 2–3 children. To induce them to accept sterilization, they must be paid, say Rs. 20–30 each. Maharashtra is doing both these things.

It could be said until recently that "the failure on the food front is the failure of the administration". Let that not happen on the 'population front'. We have got to win this battle. We cannot afford not to. As it is, it is late enough. Disaster is already staring us in the face.

Questions for Revision

1. Describe the various types of towns in pre-British India and the industries in them. Bring out the relative importance of each type of towns and also the change in it.
2. Discuss the trend towards urbanization during British rule in India, with special reference to the growth of large cities.
3. Analyse the forces that promoted, and those which retarded, the growth of towns in India under the British.
4. "The history of India's population reveals a few healthy and many disquieting features." Discuss.
5. Indicate the problems created by population explosion in India. Describe, and comment on, Government's recent policy in this field.

Chapter IX

LABOUR PROBLEMS

Introduction: We have now discussed all the problems of modern industry except the most important one. That is the problem of labour, for the worker is not just a means, but also an end in himself. All your industrialization and planning are worthless, if you cannot ultimately provide him with the means of a decent life. And if he is treated decently, he will develop such initiative and inventiveness that your problems will not seem half so formidable.

Labour Legislation, Stages: How do you set about this task? You begin by removing the most glaring abuses in working conditions in factories, reducing hours of work and so forth. In the second stage, you extend such regulation to more industries, protect the labourers against an obvious and cruel 'risk' like accident in the factory and give maternity benefits to female workers. You try to reduce industrial strife. In the third stage, again, the earlier laws are further extended and modified; and new types of laws are passed to protect the workers' wage and to prevent their exploitation by the creditors. These were the first three stages in India between 1880 and 1937. The details are given in *Table 11;* we will presently look at them.

Analysis of the Condition of Labour

Table 10 (on 'Condition of Labour') gives a synopsis of the many labour problems that arise in modern industry. Let us first have a bird's eye view of them.

(*I*) *Conditions of supply. Quantity*: Here we can first study the number of workers in modern industry and their proportion to the total working population, their number in different industries and whether there is any scarcity, especially of skilled labour. There was chronic scarcity of labour where working or housing conditions were utterly bad; and seasonal scarcity in all cases at the time of harvest.

Quality: Quality is as important as quantity and under it comes the important problem of efficiency, absolute and relative. Our workers were inefficient in absolute terms: but not in relation to their wages, which were very low indeed. The inefficiency was due to their migratory character—going away to their villages for long periods, their illiteracy and ignorance, low wages and unfavourable working and living conditions. There was also much absenteeism, partly the result of long hours of work.

Sources: This concerns the areas from which various centres (in the different Provinces) get their workers, the motives which draw labourers to these places and the classes to which they belong.

Methods of recruitment: These played an important part, before Independence, in the worker's life. The jobber or 'mukadam' was in charge of it and he misused this power at the cost of the worker in several ways: for employing him, for keeping him in the job, for promoting him—for all this the jobber had to be 'satisfied.' He also lent the labourers money on his own terms. He was the "villain of the piece." Another feature was that the number of casual (not regular) workers was large, due to a good deal of absenteeism.

(*II*) *Conditions of Payment*: This is perhaps the most important set of problems for the workers. It is for this payment that they go through all the toil and trouble; it is on this that their standard of living depends. The most important payment is wages, from which deductions (e.g. fines) may be made. Dearness allowance also became substantial during the time of high prices and the annual bonus is often equal to three months' wages. The period of payment of wages is usually a month, and the payment has generally to be made within seven days of the end of the month, under an Act of 1936. 'Overtime' is working for more hours than fixed by law and is generally paid at a higher rate.

Social insurance is insurance against certain 'risks' (or unfavourable conditions) like accident, maternity, sickness, old age and unemployment. The workers get payments in cash—or medical benefits—at such times.

(III) Working Conditions: In a factory or mine, on railways or plantations, the most important working condition is the number of hours a labourer has to work. This is regulated by laws, which also lay down minimum ages at which children may start work, etc. The laws further provide certain standards in the interests of the health, safety and welfare of workers; as also weekly holidays and additional holidays with pay.

The type of equipment and the extent of industrial disputes affect both the working life of labourers and their incomes. So does share in management through works committees, trade unions etc. The trade unions play a crucial role in disputes—their organization, beginning, success etc.—and in the promotion of the welfare of workers in a number of ways, e.g. through housing, social insurance, co-operatives.

(IV) Living Conditions: The improvement of 'living conditions' is the ultimate aim of all economic activity, including economic planning. This is also called raising the standard of life. One persistent problem here, as all over the world, is the wretched housing of workers in cities. Well-planned recreation can do a good deal to bring cheer to the labourer and to increase his efficiency.

Inter-relations between them: These are not the only problems of labour. Further, though we have classified them for convenience, many of them are interdependent, as already seen above to some extent. Here are more examples: 'conditions of supply' affect wages; the larger the supply, or the lower the efficiency, the lower are the wages. Wages, in turn, determine the standard of living, housing, etc. and they also influence efficiency. Efficiency is also affected by working conditions like hours of work, safety, equipment etc. We have not the space here to discuss all these problems; we will chiefly concentrate on labour legislation.

Labour Legislation

A General Survey

Such are the many problems of labour in modern industry, which was started in India after 1850. For the next sixty years or so the position of labour in all these respects was wretched. From 1881 Government passed laws to improve this position.

Table 11 gives an overall view of the more important of these. Let us have a brief review of the table.

(I) 1880-1914. The beginnings: There were few trade unions, so labour laws were introduced as a result of other influences. Manufacturers in Lancashire and Dundee (in the U.K.) complained that, as there were no labour laws in India, they had to face 'unfair competition' from her in the Indian market. When electric lighting came to Bombay, labourers could (and some had to) work for 15 hours a day. The shocking condition of labourers moved progressive employers, and humanitarian reformers, to better their lot. The result was three Factory Acts; no other notable laws were passed relating to any other type of labour problems.

(II) 1914-31. The War etc.: The First World War changed the situation in many ways. Labour became conscious of its importance in war production. Prices and profits increased, but not the worker's wage, thus lowering his low standard of living. Trade unions were formed and they started pressing for higher wages; strikes followed. There was an

Industrial Commission (1918); and then came the International Labour Organisation (1920), whose conferences are attended, among others, by representatives of workers. Labour became a Concurrent Subject (1919) and some Provinces passed labour laws. The Legislatures included more representatives of the people.

Wider range. All this resulted in considerable labour legislation. Working conditions were regulated for the first time in mines and on railways. Other fields were also covered for the first time: workmen's compensation and maternity benefits, trade unions and trade disputes. Thus the range of legislation became much wider.

(*III*) *1931-37*: *The Royal Commission, Range extended*: The great factor in the early and middle thirties was the Royal Commission on Labour, 1931. 24 labour laws were passed, of which 19 had been proposed by the Commission. Special attention was given, for the first time, to some difficulties of child labour and tea workers. For the first time, again, several laws protected debtors and regulated the payment of wages. Thus the period saw a further widening of the range of labour laws.

(*IV*) *1937-39*: *Popular Ministries*: Popular Governments, mostly Congress, were in power in the Provinces in 1937-39. They included the leaders of the people and were keen on improving the condition of workers. They appointed several Enquiry Committees, but they resigned before they could accomplish much.

(*V*) *1939-47*: *The War etc.*: The effects of this War were similar to those of the First World War, only more acute. In 1942 the 'Quit India' movement against British Rule was launched, which made Government keener to win over labour in the cause of war production. Government called Tripartite Labour Conferences, inviting labour participation for the first time. But it was too busy with the war effort to pass many labour laws.

(*VI*) *1947-68*: *The Gaps filled up*: This long evolution of seven decades left one glaring gap. Working conditions in plantations were not regulated; they were largely owned by the British. In the field of social insurance, there was no provision against sickness or old age, nor of course against unemployment. Minimum wages of even sweated workers were not regulated. All this was attended to in half a dozen years after Independence. The details of these post-Independence laws are added to the various tables, to bring them up-to-date for a study of 'Indian Economic Problems.'

Details of Labour Legislation

(I) Working Conditions—Factories

Factory Acts: As in other countries the horrible conditions of work in factories were naturally the first to attract attention. They are also the easiest to improve. During the first four decades, therefore, there were four Factory Acts and they were the only important laws in that period. The details are given in *Table 12*, so here we will only look at some notable features of the laws.

Hours of work. Children: The 1881 Act was of a very elementary character. It fixed 7 as the minimum age for a child to be employed; and up to the age of 12, the maximum hours of work were to be 9 per day. The ages were gradually raised, and the hours were reduced, by later Factory Acts. The final result was: in *1881*, a child of 7-12 could work 9 hours a day; in *1934* a child below 12 could not be employed at all and a child of 12-15 could work for 5 hours only. In *1948* the ages for children were raised to 14–18; and the hours reduced to $4\frac{1}{2}$.

Women: The Second Act (1891) laid down, for the first time, the maximum hours for women—at 11 per day in perennial factories, i.e. in those working throughout the year, not for a season only. By 1946, through several Acts, the hours in perennial factories were gradually reduced to 9 per day for *all* adults (i.e. for men also) and 48 per week, i.e. 8 per day on an average. The 1891 Act also prohibited night work for women and the 1954 Act for children also.

Men: The Third Act (1911) fixed, for the first time, the maximum hours of adult males in textile mills. They were to be 12 per day, one more than for women from 1891. In 1922 the men were put on a par with women and weekly hours were also fixed—at 60. There was reduction in both later, and in 1946 both had 9 per day and 48 per week in perennial factories. After Independence, hours in seasonal factories were also fixed at 9 and 48 in the year 1948.

Summing up. Thus maximum hours of work were fixed, and progressively reduced, first for children, then for women and finally for men also. There was a similar logical extension with regard to other working conditions ('welfare' provisions), inspection and coverage of factories.

'Welfare' provisions: In 1881 there were no 'welfare' provisions relating to the health, safety and welfare of workers. They were introduced in 1891 and provided for a weekly holiday, rest periods, ventilation, cleanliness etc. These became more effective with the Act of 1911 and were extended in 1922 and 1934. This last Act laid down higher payment for overtime, which became double the usual rate in 1946. In 1946 again holidays with pay were introduced in perennial factories, about 10 per year for adults and 14 for children. In 1948, the former were raised to 15, precise standards regarding welfare provisions laid down, many new ones introduced and welfare officers appointed.

Inspection: But Factory Acts are not effective without inspection. It was, therefore, introduced, first in 1891 and improved through the next two Acts. But the administration was left to the States and hence there was no uniformity.

Scope: The scope of the laws was also extended with every new Act up to 1922. The 1881 Act covered only those perennial factories which employed at least 100 persons each and used mechanical power. The Act of 1891 applied even to factories with 50 workers or more; in 1911 seasonal factories also came under the law; in 1922 units with 20 labourers each were covered, as also railway workshops, and in 1948, those with 10 each.

The details of post-Independence laws have been added to the tables.

Mines

From 1923: Mine workers had to wait for four decades after the first Factory Act was passed. In 1923 their weekly hours were fixed at 60, the same as those prevailing in factories from 1922. But those working underground had to put in only 54 hours and a child below 13 could not work underground. In 1928 the daily hours were also fixed, at 12, i.e. one more than in factories. Next year a regulation was issued to restrict gradually the employment of women underground. Finally in 1935 the hours were brought on a par with those in the Factories Act of 1934; and below ground the maximum was 9 per day. Besides, the minimum age for employment of children was raised to 15.

In *1952* the hours were reduced by one each, both above and below ground, so that they were 9 and 8 respectively. A child under 18 is not now allowed to work below ground. Overtime is to be paid at $1\frac{1}{2}$ times above ground and twice below ground, but women are not to work below ground or at night. There are also welfare provisions, including paid holidays: 14 per year for those paid on a monthly basis and 7 for the others. Adequate penalties are laid down, including imprisonment, for employers breaking the law.

Railways

From 1930: Railway workers, other than those in workshops, had to wait still more for a reduction in hours. In 1930 these, too, were fixed at 60 per week for those doing continuous work, the same as in factories and mines at that time. There were also provisions regarding intermittent work, weekly rest and overtime. The Rajadhyaksha Award of 1946 put railwaymen on the same footing as factory workers (under the 1946 Act). The hours for continuous work were to be 54 per week, and there was provision for holidays with pay etc.

The Plantations

1932: Labour on the plantations had no such protection under the British—the planters were British. But in 1932, under the Tea District Emigrant Labour Act, local Governments in Assam were given control over recruitment, which was to be licensed. The emigrant worker obtained the right of repatriation after three years, at the cost of employer; and before that period in case of dismissal, failure of health etc. and assault by employer or his agent. A comprehensive Act was passed in 1951 to protect plantation labour.

1951, Comprehensive Act: The Act covers not only the notorious tea plantations, but also the less important coffee, rubber and cinchona. It fixes the maximum weekly hours at 54 for adults and 40 for children—that is, one hour more per day for adults than in the factories since 1948; but then work on the plantations is mainly agricultural and, therefore, in the open. As in the mines, women are not to work at night—nor children. There is to be a half-hour recess after every five hours' work and, of course, a weekly holiday. One defect of the first Factory Act is avoided and inspection is provided in this first plantation Act. Similarly, unlike the Factory Act of 1881, provisions to safeguard the health and welfare of the recruits are also included.

As the plantations are far from urban centres, housing is their special problem; and that too is covered by the Act. As in factories etc., there are to be paid holidays: about 15 per year for the adults and 20 for the children. Lastly, the

Act also provides for sickness and maternity benefits; the E.S.I. Act had provided the former for factory workers in 1948.

How to use the Table: We have thus seen briefly the evolution of each type of provisions in the Acts. While using the table, readers are advised to study each Act as a whole also, and to compare it with the previous Act in the same industry—and also with Acts in the other industries, e.g. to compare the Factory, Mines and Railways Acts in operation at the same time at different stages. As the details of post-1947 Acts are now added, they can also use the table for a study of 'Indian Economic Problems'.

(II) Social Insurance

This was the field next covered by labour laws. Here the worker is insured against certain contingencies (or 'risks') of life like accident, maternity, sickness, old age and unemployment. This is done by society, through the Government, as the labourer is too poor to do it by himself. It is also in the interests of society, and of employers particularly, as it gives the worker security and freedom from worry and, therefore, makes him contented and more efficient.

(1) *Accident*

Three factors determined compensation: The first problem to attract attention in this field was accident in the factory and the resulting injury to (or death of) the worker. The Workmen's Compensation Act of 1923 fixed compensation for such mishaps. The details are given in *Table 13*, but in general the payment depended on three factors. The first was the wage of the worker: the compensation was fixed at so many months' wages and there were also maximum limits. Another consideration was the nature of the injury—whether it was fatal, permanent or temporary. The last factor was the worker's status as adult or minor.

Type of injury: The sum was larger for permanent injuries than for the fatal, as the worker himself had to be supported in the former case. This was particularly so in the case of minors, who (being younger) are expected to live longer. In fact, the compensation for fatal accident to a minor is very small, as his wage would be very small and as he is not generally the bread-winner of the family. For a temporary injury, an adult received half the wage. But a minor was given a larger portion, two-thirds, of his wage as his wage would be lower than an adult's. There was a ten days' 'waiting period'—later reduced to seven—after which the payment started, so as to discourage carelessness etc.

Amendment of 1933: In 1933 the maximum compensation was raised substantially. There were two exceptions, both with regard to minors; the amount for fatal injury remained at the fixed sum of Rs. 200, and that for permanent injury also became a fixed sum of Rs. 1200, instead of 84 months' wages or a maximum of Rs. 3500. This reduction in the maximum sum for minors is the only case of decrease in compensation in 1933.

Scope and defects: Occupational diseases were also covered and all organized industries came under the Act by 1933. But only manual workers, earning up to Rs. 400 per month, were to receive the benefits. The liability was the employer's, workers paid no contributions. One serious defect was that there was no provision for settling claims outside the court, so the procedure was lengthy and costly. There was no separate machinery for administering the Act. Nor was there provision for medical aid.

(2) *Maternity*

The next 'risk' covered was maternity. The I. L. O. passed a convention on maternity benefits in 1919, but the Government of India provided for them (in coal mines) only in 1941, under the stress of war. But meanwhile several Provinces and Native States had taken up the matter. Bombay gave the lead in 1929, and by 1948 15 out of 28 regions had such laws.

They covered all manual workers in factories, mines and plantations. Female workers received, in the majority of cases, half a rupee per day for eight weeks each—for about four weeks before, and four weeks after, the delivery of the baby. Of course they were not to work anywhere during these eight weeks. To qualify for the benefit, they must have been working in the factory etc. for six to nine months, the qualifying period. As in the case of accident the liability was the employer's; there were to be no contributions from the workers. In both, again, there was no provision for medical aid.

Mines, Central Act, 1941: As there was no Central Act on the subject, the standards varied as between different regions. This was avoided in the case of mines, for which a Central law was passed in 1941. Here the benefits were granted for the same period (eight weeks), but the cash payment was Rs. 0.75 per day. There was also provision for free medical treatment, creches for the babies and additional rest intervals for the mothers—and the qualifying period was only six months' service. Thus the Act was more favourable, in several respects, than the other maternity benefit laws; and as in their case, the liability was entirely the employer's.

One defect of all these laws was that there was no special machinery for enforcing them. Officers with different types of other work were to administer these Acts also; and they had little time for this, their subsidiary work. Again, the 'risks' of sickness, old age and retrenchment or lay-off were not yet covered; that was done in the half a dozen years after Independence.

A comparative idea of these pre-Independence laws is given in *Table 14*, which has been extended to cover the Acts passed after 1947. For the same purpose, *Table 15* has been added, to describe laws covering old age and unemployment.

Labour legislation relating to industrial disputes (and trade unions) is described in the next Section.

(III) Industrial Relations

Industrial Disputes and Trade Unions

The Problem of Disputes: its importance: Industrial disputes (strikes and lock-outs) have harmful effects on all concerned. The workers lose so many working days and therefore wages for those days. The employers suffer from loss in production and in profits. The consumers may have to face a shortage of goods and higher prices and the Government would lose tax income. There is a further harvest of ill-will and bitterness between labour and capital and, sometimes, violence and damage to property.

History of Industrial Disputes

(I) Before the War: Before 1914 the strikes were few, sporadic and not well-organized, as there were few trade unions. There was also no class consciousness among workers, nor desire to oppose their employers.

(II) The War and after. Change in the position: Then came a new era, as in the case of other problems. Strikes increased, became longer and were well-organized by trade unions. The labourers became class-conscious and opposed their employers. During the War and the post-War boom, profits and prices rose, but wages lagged behind. In the depression of 1920–22, again, wages were cut or bonuses stopped; and workers were dismissed because of bad trade or rationalization. As a result the strike became a common weapon with the working class.

During the post-war boom, industrialists did not want to lose many working days. Besides, as wages had lagged much behind prices, there was a large margin for increasing the former. Strikes were, therefore, short and successful. But when the boom gave place to the depression, there was a steady fall in the number of strikes and an increase in their length and in the proportion of unsuccessful strikes. In 1923 started

the reverse movement of fight against wage-cuts. For some years strikes became fewer and fewer.

(III) 1929-37. The Great Depression: *Several factors*: When the Depression began in 1929, the vast mass of unemployment made the position of workers utterly hopeless. As a result the number and intensity of strikes began falling. There were other causes also for this change: the failure of the general strike of 1929; split in the trade union organization; jailing of many extremist leaders. Besides, the hopes raised by the Royal Commission on Labour (1930-31) were partly realised. Lastly, there was the Trade Disputes Conciliation Act of 1934 in Bombay. Under it the labour officers heard about 3600 cases in 1935-37, of which 2900 (i.e. 80%) were decided in favour of workers.

(IV) 1937-39. Trade Revival and Popular Ministries: *Revival of strikes*: By 1937 industry had revived from the Great Depression and was making more profits. There was also communist activity. Further, labour hoped for great things from the popular ministries in the Provinces. All this led to a renewal of strikes, there were demands for withdrawing wage-cuts and even for paying higher wages.

(V) 1939-45. War. Many Developments: The War brought about many developments. Because of the need for all-out production, there was much more employment and a larger labour force. Then there was the steep rise in prices, but not in wages, and scarcity of the necessaries of life. These resulted in the demand for dearness allowance and threats of strikes. The 'Quit India' movement against British rule was launched in 1942. Government, therefore, set up enquiry bodies or conciliation boards and later the dearness allowance was linked with the cost of living. Because of strikes, Government assumed emergency powers; strikes and lock-outs were prohibited; instead, there was to be compulsory conciliation or adjudication. Government could also fix the terms of employment.

Change in Government's attitude: The need for increased production, and the 'Quit India' movement, changed the attitude of Government. For the first time, joint consultation was introduced; the first Tripartite Labour Conference was held in 1942. Several welfare measures were also undertaken, viz. works The next important cause related to personnel: appointment, committees, canteens, recreation, welfare funds and grains at cheap rates. A Labour Investigation Committee was appointed in 1944. Finally, some laws were passed like those providing for paid holidays and for maternity benefits in mines (1941).

Causes and Results of Disputes

Wages, Personnel: By far the most important cause of disputes was wages. Between 1921 and 1938, for example, this was the cause in half the disputes. In 1939-47 this factor accounted for 44% of the disputes and bonus explained 8%. The next important cause related to personnel: appointment, promotion, victimisation and dismissal of men etc. It was responsible for 21% of the disputes in 1921-38 and 15.6% in 1939-47.

Results of Disputes, in Percentages

Period	Successful	Partially successful	Unsuccessful
1921-38	16	21	61
1939-47	18	22	44

The rest were indefinite. Thus too many disputes were unsuccessful. This indicates tremendous waste and it shows the need for better industrial relations and for a proper organization of labour into trade unions. But even when a strike succeeds, there is a loss of man-days.

Man-days lost: The extent of disputes at any date can be measured by the number of man-days lost. This is obtained,

for each strike (or lock-out), by multiplying the number of men on strike by the number of days the strike lasts. The following figures confirm the history of disputes as described above.

Year	Man-days lost —in lakhs	Factors accounting for Change
1921	70	Boom after War.
1932	19	—The Great Depression.
1938	92	—Trade revival, Provl. Auto.
1944	34.5	—War, special measures.
1946	127.2	War over, Defence of India
1947	165.6	rules withdrawn.
1948	78.4	Special measures.

Thus, during the boom after the First World War, we find a good deal of disputes. They declined in the depression which followed and fell very low during the Great Depression. There was a revival when trade revived and the popular ministries took charge in 1937; and a fall under the special conditions and the measures undertaken by Government in the Second World War. In the two years after that War (when the rules under the Defence of India Act were no longer in force), the disputes reached record figures and so special measures had again to be taken, as described in the next section. The section also gives a table on man-days lost in each year between 1944 and 1949.

Legislation on Industrial Disputes

(*1*) *Central Act. The Trade Disputes Act, 1929*: The aim of this law was to settle disputes by force of public opinion, as in the U.K. The cause of the dispute was to be made clear and discussed by an impartial authority. For this purpose Government could appoint a Court of Inquiry, which would only investigate into the matter and report on it. Or it could appoint a Board of Conciliation—if *both* the parties demanded it. The Board would try to settle the dispute; if it could not, its report would be published.

In public utility services, both the parties must give 14 days' notice before declaring a strike or a lock-out. Two kinds of strikes were illegal: sympathetic strikes and 'coercive' strikes, i.e. those causing severe hardship to the public, for compelling Government to favour the strikers.

The Act had little success. In 1929-36 it was used only 5 times, though more than 1200 disputes occurred in the period. The Bombay Act of 1934 was far more successful.

(2) *The Bombay Trade Disputes Conciliation Act, 1934*: It applied to cotton textiles in Bombay city and suburbs. As the name suggests, it provided, not for enquiry or arbitration or adjudication, but for conciliation only. Government conciliators could start conciliation *on their own*, when a dispute occurred or was only expected. (Compare the Central Act of 1929 above.) And a Government Labour Officer would look after the interests of labour and promote closer contact between employers and workers. It was claimed that the Act practically removed industrial strife from Bombay city for three years; about 3600 cases were heard, of which 2900 (i.e. 80%) were decided in favour of workers.

(3) *The Bombay Industrial Disputes Act, 1938. Conciliation and arbitration*: This (B. I. D.) Act was applicable to cotton textiles in the whole province. Under the Act employers were to submit standing orders relating to the working of the factory. The party demanding a change in them must notify the other party and Government. If there was disagreement, conciliation must be tried; and if that failed, the parties were free to follow their own methods. But conciliation was not compulsory where the parties agreed on arbitration. The award of the arbitrator was binding on the two parties.

Representation of Labour: There were elaborate provisions for the representation of labour at these proceedings. A 'registered union' need have only 5% membership, if it was recognised by the employer; otherwise, 25%. The latter was considered too high even for the West, and the former gave too much importance to employer's recognition. It would promote small, "company unions" at the cost of much larger, genuine unions.

Illegal strikes: Those strikes and lock-outs were illegal, which were undertaken without notice, or before the end of conciliation, or two months after it was over. The underlying ideas were: avoidance of hasty, sudden strikes; clarification of issues; securing the goodwill of the public; and reducing the great proportion of unsuccessful strikes.

(4) *The Second World War*: During the War, the Government of India issued notifications in 1942 and 1943 under the Defence of India Rules, for restraining strikes and lock-outs. Government could prohibit them, order conciliation or adjudication and fix conditions of employment; similar powers were given to the Provinces also. Further, 14 days' notice was required before a strike or lock-out. These Rules were in force till September, 1946.

(5) *After the War*: But their working had convinced Government that they were very useful, especially as industrial unrest was increasing, due to the stress of post-War industrial adjustment. This is brought out by the number of man-days lost.

Year	Man-days lost, in lakhs
1944	34.5
1945	33.1
1946	127.2
1947	165.6
1948	78.4
1949	66.0

A second Central Act, therefore, replaced the Act of 1929. Like the B. I. D. Act of 1938, it is a very complicated law; and as in the case of the former we will simplify it.

(6) *Industrial Disputes Act, 1947 (Central Act). Two new bodies*: It retains most of the provisions of 1929, but introduces two new bodies: first, Works Committees consisting of representatives of labour and capital, in every unit with at least 100 workers each. They are to remove causes of friction in the day-to-day working of the unit and to promote good relations between the parties. The second is Industrial Tribunals. They may be approached if both parties desire that or if the Government thinks it necessary. The award would be binding up to a maximum of one year.

Conciliation: It is compulsory in public utilities and optional for other industries. The settlement is binding for at least six months and either party must give two months' notice to cancel it. One improvement introduced by the Act is permanent Conciliation Officers. Strikes and lock-outs are prohibited during conciliation or adjudication.

The Result: These last two measures, along with others, helped in reducing strikes, as seen in the table on man-days lost; they fell to half. The awards fixed, and raised wages in almost all the major industries and also improved working conditions.

(7) *The Bombay Industrial Relations Act, 1947,* replaced the B. I. D. Act of 1938. Its aims are to settle disputes more quickly and efficiently and to encourage labour to organize itself. Under the Act 'approved' trade unions have substantial privileges, in return for certain obligations. They must first try conciliation; if it fails, they must go for arbitration; and only then can they resort to strikes—and that too only if a majority of members vote for it.

For the first time in India, labour courts were to be established, to get quick and impartial decisions on illegal

changes in standing orders, etc. Joint Committees were also to be set up with equal number of representatives of both sides in the various occupations and factories.

(8) *Madhya Pradesh, 1947*: This Act has the same basic features as the Bombay Act of the same year, but it is much less comprehensive. It provides for the compulsory framing of standing orders, fourteen days' notice by either party desiring a change, conciliation, arbitration, Industrial Courts and Labour Officers.

(9) *Uttar Pradesh, 1947*: Unlike the last two measures, this U.P. Act contains no complex provisions. It did not create special classes of unions, nor set up a chain of agencies for conciliation and arbitration. It gave Government power to prohibit strikes and lock-outs, to refer disputes to conciliation or adjudication and to exercise control over public utilities.

Thus in 1947, in addition to the complicated Act by the Central Government, three of the Provinces also adopted laws on the subject. Of these, Bombay maintained its tradition of complexity, introduced by the B. I. D. Act of 1938.

Later figures: 'India 1966' and 'India 1967' give later figures. They show that, in general, the position remained more or less the same in recent years as during 1948 and 1949, the two 'good years' following the previous two 'bad years' (1946 and 1947).

Year	No. of disputes	Workers involved —in lakhs	Man-days lost —in lakhs
1957	1630	8.89	64.29
1964	2151	10.03	77.25
1965	1835	9.91	64.70

Trade Unions

(A) History

(I) Up to 1914: Before 1914 there were few trade unions, so agitation for improving the condition of labour could not come from them.

(II) 1914-21. Growth of Unions: The War changed this to some extent. We have seen the changes in the position of labour during the War and these promoted the growth of trade unions. The first notable union was started by B. P. Wadia in Madras in 1918. Then the trade union movement spread to Bombay and other parts of India. Strikes followed, aimed chiefly at higher wages. In the beginning, the unions were merely strike committees and not well-organized. But during the post-War period labour learnt the value of organization and the effectiveness of the strike weapon. So later came real trade unions and a remarkable growth in them.

Causes of growth: There were several causes for this growth. The Russian Revolution of 1917 heartened workers and the All-India Trade Union Congress was formed in 1920. The political turmoil of the time added to the feeling of unrest and provided leaders to the movement. Mahatma Gandhi played a notable role in the union at Ahmedabad and other political leaders, like Tilak and Mrs. Besant, also helped the movement.

The International Labour Organization, 1919, of which India became a member, greatly influenced the formation of central labour organizations, which could claim the right to send representatives of workers to its annual conferences. This, in turn, helped the growth of trade unions. Regarding the internal situation, while industries made huge profits, wages lagged behind prices. So there were short and successful strikes, which brought about a rise in wages. The success of the strikes helped to spread the trade union movement rapidly

all over India. Later, the Trade Unions Act (1926) protected the unions and raised their status.

(III) 1921-36. Difficult period: But when the post-War boom ended, the movement faced acute difficulties and later the Great Depression kept it inactive till 1935. Other factors added to the troubles of unions. From 1925 to 1929 there was a conflict between the rightist and leftist leaders, the latter introducing communist politics in trade unions. In 1929 there was a split, which was not ended till 1938. In the meantime, other rival organizations had sprung up. Thus there was disunity and disintegration. During this period of adversity, many weak unions disappeared and membership and funds fell very low.

(IV) 1936-39. Trade Revival and Popular Ministries: After 1936 the situation improved. Business revived and profits from industry grew. Hopes of labour also revived with the advent of popular ministries in the Provinces. Labour Enquiry Committees were set up and in Bombay the Government persuaded cotton mills to grant an increase of 12.5% in wages.

(V) 1939-47, The War: Then came the Second World War. We have seen how it improved the condition of labour in several respects. Further, labour realized the need to organize and so there was much increase in the number of trade unions and their members. Government also became more favourable and started, for the first time, joint consultation with labour through Tripartite Labour Conferences from 1942.

Later on we will discuss the difficulties and weaknesses, the growth and position of the trade union movement, including the changes in the number and membership of unions.

(B) Trade Unions and the Law

The Indian Trade Unions Act, 1926: Under the Act registration is optional for a trade union; but if it is registered, it has certain privileges and obligations.

Privileges: There can be no civil suit against it regarding an act relating to a trade dispute, on the ground only that it induces some person to break a contract of employment, or that it interferes with somebody's business or employment. Nor can there be a criminal case against its officials for acts which try to promote its legitimate interests.

Obligations: It has to keep a list of members. Its funds must be spent for certain purposes only; and its accounts must be regularly audited and sent to the Registrar every year. At least half its officials must be employees in the particular industry.

Effects: The Act gave trade unions stability and increased their sense of responsibility. It gave legal status to registered unions and also raised their status in the eyes of employers and the public. As a result unions gained self-confidence.

Trade Unions were also affected by laws dealing with disputes, which we have already surveyed.

(C) Difficulties and Weaknesses of the Movement

Illiteracy and Ignorance, Outsiders: These handicaps of workers weakened the movement in several ways. The labourers had no clear idea of the work of the unions and of how they promoted their own interests. They could not take a long-term view and were easily misguided. Nor could they supply union leaders. Only such leaders (from among the workers) would have the technical knowledge, sympathetic insight into labour's problems and sense of responsibility towards the unions. In their absence, outsiders took up union organization as philanthropic work and many of them had several unions each in their charge. Sometimes they were more interested in promoting certain political ideas than in genuine trade union work. Another result was fragmentation: a factory often had more than one union, which reduced the effectiveness of unions.

Poverty: The workers were too poor to pay membership fees regularly, though they were small. Even today, and in an advanced State like Maharashtra, forty per cent members pay subscriptions at the rate of less than Rs. 0.25 per month and fifty-five per cent pay Rs. 0.25 to Rs. 0.50. Thus only five per cent pay more than half a rupee each per month. Yet the payment is irregular, inflicting a loss on unions of 25—30% of their income. The result is that union finances are poor. The trade unions cannot, therefore, have full-time paid officials, research workers or technical experts. Nor can they arrange for training their officials or issuing trade union journals.

Cosmopolitan character: Further, as India is a large country, the workers at the big centres come from distant parts of India; and so there are differences in language, habits and customs. There are also differences of religion and caste. Thus it is difficult to organize labourers into compact, well-knit unions.

Migratory character: The labourers did not depend on factory work only; they had some land in their villages. So they went away to their village homes during a long strike, or a period of unemployment, and took their time over returning.

Opposition: Among other difficulties, there was active opposition of Government, employers and jobbers to the formation of trade unions. Union leaders were harassed and victimized, demoted and dismissed. Up to 1926 there was also legal liability, civil and criminal, which union officials had to face in conducting strikes etc.

Other weaknesses of the movement are brought out in the next section.

(D) The Growth and Position of the Movement

The following table gives an idea of the growth of registered unions.

Year	No. of unions	Members — in lakhs
1931-32	131	2.4
1935-36	241	2.7
1939-40	667	5.1
1943-44	761	7.8
1947-48	2766	16.6

The position of the Movement. Its weaknesses. Splits: The table shows stagnation in the movement during the Great Depression and rapid growth thereafter, particularly after 1943-44. One weakness becomes worse: the number of unions increased faster than the number of members, i.e. average membership of unions fell. This means splits and fragmentation — more than one union in a factory. The result is smaller unions, with weaker finances, and unhealthy rivalry. All this reduces the effectiveness of trade unions.

Other weaknesses: The movement remained weak in other respects also. Only a small proportion of workers joined it and, further, a large part of the membership was confined to one Province, Bombay. Again, a substantial portion of the membership was non-industrial consisting of seamen, railwaymen, post and telegraph workers etc. Further, unions could not pass the basic test : to stand on their own and bargain with employers on equal terms; there was hardly any collective bargaining. The funds of unions were very small, so that they could not have full-time, paid officials or technical experts, or engage in research or training.

Since Independence: The post-1947 figures, as given in 'India 1966' and 'India 1967', are tabulated below. They show that one weakness, which became worse in earlier years, is still more prominent since Independence. The number of

members is more, particularly in 1963-64; but the number of unions increased faster, especially in 1955-56. Thus there is a further growth of splits and fragmentation. However, this is not true of Central unions, whose number became less than 3 times, but whose membership increased to $3\frac{1}{2}$ times, between 1955-56 and 1963-64. There is also an improvement in the

	1955—56			1963—64		
	Central Unions	State Unions	Total	Central Unions	State Unions	Total
No. of Unions on registers	174	7,921	8,095	506	11,194	11,700
No. of Unions returns	105	3,901	4,006	390	6.791	7,181
Membership of the latter submitting in lakhs	2.13	20.62	22.75	7.20	32	39.20

proportion of unions submitting returns. This was only about a half in 1955-56; it became more than 60% in 1963-64. In this too the record of Central unions is better than that of State unions — and it improved more in the 8 years covered by these figures. The former also accounted for a much larger proportion of the membership at the later date.

Collective Bargaining since 1947: Since Independence, however, there has been a good deal of collective bargaining of the passive, active and dynamic types at the national level and at the level of the industry and the undertaking (factory, mine etc.) This is presented, along with a Note, in *Table 16*.

(E) National Organisations

The All-India Trade Union Congress (AITUC) was formed in 1920 to send delegates to the I. L. O. Conference.

There was a split in 1929 over boycotting the Royal Commission on Labour, and another split in 1931. Re-unification started in 1933 and was completed by 1940. But it did not last long. After the War, four such bodies emerged as important all-India organizations, three of them attached to political parties. This, again, contributed to the weakness of the movement.

There were also separate national federations of postal workers, railwaymen and textile labourers.

(IV) Wages and Debts

Wages

Act of 1936: The most important labour problem is that of wages. They were extremely low, but nothing was done about it by Government till half a century after the first Factory Act. Even then minimum wages were not fixed, even for the most exploited workers. There was only a regulation of the period and time of payment—and of deductions from it. This assured regular payment of wages and prevented arbitrary deductions. It was achieved through the Payment of Wages Act, 1936, and the title is significant.

It applied, in the first instance, to workers earning up to Rs. 200 per month, in factories and on railways. Later the Act was applied to other classes of industrial labour, mainly through Provincial measures. It laid down that the wage period was not to exceed a month. Wages should be paid by the seventh day after the last day of the wage period, in units with less than one thousand workers each; in others, by the tenth day.

Deductions. Fines: Deductions from wages are allowed in certain authorized cases only. Fines are permitted only for absence and damage or loss of goods or loss of money; but not from children under fifteen. The total amount of fines should not exceed half an anna in the rupee of wages (i.e. about three

per cent) and it must be used for the benefit of workers. Other deductions are allowed for housing or other services and for income-tax, provident fund, co-operatives etc.

Debts

Four types of Laws: Wages were so low that many workers got into debt. This was especially so in the beginning of working life, when a new labourer had to wait for five to six (or more) weeks before he received his first wage. The rates of interest were very high—one anna per rupee per month was quite common (i.e. 75% per year)—and there were other disabilities of workers in debt. Four types of laws, most of them Provincial, were passed to remove some of these. They were all based on the recommendations of the Royal Commission on Labour.

(I) Against attachment of Wages, 1937: The Government of India amended the Civil Procedure Code in 1937, exempting from attachment wages of all workers getting less than Rs. 100 per month. In their cases, the creditor could not get anything out of the wage through any Court of Law.

(II) Against Imprisonment for Debt, 1934, 1936: An Act was passed in the Punjab in 1934, prohibiting the imprisonment of a debtor, unless he refused to pay a sum within his capacity. The Government of India amended the Civil Procedure Code in 1936, disallowing the imprisonment of debtors, except where property is dishonestly transferred, or the debtor is likely to go away from the place.

(III) For Liquidation of Debt: *The C.P., 1936*: The Central Provinces Act of 1936 applied to industrial workers earning up to Rs. 50 per month. They could apply for liquidation of those debts which exceeded their assets plus three months' wages. The Court was to consider the number of dependants. The total interest must not exceed the principal sum, i.e. the rule of 'damdupat' (double money) was laid down.

(*IV*) *Against besetting of industrial establishments*: To recover their dues, some moneylenders (e.g. Pathans) relied upon violence, the 'lathi' court, as it is called. For this purpose they waited for the workers at the gates of the factories, etc. Several Provinces passed laws to prevent this. Under the Bengal Act of 1934, such conduct was punishable with fine or imprisonment or both. The Act applied to factories, workshops, etc. in Calcutta and three surrounding areas. In 1940 it was extended to several other types of labour. The Central Provinces passed, in 1937, an Act on similar lines, but with a wider scope. In Madras also a similar Act was passed in 1941, to deal with Pathan moneylenders in Madras City. The Bihar Act of 1948 was similar to the Bengal Act. Thus Bengal provided the model for the last three Acts, but these Provinces took their time over the matter.

Remarks: In spite of all these Acts, workers continued to be heavily in debt. Further, laws may prohibit the besetting of factories, but then homes could be beset. Besides, jobbers were also moneylenders. The basic fact was that, with their meagre wages, labourers were forced to borrow. A better approach, therefore, would have been on the following lines: wages should have been increased and paid on a weekly basis. Bribery for recruitment, promotion and retention of the job was another factor, which is difficult to remove. Co-operative credit was successful in several cases and should have been extended. A Minimum Wages Act was passed after Independence in 1948. Wages have also been increased through Wage Boards; and a Bonus Act, too, has been passed.

Administration of Labour Legislation

We have now studied all the important labour laws, some of them very elaborate. But they do not serve their purpose if they are not properly enforced. While the legislation grew and became more complex with the passage of time, the inspecting staff was not reinforced or even reorganized. Indeed no separate inspecting staff was provided for properly enforcing the Acts dealing with workmen's compensation, maternity benefits and trade unions. In those cases where inspectors were appointed, they were overburdened with a variety of duties, spread over a wide area. The result was that many prohibited practices continued.

Further, Factory Inspectors were not adequate in number, nor sufficiently qualified and trained to perform their duties effectively. There was much evasion of laws in small and seasonal factories particularly. This was encouraged by light punishment even for repeated offences. The Centre passed the laws and left it to the Provinces to enforce them; there was no Central inspecting staff to co-ordinate the work.

Questions for Revision

1. **What were the influences that brought about labour legislation in different periods in India before Independence?**
2. **Give a bird's eye view of the progress made by labour legislation in India in different periods before 1947.**
3. **Bring out the steps by which working conditions in factories were improved in India.**
4. **Outline the history of social insurance in India up to the dawn of Independence.**
5. **Narrate the history of trade disputes in India, with special reference to their causes and results.**
6. **Give a brief account of laws dealing with industrial disputes in India prior to 1947.**
7. **Describe the development of the Trade Union Movement in India before Independence, with particular reference to its difficulties and defects.**
8. **Bring out the principal features of legislation passed in India, before 1947, to tackle the problems of workers' wages and debts. How far was it effective?**
9. **"Much was achieved by labour legislation in India before Independence, but much also remained to be done." Discuss.**

Chapter X

RAILWAYS

We saw what a crucial role railways played in the large changes brought about in both agriculture and industry. It is time, therefore, to turn to railways.

Railways and Canals: In Europe and America railways and canals are two branches of the transport system. In India, however, the canals are mostly for irrigation, rarely for navigation. Yet they had some things in common with railways. For one thing, private enterprise would not extend either, so the Public Works Department took charge of both. And there was the same original reason for undertaking both—protection against famines. During 1870-1900 a very keen controversy took place over the respective merits of the two for that purpose.

History of Railways

(I) 1853-69. Guaranteed companies: The development of railways in India, like that of roads, began under the vigorous Dalhousie; he wrote two very able minutes on it. The first line, between Bombay and Thana, was opened in 1853 and the 1860s saw a remarkable growth—by about 5,000 miles. There was tremendous progress between 1879 and 1900, from 7,200 to 25,000 miles. The table below gives the mileage at different dates. The fall after 1933 is due to the separation of Burma railways in 1937 and of Pakistan in 1947.

Year	Miles
1859	432
1869	5,000
1879	7,200
1900	25,000
1913-14	34,700
1925-26	38,600
1933	43,000
1947	34,000
1960-61	35,400

The building of railways up to 1869 was in the hands of British Companies, who were given free land and were guaranteed an interest of 5%. There was, therefore, no inducement to economy or good management. To make up the 5%, Government had to pay large yearly sums. In 1854-98, the loss was Rs. 58 crores; after that, there were profits up to 1930, when the Great Depression intervened.

(II) 1869-79. Government Construction: After this unhappy experience, Government took over the building of railways in 1869. But in ten years, only 2,200 miles were built (compared to 4,600 in 1859-69), because of financial difficulties and famines. And the Famine Commission of 1878-1880 urged quick railway extensions, so the work was again entrusted to private companies.

(III) 1879-1914. Private "assisted" companies (or "New Guarantee System"): These companies, too, were given free land and financial help, but the interest guaranteed was lower, 3.5%. Government also claimed a larger share of profits, generally 60%, compared to 50% of the surplus (after deducting the guaranteed interest of 5%) in the earlier system.

When the contracts with the old guaranteed companies expired, Government mostly purchased the lines, which were managed by the State in some cases. So there were four types of railways: State-owned and managed by either the State or the companies; and private, which were managed again, by either the State or the companies. By 1914 the major part was State-owned.

1893. The Rebate System: From 1893 a rebate was given to companies building approved branch lines. The terms were liberalised in 1898, which resulted in a large number of feeder lines. When the terms were further liberalised, there was a mild boom in feeder-building. The mileage grew rapidly in 1900-1913 from 25,000 to 35,000 miles. But the system was abolished under the recommendations of the Acworth Committee of 1920-21; and Government themselves found the capital for extensions or branches.

In the meantime, in 1905, were set up the Railway Board and a separate Railways Branch of the Public Works Department. With 1914 came a great landmark in the form of the First World War. Further, our railway policy had developed some peculiarities. Before taking up the impact of the War on our railways let us, therefore, look at these peculiarities.

Railway Policy, its Peculiarities

Routes: The railway routes were not intended to develop internal trade or industry, by joining trade points and building feeder lines. There were grand trunk lines linking the big ports—Bombay, Madras and Calcutta—with big cities in the interior like Delhi. The routes were intended to facilitate not internal trade, but foreign trade, particularly agricultural exports—the routes from ports passed through important agricultural districts.

Rates: This left a mark on freights and hampered industries later. The rates were favourable for raw materials moving to the ports. The policy had adverse effect specially on the coal industry and on industrial centres in the interior. Industries became concentrated at the ports and foreign industries also benefitted. The rate policy was severely criticised by the public for other reasons too. The policy was to charge high rates, rather than to develop traffic; the guarantee took away all incentive to develop traffic; Government failed to influence the rates policy. The companies charged block rates to divert traffic from one another. There were many special rates and sometimes the rates for a shorter distance were higher.

Management: As we saw earlier, the major part of railways was State-owned by 1914, but they were chiefly managed by companies. This resulted in several evils. The advantages of a common policy were not available. Nor did the companies

have a free hand, so their smooth working was obstructed. There was meaningless competition for traffic, which was harmful to the country. On the other hand, the companies neglected developing local industries and internal trade.

Having studied these peculiar features of our railway policy, we now resume the history of railways.

(IV) 1914-30. Large changes. War: During the First World War, railways were in great difficulty. The demand for their services increased, they had to carry troops and war stores. On the side of supply, however, there was much deterioration in equipment, due firstly to Government's inability to spend. Besides, rolling stock, railway stores etc. were sent for the war in Iraq. Lastly, railway facilities were inadequate from 1905 onwards, now they became very much worse. During the post-War boom, therefore, the shortage of wagons and railway accommodation became unbearable.

To meet this situation, Government appointed a Controller of Traffic in 1917, and later a Central Priority Committee. A Coal Controller was also appointed to deal with the purchase and transport of coal. But the big change came after the War, through the Acworth Committee's recommendations.

Acworth Committee, 1920-21

Separation of Railway Budget, 1924: This Committee's proposals largely shaped the later policy. It was appointed to examine the question of management of railways and other related problems. It urged the separation of the railway budget from the general budget. This was done in 1924. The railways were to make an annual contribution to the general revenues. The new system has several advantages. Railway finances are freed from the yearly uncertainties of the general budget. Railways can build up reserves and undertake elaborate programmes, to be carried out over a long period. The earlier policy led to wasteful expenditure, halting and irregular development and inadequate expenditure on maintenance and renewals; all this would now change for the better.

Railway Rates: We have seen the several reasons for the severe public criticism of the rates policy. The Acworth Committee recommended the setting up of a Rates Tribunal and of representative Advisory Railway Councils, for improving the relations with the public. A Rates Advisory Committee was appointed in 1926, to report on complaints against particular rates; but no Rates Tribunal was set up.

Management: Half the members of the Acworth Committee recommended that the State should take over the management of railways as contracts expired, the others wanted no change. Public opinion was with the former and the Legislative Assembly resolved that Government should manage the State-owned lines. The E. I. and G. I. P. Railways were thus taken over in 1925; and the rest by 1944, on the expiry of contracts.

Rehabilitation of Railways, 1918-30: Just after the War, the railways undertook a large programme of repairs and renewals. After 1921 the defects in equipment were speedily removed, there were also technical improvements and additions to rolling stock. The result was a very large surplus of wagons by 1926. In 1926-30, the railways continued to do very well. They followed a continuous and bold policy of expansion; and useful branches and feeders were constructed. The total mileage went up from 34,700 in 1913-14 to 42,300 in 1930-31.

Summing up: Thus railway policy was completely changed after the War. For one thing, the railway system became very largely a State system, e.g. in 1927 72% of mileage was owned by Government and 40% managed by it. The meaningless competition between railways was mostly removed and there was much more co-ordination. Lastly, railway policy became more deliberate and, to some extent, responsible to public opinion and alive to the country's needs.

Motor transport: The coming of the motor car made road transport extremely important. Thus a new revolution in transport began. In the beginning, motor transport was supplementary to railways; but later it became a serious competitor for passenger traffic. There was thus an obvious need to co-ordinate the two.

(V) 1930-39. The Great Depression. Committees: From 1930 the Depression hit the railways very hard and there were several deficit budgets. The Pope Committee of 1932-33 made several recommendations; as a result, 'job analysis' organizations were set up to promote economy and efficiency.

The Wedgwood Committee, 1936-37, was appointed to suggest how to reorganize railway finances for achieving economy and efficiency. Its recommendations included a satisfactory Depreciation Fund, with a normal balance of Rs. 30 crores; a General Reserve Fund to serve as an Equalisation Fund for payment of interest; revision of rates and fares; rail-road co-ordination and better relations with the public.

(VI) 1939-47. War: Severe Strain: The Second World War, like the First, imposed a severe strain on the railways. The demand on the railways grew heavily because of war needs, substantial reduction in coastal traffic and the closure of the Bay of Bengal. On the other hand, as in the First War, rolling stock and track were sent to the Middle East; several railway workshops took up production of ammunition; and repairs and replacements could not be undertaken. As at the end of the First World War, therefore, railway equipment had greatly deteriorated by 1945.

Finances improve: But there was a tremendous improvement in railway finances. The position in 1946, compared to 1939, was as follows: arrears to general revenues (which were Rs. 35 crores) were paid off, as also later dues; so also the loan of Rs. 30 crores from the Depreciation Fund, which in fact increased to Rs. 101 crores; the Reserve Fund rose from Rs. 48 *lakhs* to Rs. 29 *crores*.

Since 1947: Since Independence, there has been rehabilitation and modernization of assets and a number of improvements have been introduced: the 37 railway systems have been grouped into 8 zones and telescopic rates introduced; a number of trains, including 'Janata' trains, have been added; amenities for both staff and passengers have been extended; rolling stock etc. is being produced in increasing quantities and even exported. The 10-paise postage stamp, with its electric locomotive, is a symbol of this last development.

Economic Effects of Railways

Railways had a tremendous impact on every aspect of India's economy. Let us now analyse these effects.

Revolution in Transport and, therefore, in World Economy and Indian Economy: The steam engine, it has been said, has played a more important part in the history of the world than all the battles ever fought. One set of its effects is through steam transport, i.e. through railways and steamships. These brought about a great revolution in transport which, in its turn, revolutionized the economic structure of the entire world and made it one market. The same thing happened to India, which passed through an economic transition. Let us, then, see these changes in detail.

Aims of Railway-building

Agriculture: The aims of railway building, in so far as they were achieved, became also the effects of railways. Among these aims was the promotion of agricultural exports. The routes and rates, as we saw earlier, were intended for this purpose. The railways made possible the export of large amounts of raw cotton, oilseeds and other cheap agricultural products. Thus the composition of our foreign trade changed —for the worse; for instance, instead of exporting cotton (and other) *manufactures*, we began importing them—and exporting *raw* cotton etc. But to export these cash crops, we had first to produce them. The railways thus encouraged the cultivation of more profitable crops, i.e. commercialization of agriculture which, in turn, led to localization of crops. Another principal reason for the extension of railways was protection against famines. In this they were a great help—and the nature and importance of famines changed, as we saw in Chapter III.

Coal-mining, etc.: Still another aim of railway construction was to open up the coal-fields. Railways supplied the cheap transport, without which coal-mining is not profitable. They are also a very important source of demand for coal. Thus railways and coal-mining helped each other. A final general aim was to improve the economic condition of the people. This was brought about as shown above—and also in the discussion that follows. There were also certain harmful effects which, too, are indicated below.

Other Effects

Transport, trade and prices: The most obvious effect of railways was that transport became much quicker and, especially for long journeys, much cheaper. Trade depends very much on means of transport and so it was also affected in various respects. For the first time, there developed trade in cheap, bulky and heavy goods; and also in perishable goods, like fruits, vegetables and milk. The result was a huge increase in the volume of trade. Markets became wider and better organized. Methods of trade were revolutionalized. The railways also levelled prices, especially of foodgrains. Thus there is a uniformity of prices and India has become one market. (Compare the position in about 1800, as given in Chapter I.)

Towns: The increase in trade created new towns and enlarged old ones. But railways also diverted some trade routes, thus leaving aside several old towns which, therefore, decayed, e. g. Mirzapur, Saugor and Patna.

Agriculture: We have already seen the effects on agriculture, while discussing the aims of railway construction.

Industries: The railways helped the growth of industries like coal and cotton. But the routes and rates were so devised that Indian industries could not get full benefit from this new transport. Further, the steamship made possible the import of cheap, machine-made goods from the West; and railways distributed them throughout the country, with the help of roads, markets and fairs. This cripped our handicrafts and broke down the self-sufficiency of the village. There was a sudden, dramatic and complete collapse of handicrafts: but where they survived, the middleman became indispensable and he had to introduce new methods, to survive the competition from the West. Another class to suffer like the artisans was the one supplying transport through pack-bullocks, bullock carts and boats.

Thus the railways brought about an economic transition in India. The Indian market and Indian products—raw and finished—were brought closer to the West; there was a direct impact of the Western economy on the Indian; and the entire economic structure of India was terribly shaken up.

Questions for Revision

1. Describe the main features of the various periods of railway development in India.
2. What were the peculiarities of railway policy in India before 1914? How were they changed later?
3. "Steam transport had a tremendous effect on every aspect of India's economy." Discuss.
4. Outline briefly the history of Government's policy regarding railways in India.

Chapter XI

FOREIGN TRADE

Trade follows transport. The better the means of transport, the greater is the trade. After railways, therefore, we study the foreign trade of India. The details for the years 1700 to 1947 are given, period by period, in a table with several columns, *Table 17*. Let us, then, take these ten periods one by one and survey the developments in each, as also interrelations between the various columns for each period.

(*I*) *1700-1800. Break-up of the Mogul Empire*: Early in the 18th century, India exported not only tropical produce like spices and indigo, but also industrial products including sugar and minerals, yarn and piecegoods made from cotton and silk. But with the break-up of the Mogul Empire no central authority was left; law and order, therefore, suffered and so did trade.

After 1750. British Rule; Industrial Revolution in England: From 1757 came British rule and, about the same time, the Industrial Revolution in England. The two together resulted in the East India Company's policy to discourage India's industries; and the effects of this policy are seen in the periods following. The Company had also a monopoly of trade and the share of Indians in their own country's trade declined.

(II) *1800-50. Composition of trade: position reversed*: Now our shipping also suffered due to competition from British steamships; we had once a prosperous shipping industry. And the same unfavourable trade policy continued. 70% was a common level of duties on Indian industrial products in

England, but British manufactures were allowed in India at nominal duties. On the other hand, Indian products had to pay much more in India. To this trade policy were added the new means of transport, roads and steamships, which helped to import and distribute British manufactures; and to export cheap and bulky food and raw materials. One result was a further decline of Indian handicrafts. Another was the change in the composition of trade. India became an exporter of food and raw materials, particularly raw cotton and jute, hides and oilseeds. And she began to import large amounts of manufactures like sugar and metal products and particularly cotton yarn and piecegoods. The imports of piecegoods accounted for half the value of total imports about 1850. Naturally, the share of the U.K. in our foreign trade increased.

(III) 1850-1900. Modern Period begins. The New Transport: Now comes the beginning of the modern period in our foreign trade. It was ushered in by further improvements in the means of transport and communication like railways and roads, post and telegraph. Dalhousie was instrumental in the building of roads and railways in the beginning of this period. The first railway was opened in 1853 and there was a rapid extension in the later decades. Other developments in transport were the growth of the British mercantile marine and the opening of the Suez Canal.

The Suez, 1869: The Suez Canal is a great landmark in the history of international trade, particularly between Europe and the East. For them, it cut down shipping distance by more than 4,000 miles. For example, the distance between London and Bombay is about 10,700 miles round the Cape of Good Hope, but only 6,300 miles via Suez, i.e. 40% less. By the former route, therefore, a round trip took 54 days; by the latter, 31 days. Hence the opening of the Suez resulted in lower freights and insurance charges, more safety, larger steamships, quicker turnover and, therefore, saving in interest charges. No wonder, then, that the volume of trade increased enormously.

Composition of Trade. Exports: The other large change was in its composition. The reduction in all transport costs promoted trade in cheap, bulky and perishable commodities. As to the last, for example, before the Suez was opened, wheat from India to Europe had to go twice through the tropics by the Cape route. That being eliminated, it reached Europe now in sound condition. Between 1875 and 1885, therefore, its export was doubled and in the next ten years it was trebled.

Another difficulty of the Cape route was the dangers and delays from monsoons and storms. The use of the Suez route assured more safety and, therefore, lowered insurance rates. The arrival of ships could be timed more accurately, so there was a substantial decline in freights. What is true of perishable goods is truer still of other cheap and bulky commodities. The total result, therefore, was a tremendous increase in the export of raw materials from India.

The Closure of the Suez, 1967: But the Canal has been closed since June, 1967, from the time of the Arab-Israel War. This has involved our foreign trade in great difficulty and loss. The Cape route has to be used again and so there are delays and higher costs and freights. We had, therefore, to import food from other sources like Australia; imports are more costly and exports too suffer.

Huge growth in trade: British rule spread over the major part of India by 1857, assuring security of life and property and uniformity of administration (including a uniform currency from 1835). All these developments resulted in wider markets, increasing production of export crops and their localization and revolution in methods of trade, e.g. exporters built up an efficient market organization. Thus there was further stimulus to the expansion of India's foreign trade by a huge amount.

After 1872; Slowing down: After 1872 the increase slowed down, due largely to famines in 1870-80 and in 1896-1900.

Another major factor was violent changes in the external value of the rupee, which fell from 2 sh. to 1 sh. 4d. in 1872-93.

Imports: But England had become the 'workshop of the world', adopted a free trade policy and forced it on India also. Cotton mill interests in Manchester (in Lancashire) brought pressure for the removal of most of the import duties in India by 1882; for the passage of Factory Acts in India in 1881 and 1891 (on the ground of 'unfair competition'); and for the levy from 1894 to 1926 of excise duties on Indian mill cloth, though it was coarse and hardly competed with Manchester products. All this helped Britain to pour her manufactures into India, whose handicrafts, therefore, declined further. The result was a great increase in the import of manufactures like cotton piecegoods, hardware, machinery and railway materials.

Exports: And the majority of our exports were cheap and bulky goods, i.e. agricultural products. They included perishable foodstuffs like wheat and Burma rice and raw materials; there was a rapid growth in the export of tea and coffee, raw cotton (to Japan, for example, from 1890) and raw jute, oilseeds and hides. The new transport was a big factor in this development.

The U. K. predominates: Of course, the U.K. predominated in our foreign trade. There was its political hold and in particular, control over fiscal policy. There was British control again over our railways. There were the British commercial organizations and British companies in India. The exchange banks financing our foreign trade were predominantly British; there were the British shipping, insurance, trading, coal-mining, plantations. Thus the British could control our foreign trade at several key points.

20th Century—Cycle of Ups and Downs

We have divided the first half of the 20th century into half a dozen periods. They reveal a regular cycle of improvements and setbacks.

(IV) 1900-14. Favourable period. Change in direction begins: Conditions at home and abroad were favourable in this decade and a half. At home, there were hardly any famines; railways and irrigation were extended and the rupee was stable at 1 sh. 4 d. Abroad there was prosperity, more gold production and rise in prices. The result was a doubling in the value of both imports and exports of India. Chiefly because we had to pay 'home charges' to England, our balance of trade was generally favourable; and it increased in this period. In both exports and imports, diversion from the U.K. began and continued in the next three periods, i.e. up to 1929. In our import trade, the competition was from the manufactures of Japan and the U.S.A., France and Germany, which had industrialized during the last quarter of the previous century.

(V) 1914-18. War. Heavy fall in imports: The War came as a bombshell in this situation. Trade with enemy countries was stopped and there were acute transport difficulties, especially in shipping. There was a huge demand for transport, for carrying soldiers, sailors and war stores, but submarines destroyed a large number of ships and all transport was dislocated. Ships were scarce and freights high. Even otherwise, the countries at war imposed restrictions on production, which had to be diverted to supply war goods; so our imports from the Allies declined, while those from the enemy countries had been stopped completely. As a result, total imports fell and manufactures from Japan and the U.S.A. replaced those from England to some extent; thus the diversion of trade from England continued.

Exports. Change in composition: Regarding our exports, there was a decrease in the proportion of foodstuffs and raw materials; and an increase in the share of manufactures from 22.4% to 36.6%, a heartening improvement. It was the result of reduced foreign competition and of a favourable Government policy. There were heavy import duties for financing the War and for shutting out manufactures from Japan and the

U.S.A.; these duties served as protection to industries at home. To encourage the production of war goods, Government adopted a favourable industrial policy: Government factories were started, a Munitions Board set up, an Industrial Commission appointed. (The details are given in Chapter VI.) Thus our industries were stimulated and the exports of manufactures increased considerably.

Volume. Terms of trade: The total volume of foreign trade declined by 34% and the larger fall in imports increased our favourable balance of trade. This fall in foreign trade, combined with increased purchasing power, stimulated internal trade. The huge war demand raised prices of manufactures by about 170%, but agricultural prices increased by about 50% only. Thus the terms of trade turned against India, as her imports were mainly manufactures and the exports were chiefly agricultural products.

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(VI) 1918-23. Unfavourable period: We now come to the inter-War period, 1918-39. Though peace returned, and wartime restrictions disappeared gradually, a number of factors continued to disturb our foreign trade. Among the external influences there were the short-sighted Treaty of Versailles, heavy tariffs, exchange dislocations and departure from the Gold Standard, deflation in England and hyper-inflation in Germany and a general depression in 1920-22. The internal factors included the failure of rains in 1918-20, the artificial exchange of 2 sh. gold imposed by the Babington-Smith Committee, deflation and fall in prices leading to strikes and inactivity. The results were: both exports and imports fell, an adverse balance of trade appeared in 1920-22; the terms of trade were against India, as in the previous period. This last development was the result of high exchange, which stimulated imports, and famines which reduced exports.

Composition: The only encouraging feature was that the composition of trade remained favourable: there were more manufactures in exports and less in imports (like piece-

goods). This was the result of increased industrialization which was due, in part, to a change in Government policy. 'Industries' became a Provincial subject in 1919 under the Montagu-Chelmsford Reforms. The Provinces established departments of industries, some of which offered technical aid, trade information and help in starting industries. There was also the boycott of British goods during the Non-cooperation Movement. An adverse development also took place; we had become a substantial exporter of *raw* cotton to Japan; up to 1890 we supplied her with cotton *yarn*.

Direction: There was a further fall in imports from England, while the share of the British empire increased. We were now trading with most of the important countries in the world; a good development, as it is risky to depend upon a few countries (or a few commodities) for either exports or imports.

(VII) 1923-29. Improvement. Abroad: There was a change again—this time for the better: there were favourable developments at home and abroad. The world situation improved both politically and economically. Europe, for example, was now normal in both respects. All over the world there was recovery from the depression of 1920-22 and England was again on the Gold Standard from 1925. The result was gradual recovery in India's foreign trade, until the pre-War volume was surpassed in 1927-28.

At home. Protection: At home, Government adopted the policy of discriminating protection for industries in 1923, thus granting protection to about a dozen industries, including cotton, iron and steel and sugar. There was, therefore, considerable increase in exports of manufactures like cotton and jute products and a fall in the imports of manufactures. The export of foodstuffs also recovered from the heavy war-time decline. Again, a substantial adjustment was brought about between our export and import prices. For the fourth successive period the U.K. continued to lose ground, particularly in our import trade. It was its old rivals in the Indian market, Japan and the U.S.A. who gained, as also Germany.

(VIII) 1929-35. Setback. The Great Depression: Since the beginning of the 20th century, our foreign trade had been passing through ups and downs. This period again saw a change; the improvement in the previous period was followed by a major disturbance now. The Great Depression of 1929 onwards saw a collapse of prices, particularly those of agricultural products, all over the world. Further, India's imports did not fall as much as her exports; there was a considerable decline in the export of foodgrains. Our exports were largely agricultural products and their prices, as we saw, fell more than those of industrial products. These developments, combined with the smaller decrease in the volume of imports, turned the terms of trade once more against India. The acute distress among farmers resulted in the sale and export of huge amounts of 'distress gold'.

Composition: The only redeeming feature of the situation was the heavy fall in the imports of certain manufactures like sugar, cotton piecegoods and iron and steel products. That was mainly the result of discriminating protection, which shielded these industries—and they raised their production. There was also the 'Satyagraha' Movement against British rule in the early 1930s; the Movement stimulated the use of 'swadeshi' (Indian) products, especially cloth and sugar. On the other hand, there was a heavy fall in the export of twist and yarn.

Trade agreements—change in direction: There was a movement in England for protection—and Imperial Preference—from the end of the 19th century. Then followed three decades, in which England lost ground, in her foreign trade with India, to countries which had industrialized by then. She had a huge unemployment problem during the Depression and had to leave the Gold Standard again in 1931. So the policy of Imperial Preference was adopted in 1932, under an agreement at Ottawa (in Canada). The members of the British Commonwealth and Empire offered one another preferential treatment in tariffs. The Indo-British Trade Agreement supplementary to the Ottawa Agreement was signed three years later. In the meantime, there was the Mody-Lees Pact between India and Lancashire in 1933, which was terminated in 1935. As a result of all these Agreements, trade with the British Empire grew, particularly imports from the U.K., at the cost of the U.S.A., Java, etc.

Recovery from 1933: From 1933 world trade was recovering. Hitler came to power that year and began arming; his neighbours had to do likewise. The armaments race was on again and the head on collision occurred in 1939. Meanwhile that race helped the movement towards recovery, world trade grew and so did India's; our exports and balance of trade improved. The Trade Agreements helped the process; there was one more with Japan in 1934.

(IX) 1935-39. Revival: At last the Great Depression was over and trade revived all over the world, yet world trade was 15% less in volume in 1936-37 than in 1929. India shared in the revival and her exports particularly increased substantially. This helped to improve her balance of trade.

Another factor that helped was the increase in agricultural prices. This was the result of exhaustion of stocks and restriction on production during the Depression. Thus export and import prices for India moved nearer. Another happy feature of the period was the continuation of the development of industries, for which more machinery was imported. But Burma was separated under the Act of 1935 and so we lost her rice, petroleum and timber, silver, zinc and lead.

Exports: The revival in exports was specially notable in raw cotton and jute manufactures. Raw and waste cotton accounted for 23% of our exports in 1936-37 and jute manufactures for somewhat less than 15%. Tea was third with about 10% and oilseeds were a close fourth. Grains, pulses and flour came next. Lastly, we may note raw jute (7.5%), leather (less than 4%), hides and skins (more than 2%), metals and ores (4%) and cotton textiles (2%). Manufactures thus still played a very minor role in our export trade, in spite of modern industry being more than eighty years old.

(X) *1939-47. War. Comparison with the First War:* The effects of this War were similar to those of the First World War. There were acute shipping difficulties; bombing was added to the submarine menace of the first War. So freights and insurance charges rose steeply. France fell early during this War. As in the first War, again, trade with enemy countries was stopped and even trade with some neutrals, for fear of leakage of goods to the enemy. These developments, as in the first War, resulted in a fall of both exports and imports, particularly the latter; so our balance of trade too was very favourable in both Wars.

***Composition*:** Since the first War, the proportion of manufactures in our exports had been rising, a sign of industrial growth; and that happy feature is notable in this period too. This was particularly true of jute and cotton textiles. Industrial growth also reduced the proportion of raw materials in our exports during both the Wars.

***Direction*:** Regarding the direction of trade, as we saw earlier, there was no trade with enemy countries and some neutrals. The other countries, therefore, claimed a larger share than before. These included particularly members of the British Commonwealth and countries of the Middle East (where we captured new markets). The latter took our manufactures in place of those of Germany and England. But the share of the U.S.A. in our trade increased much more; in the first War, along with Japan, it had captured part of the Indian market, but now Japan was an enemy country.

***Government attitude*:** As in 1914-18, Government introduced a system of controls, priorities and licences. But the basic attitude of Government did not change. It remained obstructive to rapid industrialization by India, in spite of disasters. For example, two reports on raising industrial production in India were not even published here. Nor did Government accept proposals for producing several means of transport, though their acute shortage was hindering war production. But for this attitude, the production and exports by our industries would have been much greater.

Summing up. Two broad facts: This survey reveals two broad facts, obvious but vital. Firstly, all sorts of economic changes are reflected in a country's foreign trade, whether it is famine or commercialization of agriculture, decay of handicrafts or industrialization, decline of our shipping or of the share of our traders, developments in transport or in currency and exchange. Thus all the threads of economic change meet in the country's foreign trade. The second fact is that the world has become one market and so our foreign trade is affected by events abroad: Industrial Revolution and mechanical transport, war and depression, political troubles and economic instability—all these developments abroad had a profound influence on our foreign trade.

The Table. Other uses: With the help of *Table 17* we have studied the principal developments, in each period, and also the interrelations between these developments. There is another fruitful way to use his type of tables, and that is to study each (vertical) column from top to bottom. Thus we can survey the changes in exports, period by period; and similarly changes in imports, in direction, in balance of trade (under "other features") and so on. Such a 'vertical' use of this type of tables is illustrated in the discussions on the cotton (mills) industry (*Table 7*), Factory Acts etc. (*Table 12*) and Currency Commissions (*Table 18*). As mentioned earlier (in Chapter VI), the column on "Trade Policy" sums up the history of Government's industrial policy, as narrated in that chapter. The column may, therefore, be used for revision of that problem also.

Since 1947: The developments since 1947 include the signing of the G. A. T. T., the devaluation of the rupee (1948), along with that of the pound, the crisis in balance of payments and foreign exchange, radical changes in the policy of protection and in imports and exports and the establishment of the State Trading Corporation; and the second devaluation of the rupee in 1966. We have already surveyed the latest (1964) position of export industries at the end of Chapter VI.

Questions for Revision

1. Describe the influences that brought about changes in the composition and volume of India's foreign trade in the 19th century.
2. Bring out the changes in the composition and direction of India's foreign trade between 1900 and 1947.
3. "All the threads of economic change meet in a country's foreign trade". How far was this true of India?
4. In what ways did trade policy affect our foreign trade in different periods?
5. Describe the changes in India's exports during different periods between 1757 and 1947 and account for these changes.
6. "Developments abroad affected our foreign trade in various ways in the 19th century." Discuss.
7. "India's foreign trade went through several ups and downs between 1900 and 1947." Discuss.

Chapter XII

CURRENCY AND EXCHANGE

The foreign trade of a country and its agriculture and industry depend a good deal on how its currency and exchange are managed. A wrong policy of, say, inflation (or deflation) can spell disaster to them, as also a wrong exchange ratio; this chapter will bear out this statement. Correct policies, on the other hand, can stimulate them considerably. We turn, then, to the history of currency and exchange in India.

(I) Upto 1835, Currency Chaos: Upto 1835 there was no uniform standard coin in India. There were about a thousand different kinds of gold and silver coins, of different weights and fineness, whose value varied from day to day. Even for moderate payments, therefore, the services of a money-changer were required. Thus the money-changers profited at the cost of the public—and trade suffered. It was a period of currency chaos.

(II) 1835-93: The Silver Standard: Order was brought into this chaos by the Act of 1835. Under it the silver rupee, weighing 180 grains and 11/12ths. fine, was made unlimited legal tender throughout British India. Its face value was equal to its intrinsic value as silver. Mints were opened for the free coinage of silver. So if the value of silver fell in terms of the rupee, the public would take silver to the mint for free coinage of rupees—which would lower their value. The public could also melt rupees and sell the silver. They would do this if the value of silver increased in terms of rupees. This would reduce the supply of rupees and, therefore, increase their value. Thus the face value and the intrinsic value of the rupee would be kept equal through these operations. India

was thus on the Silver Standard and remained on it for nearly six decades.

(A) 1835-74. Efforts to secure Gold Currency. Mansfield Commission, 1866: But there was a demand for gold currency from the public; and every Finance Member also pressed for it. So ultimately the Mansfield Commission, the first of its kind, was appointed in 1866 to recommend the best currency for India. The Commission was in favour of introducing gold as legal tender; but its proposals were not accepted, though there were no Indians on it.

There were five other Commissions (and Committees) on currency and exchange; and many details about all of them are given in *Table 18*. Readers may go through the relevant portion in the table after studying the text for each such body.

(B) 1874-93. The Silver Slump: In this period there was a fall in the gold price of silver, which resulted in an unstable and falling exchange. Ultimately the Silver Standard had to be given up. Here are the facts.

Year	Price of silver per gram	Rate of exchange	General price level
1871-72	60.5d	1 sh. 11.12d	—
1883	—	—	99
1892-93	39d	1 sh. 3d.	134
1894	—	1 sh. 1d.	—

Thus, in two decades the price of silver fell by about 35% and so did the exchange; and the general price level rose in the same proportion. What were the factors that brought about this large development?

Causes. Depreciation of silver. Its supply and demand: The fall in silver was due to increase in its supply. That, in turn, was the result of increasingly larger production, caused by the discovery of new mines in Mexico etc., and improved methods of mining. Further, silver was released by many bimetallic countries in Europe, which adopted the Gold Standard. This same development also reduced the demand for silver.

Appreciation of gold: The demand for gold, on the other hand, increased because of the adoption of the Gold Standard in Europe. There was also a rise in the trade of Europe and America through the opening of the Suez Canal, etc. But the supply of gold grew only slowly, as there was a decline in its production.

Thus there were factors on the side of both silver and gold, their demand and supply, which brought about a large decrease in the gold price of silver. What were the effects on India of this silver slump?

Effects on India. Rise in prices: There was free coinage of silver into rupees; so, when there was a large fall in the price of silver, people took silver to the mints to convert it into rupees and thus made profit on their silver. But this conversion increased the amount of rupees in circulation and, therefore, raised the general price level. This had the usual results: uncertainty, check on exports, stimulus to imports. These developments, in turn, upset the balance of trade.

Fall in the rate of exchange: Thus the internal value of the rupee fell. Its external value also declined. The rupee fell in terms of gold and so the rate of exchange also fell. This resulted in several evils. The fluctuations in the exchange ratio introduced uncertainty, which is always harmful to trade; and the progress of exports was checked. Government had to provide many more rupees to pay the "home charges". For every pound of these charges they had to find now, not Rs. 10/-

as before, but more and more as the rupee went on falling, from its original value of 2 sh. to 1 sh. 3d. and even to 1 sh. 1d. This was a great loss, converting a surplus budget into a deficit one; there was also the uncertainty about the exact value of the rupee at the time of payment. This great loss also necessitated increased taxation.

(III) 1893-1900: Two Committees

Herschell Committee, 1892-93: Thus both Government and the public faced acute difficulties. During 1878-92, therefore, men and institutions connected with commerce started an agitation, for closing the mints to the free coinage of silver and for adopting the Gold Standard. In 1892 the Government of India also sent a despatch with the same demands. So the Herschell Committee was appointed in 1892. As in the case of the previous currency body, it had no Indian on it.

Its recommendations: The Committee was in favour of closing the mints to the free coinage of silver. The exchange ratio was to be 1sh. 4d. to the rupee (i.e. Rs. 15 to a £) in place of 2sh. (or Rs. 10 to a £). There was no specific provision for introducing the Gold Standard, but it was to be adopted in future. In the meantime a transition period was needed, in which the exchange would be raised to 1sh. 4d. A reserve of gold was also to be provided before introducing the Gold Standard.

End of Silver Standard. Ratio of 1 sh. 4d: These recommendations were embodied in the Act of 1893, closing the mints to the free coinage of silver and fixing the exchange at 1sh. 4d. This was the end of the Silver Standard.

Fowler Committee, 1898: Five years after the Herschell Committee reported, in 1898, the Government of India sent another despatch, asking for immediately ending the period of transition to the Gold Standard. So the Fowler Committee was appointed that year, to provide a scheme for the changeover.

It also had no Indian on it and was in favour of adopting the Gold Standard, like the two currency bodies before it. It gave the following reasons for this proposal. More than 80% of India's foreign trade was with Gold Standard countries, so it would be facilitated by a Gold Standard in India. It would also attract capital (which India definitely required) from Gold Standard countries, who possessed the necessary amount. This can best be done through the Gold Standard and a stable exchange. Further, there must be sufficient gold for the public to export; so the Committee recommended that a gold reserve should be formed. Its third recommendation was to keep the exchange at 1sh. 4d. to the rupee.

Manipulation: *Gold Exchange Standard*: These recommendations were entirely accepted and thus was passed the Indian Coinage Act of 1899. It made the sovereign and half-sovereign legal tender along with the rupee. Active steps were taken to open a mint for the coinage of gold in India. But the sanction of the Royal Mint in England was necessary and the British Treasury did not give it. In fact several measures were adopted, which introduced the Gold Exchange Standard, instead of the Gold Currency Standard. The latter was recommended by the two Committees and the Mansfield Commission and even accepted by Government.

Twentieth Century

(IV) 1900-14, Pre-war Period

Drift towards the Gold Exchange Standard

Crisis of 1907-08: During 1907-08 the exchange fell steadily, because of partial famine and the resulting decrease in exports.

Gold Exchange Standard, its essentials: In the meantime there was a drift towards the Gold Exchange Standard, so we must study the features of this standard. Under it, the standard coin is really a token coin, not a full-blooded coin like the rupee under the Silver Standard, i.e. its face value is more than its intrinsic value (as metal). This currency is inconvertible into gold for internal purposes; but for external purposes it is convertible, at a fixed rate, into a currency which is on the Gold Standard. The Reserves are kept in the foreign country, which is a sort of planet country in relation to its satellite. They are used for making gold available for foreign payments. Thus the great merit of this standard is that gold is available for foreign payments, without having a costly gold currency.

The Mechanism of the Standard. Council Bills: The Gold Exchange Standard was worked in India through the sale of Council Drafts and Reverse Council Drafts. The former (also called Council Bills or Rupee Drafts) were orders by the Secretary of State (for India) in Council to the Government of India to pay rupees. These orders were sold in England to British importers of Indian goods, for which they paid in sterling. The Government of India gave the amount of rupees mentioned to the Indian exporters, who were thus paid for their goods. This system avoided the clumsy and costly method of payment in gold by British importers, its conversion into rupees in India and Government sending it back to England for the 'home charges.'

Reverse Councils: The other side of the system was the sale of Reverse Council Drafts (also called Sterling Drafts or Sterling Bills or Reverse Councils). These were orders by the Government of India to the Secretary of State in Council to pay sterling, in return for rupees received by them (i.e. by the Government of India) from Indian importers of British goods.

The sale of these two types of Bills kept the exchange stable at about 1 sh. 4d. per rupee. In the case of both it was the Secretary of State who controlled the issue, which was one source of danger.

During the crisis of 1907-08, Government's gold reserves suffered severely. There was also strong public criticism. To revise the currency policy, therefore, Government began a long correspondence with the Secretary of State; and it urged

strongly for a Gold Standard with a gold currency. But the Secretary of State favoured the Gold Exchange Standard.

Chamberlain Commission, 1913-14: This difference between the two authorities, and the strong criticism in India, led to the appointment of the Chamberlain Commission. Of its ten members, one was an Indian for the first time; the economist J. M. Keynes was also a member. The findings of the Commission were as follows.

The most important thing was a stable exchange, which was the key to the currency policy of India; and the exchange could be maintained without a gold currency. So they rejected the Gold Currency Standard advocated by the Fowler Committee. They gave the following arguments in favour of the Gold Exchange Standard.

The people neither desire nor need a large amount of gold for circulation. This standard is also very similar to the currency systems of several countries like Japan and Russia. These two countries held a large portion of gold outside, as in the case of India. Further, people should be educated in the use of more economical forms of currency; and give up the lure of gold, which is very expensive.

(V) 1914-25, The War and after

But while the Commission's Report was still under study the War broke out. Its first shock led to a general disturbance to business, which was tackled with comparative ease.

1916-19. The System shaken to its Foundations: But about the end of 1916 complications began. There was a heavy demand for Indian currency and, therefore, for silver. This resulted from the following developments.

The Crisis in Silver. Its demand and supply: Normally, India had a favourable balance of trade, as she had to send 'home charges' to England. It became more favourable from

1916-17, because imports from enemy countries were stopped and those from the Allies also fell, as the latter were busy with war production. Regarding exports, on the other hand, food and raw materials were required by our customers even at high prices. So our excess of exports increased. This strengthened the exchange, but it also led to a heavy demand for currency from Government. The situation was made worse by other factors. India was the base for the war in Iraq, Iran and East Africa, and the Government of India had to supply funds for the purpose, to the extent of Rs. 360 crores. Thus the demand for silver (for coinage) increased further.

But the supply of silver fell because of political disturbances in Mexico. Imports of silver, therefore, decreased and its price rose until the rupee-melting point was reached and even beyond, much beyond it. It was profitable now to melt rupee coins and sell the silver; the scarcity of rupees became more acute.

Government Measures. Raising the Exchange: In 1915 the price of silver was 27d. per oz. and it increased to more than 43d., the rupee-melting point, in August 1917. So Government raised the exchange from 1 sh 4d. to 1 sh. 5d. But the price of silver went on rising—to 78d. in December 1919 and to 89d. in February 1920. The corresponding figures for the exchange were 2 sh. 4d. and 2 sh. 10.25d. respectively. One can hardly imagine the havoc which this development would cause to foreign trade.

Others: Other measures included control of exchange, economy in silver through issue of currency notes (for Rs. 2.50 and Re. 1) and nickel coins and use of gold currency. The total circulation of paper currency was trebled. So the percentage of metallic reserve fell and that of securities increased, both of them substantially. Facilities for cashing notes were reduced and there appeared a discount on notes. Among financial measures, Government obtained more money from

additional taxation and from large loans—war loans and treasury bills; and they reduced the capital expenditure.

Babington-Smith Committee, 1919. Ratio of 2 sh. gold: Thus the war showed up the dangerous weaknesses of the currency system; so the Babington-Smith Committee was appointed in 1919. It had eleven members of whom the one Indian, D. M. Dalal, wrote a Minority Report. Dalal was in favour of the old ratio of 1 sh. 4d., but the majority recommended the linking of the rupee to gold at 11.30016 grains of fine gold, i.e. Rs. 10 to a Sovereign or 2 sh. gold per rupee. The rupee was to be linked to gold, and not to sterling (as before the War), because sterling had depreciated and was still falling; linking the rupee to sterling would, therefore, introduce fluctuations in the ratio. The Majority's recommendations were accepted by Government.

Sharp Exchange Fluctuations, 1920: But Government efforts to restore a stable Gold Exchange Standard, by holding the exchange at 2 sh. gold, failed miserably and involved a huge loss to the Treasury. The exchange rose up to 11th February 1920 to 2 sh. 10.25 d. and then it began falling, particularly after 1st June and, up to September, it fluctuated about 1 sh. 10d. Why this fall?

Causes of Fall: The balance of trade became adverse, due to several unfavourable developments at home and abroad. There was a commercial crisis in the largest buyer of our raw cotton, Japan, who re-sold it to us. Another country from which trouble came to us was Britain. To raise sterling to the level of gold, she deflated her currency. Sterling prices, therefore, fell more than rupee prices and hence the demand for our goods contracted. In our own country there was a ban on food exports because of famines. On the other hand, the earlier high exchange stimulated huge imports of manufactures, especially textiles.

Vain efforts to raise it: Government tried to raise the exchange in several ways, like contraction of currency and heavy sales of Reverse Councils. But these efforts failed and from 28th September, 1920 Government left the exchange to its fate, as determined by demand and supply. It fell immediately from 1 sh. 10d. to 1 sh. 8d. and reached 1 sh. 5d. in December.

Loss to Government and Importers: A heavy price had to be paid for the experiment. Reverse Councils were purchased at Rs. 15 to a £ and sold at Rs. 10 and even at Rs. 8 and Rs. 7; through this, the Indian Exchequer lost more than Rs. 40 crores. An immense loss was also suffered by Indian importers. They bought heavily expecting the high exchange to continue; but the goods were delivered when the exchange had fallen by 1 sh. 4d. from the maximum level. At the end of the year, the importers were desperately struggling to sell them. Deflation increased their difficulties and the stocks had to be sold at ruinous prices.

The Rupee reaches 1 sh. 4d. Sterling, January 1923: For two years after their failure to maintain 2 sh. gold, Government tried to prevent a fall below 1 sh. 4d. sterling, i.e. about 1 sh. 1 d. gold. Yet the rupee remained below even that level until January, 1923. Government undertook various measures to raise it. They balanced the budget by economy and retrenchment, on the one hand, and by increase in taxation, on the other. They contracted the currency, stopped the sale of Council Bills and borrowed £70 million in England in 1921-23. In the meantime the post-war depression was over and our balance of trade became favourable. As a result of all these factors, the rupee at last reached 1 sh. 4d. sterling in January 1923.

(VI) 1925-29, the Hilton-Young Commission

Sterling Reaches Gold, April 1925- Hilton-Young Commission, 1925-26: The Indian public naturally favoured stabilization of the ratio at 1 sh. 4d. but the Secretary of State wanted a higher rate. At last sterling reached gold in April, 1925, and England returned to gold, adopting the Gold Bullion Standard. In a few months a Royal Commission on Currency and Finance, the Hilton-Young Commission, was appointed. Of its eleven members, four were Indians; Sir Purushottamdas Thakurdas (Sir P. T.) wrote a Minute of Dissent about the ratio and the Imperial Bank. The Commission was to examine the Indian exchange and currency system and practice, and to recommend changes *'in the interests of India.'*

Its Recommendations. The Ratio Controversy

(*A*) *Gold Bullion Standard. Defects of the Gold Exchange Standard*: The Commission disapproved of the Gold Exchange Standard on the following grounds. It was far from simple and the basis of stability of the rupee was not clear to the public. There was no automatic expansion and contraction of currency, which depended entirely on the currency authority. It was inelastic, especially for financing the movement of crops. As a result the public had no confidence in it; so currency should be placed on a more simple, certain and stable basis. The Commission, therefore, recommended the Gold Bullion Standard, i.e. gold should be made the standard of value, but should not circulate. Government should buy and sell gold bars at fixed rates, but the minimum amount should be 400 oz. This standard was based on the new English model adopted in 1925.

(*B*) *The Rate of Exchange. The Majority for 1 sh. 6d., the minority for 1 sh. 4d.* (*18d. vs. 16d.*): The majority recommended that the exchange, i.e. the exchange value of the rupee in terms of the pound sterling, should be fixed at 1 sh. 6d. or 18d; the minority was in favour of 1 sh. 4d. or 16d. This is the famous ratio controversy. It centred on the question, "Had Indian prices (including wages) adjusted to the 1 sh. 6d. ratio?"

Adjustment of Prices. Effects of the Higher Ratio: To understand this controversy, let us first analyse, in simple terms, the effects of the higher ratio. If the ratio is 1 sh. 4d.,

£ 1 is equivalent to Rs. 15. If the ratio is 1 sh. 6 d. £ 1 fetches Rs. 13.33. At 1 sh. 6 d., therefore, a good costing £ 1 in England would cost only Rs. 13.33 in India instead of Rs. 15 as at the old ratio. If the higher ratio (1 sh. 6d.) is fixed, people in India would, therefore, buy more of English products, say cloth. Thus imports from England would be encouraged, and home products discouraged; Indian industries would suffer.

Similarly, our exports decline if the ratio is high. For buying our goods, foreigners would have to pay 1sh. 6d. per rupee, rather than 1 sh. 4d., i.e. 12.5% more. Indian exporters would, therefore, suffer. To compete with foreign products, our industries, in both cases, would have to lower prices by 12.5%; they would, therefore, be forced to cut down costs, including wages. This last step would lead to industrial disputes.

Arguments for 1 sh. 6 d. and Reply of the Minority

(1) *1 sh. 6 d. was an established, stable ratio*: We can now follow intelligently the arguments of the majority for 1 sh. 6d. and the reply of the minority to them. Firstly, the majority argued, 1 sh. 6d. was the *de facto* ratio, established over a fairly long period from October 1924, and maintained stable at that level.

Sir P. T.'s reply to this was as follows:

(i) 1 sh. 6d. was not the *de facto* ratio, nor also a *de jure* ratio. It was 1 sh. 4d. which was legally established in 1893 and effective for a quarter of a century.

(ii) In 1924 when the rupee was left to itself, it reached about 1 sh. 4d. gold (or 1 sh. 6d. sterling) in September 1924. Sterling reached gold parity only in April 1925, when the Government could talk of this ratio as 1 sh. 6d. gold, instead of 1 sh. 6d. sterling.

(iii) It was maintained at that level by unnecessarily high deflation, or by preventing the necessary expansion of

currency. Compared to the pre-War period, the currency expansion was about half in 1921-25—in spite of higher prices. On 8th October 1924, even the Viceroy admitted the stringency of money as due to control of expansion.

(iv) In spite of this manipulation, however, 1 sh. 6d. was not the *de facto* ratio, because it was not established in October 1924, but only in April 1925 when sterling reached gold parity. So the rate had prevailed only for a year.

(v) Further, no other country, however rich, had adopted a ratio higher than the pre-War. In fact, other countries had made great sacrifices to return to the pre-war ratio, thus proving its sanctity. England also did not change her ratio, even when it fell from the pre-War rate of $ 4.8666 to a £ to $ 3.38.

(2) *Adjustment of Indian prices to world prices*: The majority argued that a substantial adjustment had taken place and this was their chief argument for the higher ratio. Indian prices, they said, had fallen and a substantial equilibrium was reached in June 1925 and maintained for a year. A further proof of this was that the exchange was steady. Another test was foreign trade, which was not adversely affected by the higher ratio.

To this, Sir P. T. replied as follows: Indian prices had not adjusted substantially to world prices; the greater part of adjustment was yet to come. From the time sterling reached parity, prices in England fell from 158 to 149 by February 1926. But the Calcutta Index Number rose steadily from 157 to 163 by January 1926 and was 158 even in February, a point higher. In the previous period also (i.e. in December 1922 to June 1925) the adjustment was only partial. Even taking the whole period, the adjustment was less than half.

Further, Government had decided on 1 sh. 6d., and to maintain it they brought about a direct or relative contraction of currency. So even the partial adjustment was artificial. Regarding the steadiness of the exchange, the exchange became weak even before the Commission reported. The reply to the argument about foreign trade is given at the end of (3) below.

(3) *Adjustment of wages*: The majority concluded, *on general grounds,* that wages also *must* have adjusted themselves, especially because the exchange and prices were steady over a fairly long period and because foreign trade was not adversely affected.

Sir P. T. replied to this argument with a detailed analysis, *citing facts and figures*: (i) There was no evidence of a fall in agricultural wages. (ii) The same was true of industrial wages; for example prices at Calcutta, and wages in the jute industry there, were as follows:

Date	Calcutta prices	Wages in the jute industry
May, 1918	173	110
January, 1920	218	140
April, 1925	169	150

Similarly, in the Bombay cotton industry, workers would not accept lower wages, even with the rise in the rupee—there were strikes in Bombay in 1923 and 1925. (iii) Nor was there a fall even on State railways, nor was a cut planned. (iv) The same was true of clerical wages.

And if a cut was enforced, it "will entail a long and bitter struggle between capital and labour, with consequent disturbance in the economic organization". Until wages get adjusted the foreign manufacturers, exporting goods to India, will enjoy a bounty of 12.5%. At 1 sh 4d., for a good sold at Rs. 15,

they used to get £1. At 1 sh. 6d. £1 equals Rs. 13.33; so Rs. 15 =£1 + 12.5%.

Regarding the argument that foreign trade had not suffered, Sir P. T. replied that the favourable position of exports was due to successive good harvests and the low holding power of the farmer. And the imports had become slack, indicating lower purchasing power of the masses, resulting from the ratio of 1 sh. 6 d.

(4) *Contracts*: The majority said that least injury would be inflicted by sticking to 1 sh. 6d., because most of the contracts were short-term; so they were entered into after 1918, and after that date 1 sh. 4d. was effective for a very short period.

To this the minority answered by drawing attention to the heavy agricultural debts. Most of them were contracted before 1917, when the ratio was 1 sh. 4d. The 1 sh. 6d. ratio would lower prices and, therefore, impose a burden of 12.5% on the agriculturist debtors, who should have the first consideration, as they were the largest and neediest class—and one already overburdened. Otherwise, the creditors would get an unearned increment at the cost of the farmers.

(5) *The Reserves*: Sir P. T. also pointed out that if the ratio is 1 sh. 4d. less gold per rupee has to be given out, when there is an adverse balance of trade. This would appreciably diminish the risk of reserves being depleted.

(6) *The Budget*: The majority said that at 1 sh. 4d. the budget would suffer, and immediately, because more rupees would be required to pay 'the home charges' as £1 would be equal to Rs. 15 (and only Rs. 13.33 under 1 sh. 6d). This would lead to an increase in taxes, railway rates and fares. Such an increase would disturb trade and raise the cost of living of salaried servants.

The minority replied that the budget would not suffer so much. At 1 sh. 4d. there would be an increase in customs revenue; and also in revenue from income-tax and corporation tax, as disturbance to industry would be removed. Further, there would be a decrease in bounties given to certain industries due to the rise of the ratio to 1 sh. 6 d.

1 sh. 6d. beneficial to the British. The U. K.'s need for markets: This is the famous 'ratio controversy'. But before taking up later history, let us see if the British were disinterested spectators and could, therefore, take an impartial view of the matter. Firstly, from about 1900, England was no longer the sole 'workshop of the world'. Particularly since the War, there was keen competition from other countries; high tariff walls had been raised. The only large open market for British manufactures was India, but even here manufactures were progressing, especially textiles.

British concerns in India. Government Officers: Then there were the thousands of British concerns in India—commercial, industrial, banking, insurance, shipping, mining, plantations etc. When they transferred their profits to the U.K., they would get 12.5% more in terms of sterling, at the ratio of 1 sh. 6d. The same would happen to the savings sent 'home' by the grand army of Government's British officers, civil and military. They would also save more as, under 1 sh. 6d., prices in India would fall by 12.5%.

All these would make a difference of crores of pounds per year to the British in India. It is, therefore, very likely that the Commission was inspired by them. In fact, one of the members admitted to Sir P. T. that the latter's stand was the correct one; this has been revealed in Sir P. T.'s biography by Frank Moraes. The Commission was appointed to suggest changes *"in the interests of India."*

This discussion brings out an obvious, but important point. While studying India's foreign trade, we saw that most

other economic changes affect a country's foreign trade. The question of the ratio is intimately linked with foreign trade and reveals a similar position.

Government Action: (1) *No Gold Bullion Standard or Reserve Bank*: The publication of the Commission's Report was followed by an acute controversy, mainly about the ratio. But the Government tried to push ahead with the majority's recommendations. Their Bill on the Gold Bullion Standard and the Reserve Bank met with stout opposition from the majority in the Select Committee, and was finally dropped. So we had neither the Reserve Bank nor the Gold Bullion Standard; thus the Gold Exchange Standard, criticized and discarded by the Commission, was retained.

(2) *Ratio of 1 sh. 6 d.*: The Bill replacing the 2 sh. gold ratio by 1 sh. 6d. had better luck. An amendment for 1 sh. 4 d. was lost in the Central Legislative Assembly by 65 against 68; at that time, there were 41 nominated members, 26 of them officials, and 9 Europeans among the elected members; i.e. a total of 50 out of the 68 who voted for the ratio of 1 sh. 6d.

(VII) 1929-39: From Depression to War

Weak Exchange, 1927-31: The exchange was weak during the next three or four years, thus disproving the majority's view about it. To strengthen it, large contractions of currency were undertaken. This created a monetary stringency, lowered prices further and led to strong protests by commercial interests. The process was repeated even during the Great Depression, when Indian prices collapsed relatively more, and when other governments tried to raise prices artificially.

England goes off the Gold Standard: In the meantime the whole world was in the grip of the Great Depression from 1929 onwards. Ultimately, England went off the Gold Standard on 21st September, 1931. She suspended the sale of gold bars for sterling, which began falling in terms of gold.

India was, therefore, no longer on the Gold Exchange Standard, but on the Sterling Exchange Standard.

Export of "Distress Gold"

Exchange strong, 1931-36: For the next four or five years exchange remained strong, in spite of adverse factors. These were: a larger relative decline in Indian prices, a fall in our exports of merchandise and a decrease in our balance of trade. It was the notorious gold exports that saved the situation and created a large favourable balance of trade. The exports were huge—in the six years 1931-37 more than 20% of the accumulated stock of four centuries and a half, i.e. roughly speaking, about a century's accumulation. But the Government did not interfere with them. There were protests from public men and commercial interests; and demand for a ban on the exports and for Government purchase of gold.

Reasons for Gold Exports: The first question which arises is: why such huge exports? The chief reason was the collapse of agricultural prices during the Great Depression, and the resulting acute distress among farmers. Thus it was "distress gold" that was sold by them and exported. This was encouraged by the increase in the price of gold. But why the rise in price? Well, sterling was depreciating in terms of gold, and the rupee also as it was tied to sterling at 1 sh. 6d. Thus the rupee price of gold increased.

Government Case for Free Export of Gold: The next question is: Why did the Government not prevent—or at least restrict—these exports, as demanded by the public and by businessmen? The Government case was as follows:

(1) People are benefiting from the high price of gold—and that in a period of very great difficulty. It brings them large profits, as they had purchased the gold at a low price.

(2) It is far better that the gold relieve distress, or is invested profitably, than remain locked up in barren hoards.

(3) The exports were small, compared to the vast amount accumulated.

(4) They have maintained a favourable balance of account and thus strengthened the exchange also.

(5) *Public Debt*: Besides, they enabled Government to pay off the matured sterling debt of £ 15 million, made it easy to meet the sterling obligations and to reduce the floating debt in India. This improved Government's credit and, therefore, lowered interest rates for Government loans.

Arguments against Free Gold Exports. The Future of Gold: The opposition case was based mainly on the future of gold.

(1) The country was parting with an appreciating commodity (gold) for a depreciating commodity (sterling); this loss was far greater than the saving of interest on sterling securities.

(2) *Price of Gold*: If the price of gold rises in future, the exported gold will be repurchased at a loss. The price was about Rs. 21 per tola before September 1931; then it went on rising to Rs. 36 in 1937-38. We know that later prices were much higher still.

(3) *Gold for the Reserve Bank*: Anyway, Government could have bought the gold and, after meeting sterling obligations by selling some, strengthened the banking reserves with the rest of gold. The Government purchase would have enabled the Reserve Bank to start with enough gold. The Reserve Bank of India Act was passed in 1934, it must have been framed earlier. The gold exports occurred in 1931-37. If the gold had been acquired for the Bank, that would have increased the purchasing power of the people as much as exports of gold did.

(4) At least Government could have levied a small export duty on gold and used this income to relieve rural distress.

(5) Further, Government did not undertake the necessary expansion of currency, to raise the general level of prices and reduce the distress resulting from the Depression. On the contrary there was contraction, lowering prices further.

(6) *No public works.* Countries like England and the U.S.A. adopted another method, a huge public works programme, which reduced unemployment, raised incomes and thus lessened the distress. Such a programme in India would have reduced the need to sell gold. But the Government of India did nothing of the sort. The result was that the Depression continued to the end of 1934.

But Government was determined to maintain 1 sh. 6d., even if it smashed the economic life of the country to pieces. This determination of the Government (to maintain the sterling link at 1 sh. 6 d.) was embodied in the Reserve Bank of India Act, 1934. Under it, the Bank has a legal obligation to maintain that ratio. That leads us to the study of the Reserve Bank and its functions.

The Reserve Bank of India, 1935

Aims: The Reserve Bank is the central bank of the country and it started working in 1935. It was established to secure monetary stability and to operate the country's currency and credit to its advantage. It brought about a unification of the control of currency and credit.

Management: The Bank then was a private shareholders' bank and its supervision and direction were in the hands of a Central Board of Directors. The Board had sixteen members, of whom eight were elected by shareholders, four appointed by Government, as also the Governor, two Deputy Governors and one Government official.

The Functions of the Bank

(1) *Monopoly of Note issue*: The first important function of a Central Bank is to regulate the currency of the country. The Reserve Bank has the monopoly of note issue. The Bank has two departments, Banking and Issue; the latter is concerned with currency, which was issued under the proportional reserve system. The 'gold' reserve is to be at least 40%, including sterling securities; gold in the reserve was to be worth at least Rs. 40 crores and at least 85% of it was to be held in India. Rupee securities could not exceed 25% of the assets or Rs. 50 crores, whichever was greater. The various reserves were unified now. To provide elasticity during the busy agricultural season, the Bank was empowered to issue notes against three months' bills of exchange. This also makes the system automatic; when the bills are paid for, the currency contracts again. But the bill market was undeveloped in India.

(2) *To maintain the Exchange*: Another central banking function of the Bank, as we saw at the end of the previous section, was to maintain the exchange at 1 sh. 6 d. per rupee by buying and selling sterling.

(3) *As Government Bank*: It is but natural that, if there is a central bank, it should act as the Government's bank. So the Reserve Bank was banker to the Secretary of State, Central and Provincial Governments, Native States and local authorities. In this capacity, the Bank was (i) to receive and pay money on behalf of these Governments; (ii) to receive their cash balances and to conduct their remittance, exchange, and banking business; (iii) to manage the public debt and issue new loans; (iv) to make short-term advances to Governments, generally for three months or less; (v) to act as agent for Governments for (a) collecting the principal, interest and dividends and for (b) buying and selling gold and silver, shares and bills of exchange.

(4) *As the Bankers' Bank*: As the central institution in the banking structure, the Reserve Bank also acts as the bankers' bank. Banks with paid-up capital (and reserves) of at least Rs. 5 lakhs each could become scheduled banks and receive help and guidance from the Reserve Bank. They had certain

obligations, like submitting weekly returns as prescribed. They had also to maintain with it, without interest, a balance of at least 5% of their demand liabilities (deposits which can be withdrawn at any time) and 2% of their time liabilities (deposits which can be withdrawn only after a fixed period). This enables the Reserve Bank to have adequate resources and to influence the credit policy of member banks, through a centralization of banking reserves.

Open market Operations: To regulate credit in an emergency, the Bank can deal directly with the public, through open market operations. That is, it can deal in securities and eligible bills and thus expand or contract credit. The aims of such operations are to control the exchange, to protect the reserves and to maintain price stability.

(5) *Agricultural Credit Department*: We saw how this department helps the Co-operative Movement. Its functions are to develop contact with rural credit agencies, to maintain an expert staff to study questions of rural credit, to advise Government and co-operative (and other) banks on such questions and to co-ordinate the work of agencies supplying rural credit. It has published reports on rural credit, with suggestions to improve it and also reports on co-operation and co-operative experiments.

(6) Among the other functions of the Reserve Bank is the purchase, sale and re-discounting of bills of exchange. The rate for re-discounting is called the bank rate and it can be changed for regulating credit and prices.

Other Developments during the Depression: As we saw while studying the history of agriculture and of foreign trade, export prices fell much more than import prices during the Great Depression. Between September 1929 and June 1932, for instance, the former fell by 47%, the latter by 16% only. Thus the terms of trade turned against India. In spite of this steep decrease in export prices, however, our exports shrank,

because of trade restrictions and currency depreciation by most countries. This, combined with low prices, inflicted acute suffering on the vast majority, i.e. the agriculturists. One result of this, as we saw, was the sale of huge amounts of "distress gold". In this situation, limited relief was given by trade agreements with the Empire, with England and with Japan in the early 1930s.

Need to lower the Exchange Ratio: Under these circumstances, there was a persistent demand during all these years for a lower exchange by commercial and agricultural interests, by politicians and economists. The 1 sh. 6d. ratio had not been proved the correct one and the ratio controversy continued. All the important countries had lowered the exchange value or purchasing power of their currencies. Each such event aroused fears that imports would increase and exports diminish. The depreciation of the yen by Japan in 1932 resulted in large imports from that country; and Government was forced, as we saw earlier, to raise the import duties on non-British cotton piecegoods. But on the ratio front Government was adamant. When agricultural prices collapsed, Government actually undertook a considerable contraction of currency, to maintain the ratio in 1929-31. Prices fell further in the next two years.

Effects of Fall in Prices: The fall in prices disturbed the relations between various classes. Those with a fixed income obtained an unfair advantage at the cost of others and this created friction and distress. As between employers and workers, debtors and creditors, tenants and landlords, taxpayers and Governments, the second party gained at the expense of the first. But ultimately all the parties suffered; there was large unemployment among workers, creditors could not get even interest, government revenues shrank. A change would have, therefore, benefitted all in the long run.

The Second World War put this controversy into the background and raised another, that about over-issue of paper money and the resulting inflation, about sterling balances and methods of war finance. We can understand it better with a background of the earlier history of paper currency and so we will take up that now.

History of Paper Currency

Currency Notes by Presidency Banks, from 1839: We saw at the beginning of this chapter that a standard rupee coin was introduced in British India in 1835. Within a few years paper currency was also issued. By Acts of 1839, 1840 and 1843, Government-controlled Presidency Banks were authorized to issue currency notes up to Rs. 5 crores. But their circulation was practically limited to the three Presidency towns, because of their novelty and the difficult communications. The first railway line, for example, was opened in 1853.

Government Monopoly, 1861. Currency Principle. Fiduciary System: The Paper Currency Act of 1861 established Government monopoly of note-issue. The lowest notes were for Rs. 10 and all were legal tender in their own circle only. Following the English model, the currency principle was introduced (as opposed to the banking principle); that is, there was full metallic reserve above a certain amount. This made for security but not for elasticity, and also locked up too much precious metal. It was called the Fiduciary Reserve System, because a certain portion of the note-issue, not covered by metallic reserve, is called fiduciary (or uncovered) issue and is covered by Government securities. In India, this was fixed at a maximum of Rs. 4 crores.

Under the banking principle, on the other hand, the proportional reserve system is followed. In this, the metallic reserve is a certain minimum proportion of the total note issue. It prevailed then in most leading countries—the proportion was 25 to 40%—and it makes for elasticity.

Circulation grows, especially after 1900: In the beginning the circulation of notes was limited, it was less than

Rs. 4 crores in 1861. But gradually it grew, especially after 1900. Several factors were responsible for this growth.

Causes: With the passage of time, people became familiar with the notes, confidence in them developed and there was more education. There were improvements in the system also. A smaller note, the 5 rupee note, was issued in 1891. In those days of very low prices, most people had not much use for the 10 rupee note, which was the smallest up to 1890. The notes were also universalized, i.e. made legal tender throughout the country; the 5 rupee note in 1891, Rs. 10 and 50 notes in 1910, Rs. 100 note in 1911. Lastly, there was a great increase in the fiduciary issue, especially after 1891; it was Rs. 14 crores in 1911 compared to the maximum of Rs. 4 crores in 1861. The result is shown in the table below.

Circulation of Currency Notes, in crores of Rs.

1862–63	less than 4
1890–91	16
1906–07	45
March 1913	69

Chamberlain Commission, 1913-14: The Commission's opinion was that a more elastic currency was required. This was because of increasing trade and limited use of cheques and other credit instruments. It wanted, therefore, that the fiduciary issue should be increased—immediately from Rs. 14 crores to 20. But the War broke out in a few months.

The First World War: As we saw earlier, there was an abnormal rise in the price of silver during the War and also a great increase in the need for rupee finance. So it became more and more difficult to obtain silver for coinage and for the paper currency reserve. These factors made it necessary to have a huge increase in the fiduciary issue.

Date	Note circulation —in crores of Rs.	% age Reserve Metallic	Securities
31-3-1913	69	80	20
31-3-1919	153.5	36	64
31-12-1919	183	46	54

During the War, thus, note circulation was doubled, the percentage of metallic reserve reduced to half and that of securities trebled. The limit for the fiduciary portion of the reserve was fixed at Rs. 120 crores, of which Rs. 100 crores could be British Treasury Bills. This large increase in the percentage of securities naturally endangered convertibility of notes, which largely replaced rupee coins.

Babington-Smith Committee, 1919. Measures for Elasticity: Its recommendations were embodied in an Act of 1920. To introduce automatic elasticity in the system, two devices were adopted. First, the fiduciary portion of the reserve was no longer to be a fixed amount. It was to be not more than the metallic portion, i.e. not more than 50% of the total reserve. The Government of India securities were to be Rs. 20 crores at the most. Secondly, emergency paper currency up to Rs. 5 crores could be issued, against commercial bills of (a maximum of) three months' maturity. This limit was raised to Rs. 12 crores by an Act of 1923.

Hilton-Young Commission, 1925-26. Stability of the value of the rupee: According to the Commission, stability of the value of the rupee was essential—both internal and external. This was to be secured through the proposed Reserve Bank, which would control both currency and credit. For internal stability, the Commission recommended adjustment of the amount of currency to the people's needs. For seasonal needs, i.e. to finance the buying of crops after harvest, it proposed expansion of currency through self-liquidating commercial Bills—and through Government of India securities. Crops would

be paid for through bills of exchange and their discounting and re-discounting. When the buyers met the bills, the money would return to the commercial banks and to the Reserve Bank. These measures should make for external stability also. But for correcting a temporary disequilibrium in the balance of payments, gold and gold securities could be used.

Proportional Reserve System: This was the system which the Commission recommended for note issue. It prevailed in most leading countries and assured great elasticity, without sacrificing security. It suited India particularly, it said, for two reasons. Banking and the use of cheques were not developed and there was great need for elasticity. This need was the greater due to the large seasonal (agricultural) demand. At least 40% of the reserve was to be in gold and gold securities; the percentage of gold was to reach at least 25 within ten years. (For this, Government could have purchased part of the "distress gold" exported during the Depression. The Commission reported in 1926.) The rupee securities were not to exceed 25% of the reserve.

We have seen already how Government had to drop the Bill on the Reserve Bank in 1927.

During the first two years of the Great Depression, currency was contracted by about 25%. This was at a time when it was necessary to expand it, for raising prices and stimulating business activity and employment.

Reserve Bank of India Act, 1934: While surveying the Reserve Bank's functions, we have already studied the mechanism of the issue of paper currency by it. Until 1939 it did not have to face any difficult situation or emergency. Though it seemed to work well, therefore, it had not yet passed any positive test. Such a test came with the War; and here we resume the history of currency and exchange in general.

(VIII) 1939-47, The Second World War

Huge Expansion of Notes: During the War, there was a huge expansion of notes in circulation and of sterling securities in the reserve, as shown in the following table.

	Notes in Circulation (in crores of Rs.)	Sterling Securities in the Reserve (in crores of Rs.)
August, 1939	179	59.5
July, 1943	738	571
28-1-1944	854	745

At this last date, gold coin and bullion in the reserve were worth only Rs. 44.4 crores. But under the Reserve Bank Act, sterling securities were considered a part of the 'gold reserve'; so our 'gold reserve' amounted to more than 80%, while the legal minimum was only 40% ! By 1945 these securities had soared to Rs. 929 crores and notes in circulation had become six times the pre-War amount. In addition, there was a net addition to rupee coins and one-rupee notes by more than Rs. 100 crores.

Inflation; Prices soar: This increase in the circulation of money represented so much more demand for goods. But their supply did not at all rise by any such level. For example, by March 1943 note circulation rose by 260%, but production of goods increased by about 20% only. The result was inflation, which is defined as expansion in currency, unaccompanied by a corresponding expansion in production. So prices rose from 115 to 272 by March 1943; and to 325 by May, as measured by the Calcutta Index Number. By the end of 1945, they were four times the pre-War prices.

A Vicious Spiral: Inflation and Scarcity: Thus started the vicious spiral of inflation and scarcity. For instance, if Government issue extra notes worth Rs. 5 crores and purchase goods with them, it creates scarcity—the amount of exchangeable goods diminishes—and prices rise. Now more money exchanges with fewer goods, and so prices increase further. At the next stage, therefore, more extra money has to be issued and so the spiral goes on rising.

Reasons for this Development. Sterling Balances: How did this situation arise ? The Government of India bought a huge amount of goods in India for themselves and for the British and other Allied Governments and paid for them in rupees. The British Government paid for them in sterling in London, where it accumulated to the credit of the Government of India. This was the origin of the famous sterling balances of India, which rose from Rs. 64 crores in 1939 to Rs. 1,733 crores in 1945-46. Another source of their accumulation was the excess of exports over imports, as during the First World War.

Repatriation of Sterling Debt: This large accumulation of sterling explains two developments : repatriation of our sterling debt and increase in note circulation. With the sterling credited to the Government of India, India's sterling debt was repatriated (i.e. repaid). For example, such debt decreased from Rs. 469 crores in 1938-39 to Rs. 93 crores in 1942-43, i.e. to one-fifth in four years.

Increase in Note circulation: Part of the sterling, which was accumulating in London to our credit, was invested in sterling securities of the British Government. These were transferred, from time to time, to the Issue Department of the Reserve Bank, which issued notes against them. This had, therefore, an inflationary effect.

Checking Inflation: Partial methods: To check this, Government introduced, in 1943, measures like excess profits tax and regulation of private investment. But these partial methods could not succeed, so long as the policy of inflation was not changed.

Correct Methods: Example of England: Was this situation unavoidable ? How, for example, did England tackle her own problem ? In England prices increased by 54% between

1939 and January 1943. In India, during the same period, they rose by 130%, and by 200% by May. And this difference arose in spite of incomparably greater war expenditure in England. Why? The explanation lies in timely and comprehensive measures undertaken from the fear of inflation, which was experienced in the First World War. There was limitation of dividends, deferred pay, sale of British investments abroad, price control and rationing and, at the back of it all, cheerful co-operation by the public. But the British did not sell their investments in India. We will, however, pursue this matter a little later.

Effects of Inflation: What were the effects of this inflation? They varied with different classes. We discussed the effects of the fall in prices during the Great Depression; and from that discussion one can easily infer the effects of this opposite development. We will, therefore, have only a brief look at it. The fixed income group obviously suffered the most. Regarding wage-earners, they got some dearness allowance (if they were organized), but only after the prices increased; when spent on goods, this extra income raised prices further. Farmers did not secure full benefit of higher prices because of defective marketing; and only the big ones had a substantial surplus to sell. Creditors, on the other hand, definitely suffered as the same loan, now returned, purchased less. Businessmen and industrialists, of course, made large profits, but they were mainly paper fortunes, as the value of the rupee was continuously falling. It was the period of "The Falling Rupee", to borrow the title of Prof. C. N. Vakil's little book which created a great stir.

Thus inflation acted as veiled taxation; it was more like robbery with the difference that, unlike robbery, it was an invisible, continuous, nationwide and legalized operation. It also stimulated hoarding—by consumers to avoid higher prices and by dealers to obtain higher prices. Thus artificial scarcity was created, with the poor suffering the most.

Alternative ways: Prevention and cure of Inflation: But was there any other way for Government to follow? It could, firstly, have followed the accepted practice of paying in gold for its purchases, or raising loans in India or selling the British assets in India as in the U.S.A. (during both the World Wars). This would cut at the root of the problem and prevent inflation. Once inflation had set in, its effects could have been minimized by three sets of measures. Government could have diverted purchasing power from the people through taxes from the richer classes and through loans, voluntary and compulsory. Secondly, price control and rationing would have prevented the rich from obtaining unduly large supplies at the expense of others, and in the process raising prices further. Government at the Centre and in the Provinces underwent large extensions, with new departments and high salaries. This increased the need for issuing more paper currency. There was an obvious case for retrenchment here.

Reserve Bank's Attitude: The Reserve Bank has the monopoly of note issue and the duty to advise Government on currency matters. What was it doing all this time when such hyper-inflation developed? Its attitude, to say the least, was passive. It could have pointed out to Government the overwhelming dangers of inflation and the right methods to find rupee finance. But it was dominated by Government and, to a lesser extent, by businessmen who seemed to be deluded by paper fortunes. Thus when the positive test came, the Bank was found wanting.

Reports of Currency Commissions, a Comparison

The Hilton-Young Commission was the last such body on currency and exchange; there were six in all. We have studied the Report of each as a whole; we may now look briefly at all the reports together in their different aspects. The details are given in *Table 18,* so there is no need to go into all of them; in fact, we have already surveyed them earlier.

Circumstances leading to their Appointment: There was no crisis when the Mansfield Commission of 1866 was appointed;

the reason for its appointment was the demand, by both the public and Government, for a Gold Currency Standard. But though the Commission recommended it, the Secretary of State would not agree.

The Herschell Committee, 1892-93, had to resolve a real crisis. The price of silver had fallen rapidly; so there was fall and instability in the exchange. This time also the public and Government were agreed on the changes: to close the mints to the free coinage of silver and to introduce the Gold Currency Standard. The Committee recommended a period of transition to that Standard.

The Fowler Committee, 1898, was in continuation of this; it was appointed to examine Government's demand for ending the period of transition. The Committee agreed and its opinion was accepted and put into practice. But later the Secretary of State manipulated the introduction of the Gold Exchange Standard.

The Chamberlain Commission, 1913-14, was the second such body faced with a crisis. The exchange, exports and particularly the gold reserve had fallen; and both Government and the public criticised the Secretary of State. But this Commission approved of the Secretary's action and discarded the idea of gold currency, which was supported by the three previous bodies. Soon came the First World War and a great rise in the price of silver and in the exchange.

So the Babington-Smith Committee of 1919 had also to solve a difficult problem. Its remedy was a ratio of 2 sh. gold. But that did not work well at all, as proved by the recommendation of the last Commission of 1925-26 for a 1 sh. 6 d. ratio. The Hilton-Young Commission was thus faced with the legacy of the previous Committee in the form of a heavy fall in the exchange. It also recommended the Gold Bullion Standard and the establishment of the Reserve Bank.

Recommendations: (1) *Regarding the Currency Standard:* The first three bodies were in favour of the Gold Currency Standard, but the fourth, the Chamberlain Commission, approved of the Gold Exchange Standard, already introduced by the back door; and the last Commission was for the Gold Bullion Standard, which was current in England and which was ultimately not adopted in India.

(2) *Regarding the Exchange Ratio*: The first Commission recommended a 2 sh. ratio and the next body (of 1892-93) was in favour of 1 sh. 4 d., which remained the legal rate until the First World War. The majority of the Committee of 1919 was for 2sh. gold and the majority of the last Commission favoured 1 sh. 6 d., in 1925-26.

Other Features: There was no Indian on the first three bodies, yet their recommendations about adopting gold currency were not carried out. The next two bodies had one Indian each and the last had four. The Indian in 1919 insisted on the 1 sh. 4 d. ratio, as opposed to the majority's 2 sh. gold; Sir P. T. in 1925-26 similarly favoured 1 sh. 4 d., while the majority was for 1 sh. 6 d.

Since 1947 there have been several notable developments, like India joining the I. M. F. and the 'World Bank' in 1947, nationalisation of the Reserve Bank in 1948, devaluation of the rupee (1949), along with that of the pound sterling, the using up of much the larger portion of sterling balances, change in the system of note issue, introduction of decimal coinage, inflation and the second devaluation (of 1966).

Questions for Revision

1. Bring out the major developments in currency and exchange in India in the 19th century.
2. What were the effects of the First World War and the Great Depression on Indian currency and exchange?
3. Compare the effects of the Second World War on Indian currency with those of the First World War.

4. Describe the arguments of the two sides in the ratio controversy, 16d. vs. 18d.
5. Examine the case for free exports of gold from India during the Great Depression.
6. Describe the functions of the Reserve Bank of India. Discuss this statement: "When the positive test came, the Reserve Bank was found wanting (in 1939-45)".
7. Outline the history of paper currency in India between 1860 and 1939.
8. Analyse the mechanism and causes of inflation in India during the Second World War. What were the effects of the inflation?
9. Compare the recommendations of the various Commissions and Committees on Currency regarding the currency standard and the exchange ratio. How far were these recommendations implemented?

Chapter XIII

BANKING AND PUBLIC FINANCE

Banking

Banking has very close links with currency. A good banking system can strengthen the monetary mechanism, an inadequate one hinder it. Both contribute to the money supply of the country and banking helps to economize in the use of currency. Because of the close connection between the two, a central bank is generally set up to control both in modern times. We now take up, therefore, a survey of the history of banking in India.

(1) Indigenous Banking. The 'Shroffs'

Early history: The Indian money market is made up of two groups of institutions, the European (or modern) type of banks and the indigenous bankers. The latter are as old as Indian commerce, which is referred to by Kautilya (about 300 B. C.) and even by Manu (about 1000 B. C.). They lent money, granted bills and made insurance by land and sea. They are known by different names, such as 'shroffs'; and we will call them that, for the sake of convenience.

The Muslim invasions led to insecurity, which was fatal to banking and resulted in hoarding. But some individual shroffs still prospered and they combined trade and money-changing with banking. Many such families were bankers to Courts and advanced money to them, even to the East India Company. About 1800, however, they suffered from the competition of Agency Houses and of the European type of banks; also from uniform currency (from 1835), which removed the need for money-changing.

Their position and functions: The shroffs occupy a very important position in India's money market even now. They exist in every village, town and city and were said, in 1933, to account for more than 90% of the country's banking business. They finance agriculture, handicrafts and trade, including the movement of crops. They give letters of credit and deal in 'hundis', which are similar to cheques and internal bills of exchange.

Difference from Modern Banking: The shroffs differ from modern banks in several respects. Unlike the banks, they get little capital from deposits and the withdrawals are in cash, not by cheques. There is single liability and no share capital. They lend on personal security and combine trade with banking.

Co-ordination with it: It is necessary to co-ordinate the shroffs' activities with the European type of Indian banking for several reasons. Such co-ordination would help to mobilize the capital resources of the country effectively and to establish unitary control over the credit system. The Reserve Bank would then exercise full control over the country's money market; it would also be able to help the shroffs and (through them) their customers in several ways.

The Central Banking Enquiry Committee: This Committee (1929-31) proposed certain steps for the purpose, through directly linking the shroffs with the Reserve Bank. The conditions for such a link were: the shroffs to give up non-banking work, and to have a certain minimum capital, lower than that for joint-stock banks; to keep accounts in the approved way, get them audited and submit them to the Reserve Bank for inspection. In return, the shroffs would get certain privileges: the Reserve Bank would rediscount their commercial bills and remit their funds at the usual rates; the Reserve Bank and the joint-stock banks would use the shroffs as agents for collecting cheques and bills.

The Reserve Bank's Schemes, 1937: Under the Reserve Bank of India Act, 1934, the Bank was to report on the matter in three years. So it framed a provisional scheme in May 1937, of indirect linking through scheduled banks, etc. and of direct linking with very stringent conditions. This raised a storm of protest, that the Bank had not followed the recommendations of the Central Banking Enquiry Committee. On the lines of these, therefore, a second scheme was framed in August 1937 for direct linking. But the shroffs did not like certain conditions, like those for developing the deposit business, giving wide publicity to their accounts and giving up their non-banking business. So the Reserve Bank reported to Government that it could not frame any acceptable legislation on the subject.

With such a large sector of the country's banking outside its direct influence, the Reserve Bank was not in full control of India's credit mechanism.

Modern Banking

Agency Houses: Modern banking began in India with the Agency Houses at Bombay and Calcutta. They started banking as an aid to their trading activities; and their main contribution was the circulation of notes. Their speculaive activities created trouble for them and they were wiped out in the commercial crisis of 1829-32.

(2) Joint-stock Banking

At the next stage we have joint-stock banks, pure banking concerns. The first such bank was the Bank of Hindostan, started in 1770 in Calcutta; other banks followed. But all of them went into liquidation in the crisis of 1829-32, along with the Agency Houses.

(3) Presidency Banks

The establishment of the Presidency Banks, in the capitals of the three Presidencies, marks the third stage. The Bank of Bengal was started in 1806, the first Bank of Bombay in 1840 (and on its collapse, the second in 1868) and the Bank of Madras in 1843. They had close relations with Government, who subscribed part of their capital and appointed some Directors and officers. The Banks had the right to issue notes and also the monopoly of Government banking. They were mostly meant for helping the borrowing programme of the East India Company, and for facilitating the trade of British merchants. In 1862 the right to issue notes was taken away; but they could still use Government balances in the Presidency Towns, without paying interest. The Presidency Banks Act, 1876, is discussed a little later.

New Joint-stock Banks

1830-60. Limited Progress: In the meantime, between 1830 and 1860, a dozen joint-stock banks were started. But half of them failed, because some of them were frauds and others followed an unwise investment policy. Thus there was only limited progress.

1860-1900. Slow Progress. Causes: Nor did the next four decades see any great progress, though the principle of limited liability was recognised in 1860. But the city of Bombay was an exception: 25 banks and 39 financial associations were started in 1863-65 during the American Civil War. These were, however, the results of fantastic speculation, so that when that was over many of the banks collapsed. By 1900 there were nine Indian joint stock banks, which had capital (and reserves) of at least Rs. five lakhs each. The total paid-up capital of all principal joint-stock banks was Rs. 82 lakhs only. For such slow growth, there were some general and some specific causes. The former included backward agriculture and industry, ignorance and illiteracy; and the latter were changing prices and unstable currency, especially in 1871-1894, as noted in the previous chapter.

Presidency Banks Act, 1876: But in the meanwhile the First Bank of Bombay had failed in 1868 and so, to regulate the

working of the Presidency Banks, an Act was passed in 1876. Under it Government took away their capital from these Banks and gave up the right to appoint Directors and officers. The Banks could not deal in exchange or lend for more than six months or on the security of immovable property. Thus the Banks' loans would not be tied up.

But their monopoly of government banking remained, though government kept the major part of their cash in the Reserves, in district treasuries, etc. The Banks acted as the "bankers' bank" to some extent. Thus they still held a position comparable to that of a central bank, though even less now than before the Act of 1876. They also financed trade directly through loans against goods and indirectly by discounting 'hundis.' In 1921 they were merged to form the Imperial Bank, as we will presently see.

20th century, 1901-1913: The rise in prices and the 'swadeshi' spirit encouraged the establishment of several joint-stock banks in the dozen years just before the First World War.

1913-39. From The First World War to the Second—Several Developments

1913-25. Bank failures: In 1913-14, however, 55 banks went into liquidation and in 1914-17 32 more, while in 1918-25 91 banks collapsed. The total was thus nearly 180 in 12 years, i.e more than one per month on an average. Why such wholesale and continuous failures? And what were its effects?

Causes. Effects: The reasons for the failures were ignorance, inexperience, incompetence and even fraud. To make quick profits, for instance, the banks invested in unsound industrial concerns. Cash reserves were not prudently built up. Banking practice suffered from serious defects. And the Directors of some banks misappropriated the funds. Further, banking law was not adequate to deal with either unstable or fraudulent banks. The failures inflicted a huge loss on the depositors, but they served a useful purpose. They emphasized the need for inquiry into, and regulation of, banking in India. The former was taken up in 1929-31 and the latter in 1921 and 1936; so we will now study these in detail.

The Imperial Bank of India, 1921; Public Character, Functions: In 1921 the three Presidency Banks were merged to form the Imperial Bank of India. Its public character and responsibilities were secured. This was done by Government appointing the Managing Governors and members of the Central Board; and also by giving instructions on vital matters. Among its functions was all the banking business of the Government of India; i.e. handling treasury balances, accepting (and making) payments on Government's behalf, managing the public debt. (These functions were transferred to the Reserve Bank, when it was set up in 1935). The Bank was to open 100 new branches. It was nationalized in 1955, is now called the State Bank of India and has 2,000 branches.

Its Drawbacks: But let us revert to the earlier history. In this position, the Bank should have worked for the benefit of the public; but it was more interested in profits for its shareholders. For this purpose it could use Government balances, without paying interest, and thus offered unfair competition to ordinary joint-stock banks. It had also no powers to control the money market and so it could not be a full-fledged bankers' bank. Nor could it issue notes; that right was taken away in 1862, as we saw earlier. Thus the Bank was not in a position to function as the central bank of the country. Further, it was dominated by Europeans and so it reserved higher posts for Europeans; Indians, therefore, could not get training in the management of banks. It also favoured European companies at the cost of the Indian.

Central Banking Enquiry Committee, 1929-31: This was the second result of the bank failures of 1913-25. The Committee emphasized the need for a central bank (as the Hilton-Young Commission had also done in 1925-26) and for contact and harmonious relations between joint-stock banks

and indigenous bankers. It was in favour of an all-India bankers' association and the spread of knowledge about banking. It also recommended a Bank Act to deal with the organization and amalgamation, inspection and control, of banks. Such an Act was, therefore, passed a few years later in 1936.

The Indian Companies (Amendment) Act, 1936: Under the Act the minimum working capital of a bank should be Rs. 50,000. A bank must set apart at least 20% of its profits for the reserve fund, till it equals the paid-up capital. The minimum cash reserves should be 1.5% of the time liabilities and 5% of the demand liabilities. A bank has to be managed by a banking company, not by a managing agent.

Reserve Bank, 1935: In the meantime, the Reserve Bank of India was set up in 1935. We have already studied its functions in detail in the previous chapter. In particular it took away from the Imperial Bank some of the functions performed by the latter—what may be called the central banking functions, like acting as Government bank, handling treasury balances, managing the public debt.

Growth of Joint-stock Banks, 1913-39: We have seen the bank failures of 1913-25, but there was also growth during the period. The first World War and the post-War boom encouraged the starting of new banks. The deposit liabilities of banks increased from Rs. 56 crores in 1913 to 80 in 1921 and to 109 in 1937. Not very rapid growth, but then it occurred even during the periods of bank failures and the Great Depression. During the latter, a good deal of branch banking developed, due mainly to the Imperial Bank opening its statutory 100 branches. The joint-stock banks had to do the same, for fear of being driven out by these. By 1937, there were 151 joint-stock banks with a capital (and reserve) of at least Rs. one lakh each. There were in addition 1400 small banks and loan companies.

War: Concentration, Backwardness: The Second World War saw a great increase in deposits, demand liabilities being larger than time liabilities. There was a huge growth in the number of branches also, resulting from the desire to escape taxation. But they were concentrated in the bigger towns. There was concentration in another sense also. As in the case of other countries, "the big five" dominated joint-stock banking in India. But unlike the advanced countries, it remained very backward in several respects : in the number of banks per million of population, in the amount of capital per bank and in the per capita bank deposits.

(4) EXCHANGE BANKS

The Presidency Banks, as we saw above, were prohibited from dealing in foreign exchange and from raising funds outside India. But both these matters became increasingly more important with the growth of India's foreign trade. The Indian joint-stock banks also rarely took up this work, as they suffered from several handicaps: limited funds, lack of the necessary training and experience, no access to the London money market, absence of branches in London and other foreign centres, competition of well-established foreign exchange banks in India.

So these foreign banks had virtually a monopoly of the foreign exchange business. The early banks were English, as England predominated in our foreign trade and as London was the financial centre of the world. But later came branches of the principal banks in other countries.

Their Business: In the beginning, almost the only business of the exchange banks was to finance India's foreign trade. But after 1930 most of them also undertook a good deal of financing of internal trade, in those areas in which they had branches. But their main business remained that of financing our foreign trade, by purchasing and discounting foreign bills of exchange.

Its mechanism: By far the greatest part of the bills were export bills (mostly for three months) drawn by Indian

exporters. These bills were discounted by the exchange banks in India and re-discounted in the U. K. by joint-stock banks or the Bank of England. Thus the exchange banks received sterling for rupees paid by them in India. India's export trade was largely financed in this way, with the funds of British banks. The great advantage of this arrangement was the facility of re-discounting bills in the London money market, where the rate of discount was generally lower than in India.

To bring their funds back to India, the exchange banks used to buy Council Bills. Later, after the Reserve Bank was established, they began selling sterling to it.

The Banks' growth: The table below brings out the growth in the number of exchange banks and particularly in their deposits in India. The growth was very rapid between 1870 and 1918, especially after 1890. After that their number increased sharply up to 1921, but their deposits rose much less right up to 1935.

Year	No. of exchange banks	Deposits in India (in lakhs of Rs.)
1870	3	52
1890	5	7,53
1918	10	61,85
1921	17	75,19
1935	17	76,18

The Question of Restrictions: *The need for them*: The question of placing restrictions on these banks is an aspect of the larger question of controlling foreign capital in India. We have already studied the latter in Chapter VI. There was a demand for the regulation of exchange banks also, to safeguard national interests. It arose because Indians' share in handling their own country's foreign trade was less than 15%. There was thus much loss in commission, brokerage and insurance charges. This position was the result of the large facilities given by the foreign exchange banks to their nationals. Similarly, they used their monopoly of financing India's foreign trade to the disadvantage of Indian merchants.

There were no legal restrictions on these foreign banks in India and they were free even from the limited statutory obligations on our own joint-stock banks. The Indian depositors were thus without any legal protection. In foreign countries, on the other hand, laws had been passed for regulating foreign banks through licences.

Banking Committee's view: The Central Banking Enquiry Committee (1929-31) recommended, therefore, a similar system for protecting the depositors: to give the Reserve Bank some control over these banks and to secure reciprocal treatment for Indian banks abroad. The conditions of the licence were to be: annual statements to the Reserve Bank of assets and liabilities of the banks' Indian business; periodic reports to the Reserve Bank of their Indian and non-Indian business; other conditions on the basis of reciprocity.

Subedar's proposals: But Mr. Manu Subedar, a member of the Committee, argued that banking in India should be reserved for banks registered in India; and licensing should be used to protect the Indian public and institutions. The basis of reciprocity was unsuitable, as only one or two Indian banks worked abroad. And British banks (which were the most substantial ones) would escape lightly, as there were only a few restrictions on foreign banks in England. So he proposed the following terms for the licence: the banks should not accept deposits in India from Indians or from companies registered in India; they should have branches in port areas only; they should not acquire controlling interests in Indian concerns; the staff in every branch should be Indian, except for the manager and one assistant.

But under the Government of India Act, 1935, only such restrictions could be imposed on British banks (working in

India), as exist on Indian banks working in the U.K.

Thus Exchange Banks, as well as indigenous banks, remained outside the influence of the Reserve Bank. This rendered its control over the country's banking structure ineffective to that extent.

Since Independence. Central Banking: Since 1947 banking has seen some notable developments. In the field of central banking there was the nationalization of the Reserve Bank in 1948, the Banking Regulation Act of 1949, several changes in the bank rate and in open market policies and reserve requirements; and the adoption of newer techniques, like selective credit controls and the bill market scheme.

Commercial Banks: The banking structure has changed remarkably: the number of banks fell from 444 in 1949 to 109 in 1965. This was the result of elimination of weak banks through the licensing policy of the Reserve Bank and amalgamations and compulsory mergers. Regarding the banks' operations, there has been a phenomenal rise in deposits and loans—and extension of banking facilities to new areas. There is also an insurance deposit scheme up to a certain limit, which was recently raised. Last year there was an acute controversy over the nationalisation of banks; as a result, we will now have 'social control' over banks and a National Credit Council for the purpose. We have already noted earlier the nationalization of the Imperial Bank, developments in rural banking and the establishment of several Corporations to finance industry.

Financial Relations Between Centre and Provinces

1833-71. Extreme centralization: In 1833, two years before a uniform currency was established, the East India Company introduced a system of extreme financial centralization. The Provinces collected the revenue, but they had no financial powers. They only received fixed grants to cover the cost of administration. This arrangement resulted in constant friction between the two Governments and extravagance and inefficiency among the Provinces. The Mutiny of 1857-58 inflicted heavy deficits on the Centre. After it the administration was taken over by the Crown, but there was no change in the broad scheme of 1833.

1871. Decentralization begins: That scheme, in spite of its glaring defects, was allowed to continue for four decades. Ultimately in 1871 Lord Mayo introduced some decentralization (or devolution). The Provinces were to administer certain departments and they could retain the receipts from these. The departments included Education, Roads and Civil Works, Registration, Medicine and Police. In addition, the Centre gave them lump sum grants to administer these departments. The Provinces could also impose local taxes. This new arrangement was expected to increase the revenues from the particular departments, as the Provinces had financial interest in them. The latter would also have to economize.

But the arrangement did not bring the necessary income to the Provinces. The Central grants were not based on any sound principle and depended on the position of Central finances at the time. Nor did the Provinces economize, as they had the power to levy local taxes.

1877. Further Decentralization: Half a dozen years later, therefore, Lord Lytton introduced more decentralization in 1877. Now the Provinces had to administer almost all the departments which were Provincial in character. The additional departments which were transferred included Land Revenue, Excise, Stamps, Law and Justice. Some heads of *revenue*, like Excise, Stamps, Law and Justice were also given to the Provinces; the lump sum grants and departmental receipts continued.

But the Provinces had no interest in developing the revenues from those heads of revenue which they did not share. And as the arrangement was subject to change every year, the

occasions for friction between the Centre and the Provinces remained.

1882. Five-year Settlements: Five years later, therefore, Lord Ripon made the "Provincial Settlements" liable to revision every five years. The Provinces were to get a certain proportion of land revenue, instead of a fixed grant and the heads of revenue were either Central or Provincial or Divisible.

But under this scheme also extravagance by Provinces continued, especially during the last years of the five-year period. There was no motive for economy, in fact economy might reduce the future grant. Discontent existed due to injustice as between Centre and Provinces and also as between the various Provinces. There was also too much interference by the Centre in the divisible heads.

Yet this arrangement lasted for twenty-two years and the settlement was made quasi-permanent only in 1904 and permanent in 1912. The Provinces had still no power to raise loans, nor could they levy additional taxation without the Centre's permission.

1919. Complete separation. Meston Award: The Provinces obtained these rights under the Montagu-Chelmsford Reforms, which radically changed the whole policy. Central and Provincial finances were completely separated, there were to be no 'divided heads' of revenue or expenditure. The Central heads of revenue were income-tax, customs, railways, salt etc; and the Provincial heads included land revenue, excise, forests, irrigation and stamps. As the Centre would incur losses under this scheme, the Provinces would pay it contributions, until the former's revenues improved. The contributions were fixed under the Meston Award (1920) and were to be progressively reduced.

Criticism: But industrial provinces did not like the loss of the income-tax revenue and they were not allowed to tax their growing industries either. Agricultural Provinces, in turn, considered their contributions to be too high. Further, all the Provinces suffered from two handicaps, which were common to them and had serious effects. Their sources of revenue were inelastic, but their functions required ever-growing incomes—they had to look after the 'nation-building departments'. On the other hand, the Centre had expanding sources of income and stationary items of expenditure.

But Central revenues did improve and so Provinces were given relief, through reduction in contributions to the Centre, from 1925-26. Two years later all outstanding contributions were cancelled and the scheme was given up in 1928-29.

Government of India Act, 1935: Under the next Constitutional Reforms, as in 1919, there was a division in sources of revenue on somewhat similar lines. The division was now four-fold. The Central sources were import duties and corporation tax. Certain other taxes were Central, but the proceeds were to be shared with the Provinces. These sources were: income tax, salt tax, excise duties and export duties. There were still other taxes which were levied and collected by the Centre, but handed over entirely to the Provinces, viz. taxes on railway rates and fares, terminal taxes and succession duties. Most of the remaining sources were entirely Provincial and included land revenue, sales tax, excise on alcoholic drinks etc., entertainment tax.

1936. The Niemeyer Award: The Award by Sir Otto Niemeyer fixed the details of this financial arrangement. Under it half the revenue from income-tax would go to the Provinces. Some of them were likely to have chronic deficits and would, therefore, get cash subventions from the Centre; a few others would receive them for a limited period only. The Award also laid down that the jute-growing Provinces should get 62.5% of the proceeds from the duty on jute exports. Further, it reduced (or cancelled) the debts of all the Provinces to the Centre.

Comments: The new arrangement was a part of the federal system, which included Provincial Autonomy. It is not surprising, therefore, that the Award improved Provincial finances substantially. The Provinces now enjoyed a large measure of independence; in the new federal structure, they were no longer at the mercy of the Centre. The industrial Provinces would share the gains of industrial development promoted by them, through income-tax and sales tax; the latter developed into an important source of revenue. The less developed Provinces also benefitted.

We have used throughout the terms Centre (or Central) and Provinces (or Provincial) for the sake of convenience. But before 1935 the 'Central' heads of revenue were called Imperial. When a federal scheme was introduced that year, they came to be known as Federal. Today, they would be called Union heads and the Provinces are known as States.

This system was continued until the advent of Independence. Since then, under the new Constitution, a Finance Commission has been set up every five years to advise on financial relations between the Union and the States. The States have been reorganized on the basis of language; and before that the former Native States were merged with the rest of the country.

Public Finance, Poverty and the Drain: There are other aspects of the problem of public finance, during British rule, which contributed to our poverty through the economic drain of India. They are, therefore, discussed as part of the problem of the drain in the next chapter, under the headings 'Pay of British Officials', 'Home Charges' and 'Public Finance'.

Questions for Revision

1. How did indigenous banking in India differ from modern banking? Bring out the need for co-ordinating the two and describe the efforts made to achieve it.

2. Outline the major recommendations of the Central Banking Enquiry Committee. How far were they implemented?
3. Describe the fortunes of joint-stock banks in India between 1830 and 1947.
4. Narrate the history of the Presidency Banks and the Imperial Bank and their role in India's banking.
5. "The bank failures of 1913-25 led to inquiry and regulation and thus proved a blessing in disguise". Discuss.
6. Analyse the functions of the Reserve Bank of India. How far could it perform them effectively in the particular banking situation?
7. Describe the role of exchange banks in India and also the efforts to regulate them.
8. Outline the history of financial relations between the Centre and the Provinces in India.

Chapter XIV

SUMMING UP—THE DRAIN. EPILOGUE

We have come to the end of our story. It is made up of many strands and yet several threads have been left out, so that we may not miss the wood for the trees. It seems fitting that we sum up the story now, at least from one point of view. We have already seen how the Indian economy suffered in various ways under British rule. One way to bring together these adverse economic effects, and see them as a whole, is to take up a study of the economic drain.

The Amount of the Drain. The Company's "Investments": During British rule there was a constant economic drain on India, there was harsh and many-sided economic exploitation of the country. In 1765-71, for example, one-third of the net revenues of India were sent out. Then there were the East India Company's 'Investments", i.e. goods bought out of the revenues of India, for sale in Europe, by the Company; the profits went, of course, to the Company's shareholders. Thus India was treated merely as a source of profit for a commercial concern. Altogether half the country's revenues went out. But the actual drain was much larger; it is brought out by figures of exports and imports. In 1766-68, for instance, the imports and exports were £6 lakhs and £63 lakhs respectively. According to Montgomery Martin, the drain was £3 million in 1838, in those days of very low prices. The wage of a ploughman, for example, was about one anna per day and a rupee fetched 140 lbs. of rice in husk, when Dr. Buchanan surveyed the scene.

Analysis of the Drain

Pay of British officials: What were the elements in this drain? Let us now take up the various items, one by one. We

..ave already looked at the "Investments" of the Company. Then there were the 'expenses', a large part of which went to pay the British officials, civil and military. This amounted to £10 million in 1901. The officials sent out all their savings; and all the high posts were reserved for them. Up to 1815, Indians were kept out of almost all the posts in Government, except the lowest. The salaries for these hardly kept them alive. A law was passed in 1833 that no Indian should be denied any post, merely because he was an Indian. For half a century, however, this law was evaded by trickery of some sort or the other.

'Nawab-making': Another trick was 'Nawab-making'. Every time a new Nawab was set up in Bengal, he had to give 'presents' to the British Governor, officers and troops and also 'compensation'. 'Nawab-making' was thus a very profitable 'industry' and so the turnover of Nawabs was rapid—it needed no capital either.

'Home' charges: Then there were the famous 'home' charges (or rather British charges) sent 'home' by the British in India. During 1837-1901, these payments increased from £3 million to £16 million and in the 1930s they were £30 million. They included the following items: dividends on East India Stock; interest on 'home' debt; cost of the 'Home' Department of the Government of India, salaries and cost of establishments and buildings; furlough pay and pensions to British members of the Indian Civil Service and the army; and charges of all sorts, paid in England, in connection with British troops in India.

There were other items and Wingate, the father of the Land Revenue System in Bombay, urged in 1859 that these five should be paid by England. But he pleaded in vain.

Transport and Trade

Railways vs. Canals: In the choice between railways and canals, the former were preferred, because they helped Britain's

trade with India; and not canals, which would help Indian agriculture, on which the vast majority of the poorer Indians depended. Further, as the dividend on railways was guaranteed by Government, there were waste and inefficient management. The result was a loss, by 1900, of £40 million, which was made up from taxes on Indians. By that year £225 million were spent on railways in about 40 years, i.e. about £5.6 million per year on an average: but only £25 million on irrigation in about a hundred years, i.e. £0.25 million per year, which was about 4 to 5% of the average annual expenditure on railways. As a result, in the absence of adequate irrigation, millions of people died during famines.

Railway Policy: routes, rates: Nor was this all. The railways were trunk lines, linking the ports with the frontier and the up-country centres. Thus they facilitated the movement of troops and the export and import of commodities. There were few branch lines which would develop industries and internal trade. The railway rates were so arranged as to encourage the import of manufactures from England and the export of raw materials from India. There were cases, for instance, of lower rates for longer distances, in the case of raw materials going to the ports. The rate structure aimed, similarly, at discouraging the export of India's finished products.

Shipping: Regarding another mode of transport, shipping, the prosperous Indian shipping (and ship-building) was destroyed and replaced by British steamships. The weapons of British companies included unfair competition, deferred rebates and rate-wars. Coastal shipping was reserved by most nations for their own ships; but Government opposed Mr. Haji's Bill of 1928 for that purpose in the Central Assembly. The same fate met his Bill next year for prohibiting deferred rebates and Ghuznavi's Bill, in 1937, for regulating unfair competition in coastal waters.

Trade: its financing. Exchange rate: After transport we take up trade, which depends on it. The British made vast fortunes from an unlawful monopoly of trade and industry; the trade of Bengal was mostly in the hands of the British for half a century. On the other hand, Indian merchant princes were driven out of their own country's trade, internal as well as foreign. In the financing of foreign trade, again, Indian 'shroffs' were replaced by British exchange banks, who favoured their own nationals. That was also the policy of concerns in other key sectors like railways, shipping and insurance; besides, the profits of these companies went out of the country. To cap it all, currency and exchange, fiscal policy and purchase of stores were manipulated to encourage imports of British manufactures; railway rates and routes, as we saw above, had also this as one of their aims. As a result, millions of artisans lost their livelihood. All these measures narrowed down the sources of national wealth and Indians came to depend almost entirely on agriculture.

Public Finance

In 1833 the Company was prohibited from trading; and it was decided that the interest on its debts should be paid out of India's revenues. Out of these, again, was to be paid a dividend of 10.5% per year on the company's capital. When the Company was abolished in 1858, its capital was paid off by loans, which became part of India's public debt. The Indian Empire was thus transferred to the Queen, but it was Indians, not the British people, who paid the purchase money. It was like slaves paying for their transfer to a new master; but slaves are happier in this, that they do not have to pay for their sale, the new masters have to do it.

Public Expenditure: After Bentinck there was continuous pressure to increase expenditure; so expenditure and public debt rose by leaps and bounds. This was because the taxpayers had no control over the finances. Between 1792-93 and 1837-38, i.e. in 46 years, there was a net surplus of £32 million from the revenues of India. But it was not used for irrigation or other works of improvement. It went to pay dividends to

the Company's shareholders; and as it was not enough for the purpose, loans were raised. This, of course, increased the public debt of India, on which Indian taxpayers had to pay interest.

Public Debt: The increase in the public debt is shown in million £s in the table.

1792-7 The large addition in the beginning is due to the
1807-27 wars of Wellesley and Lord Hastings. India had to
1829-30 pay for all the wars fought by the British in or near
1836-27 India. The British acquired other empires at their
1857-51 own cost, but they conquered the Indian empire at
1862-97 India's cost. With his policy of "Peace, Retrench-
1901-200 ment and Reform", Bentinck reduced taxes and yet
increased revenue and lowered the public debt, as seen by comparing the figures for 1829 and 1836. But after him there was a reversal of policy and after 1862, the public debt was doubled in forty years though there were no wars.

Public Income—Taxes: *Land Revenue*: Land Revenue was the most important single tax for a long time. Under the British it was excessive, rising all the time and rigidly collected. Hindu and Muslim kings spent part of it in building and repairing irrigation works—and they did not collect it rigidly. Besides, they spent the whole of it in India, not so the British. As the Hon'ble John Shore of Bengal wrote, in 1837, the British increased taxes in every Province acquired by them, they taxed Indians to the utmost limit. Agriculture, on which the vast majority depended, thus suffered heavily. The results were huge agricultural debts and land transfers to moneylenders; and millions died during famines.

Industries

Handicrafts: The fate of industries was no better. British manufactures were forced on India at nominal duty. But India's industrial products had to pay higher duties within India and much higher ones in England. British factory products poured into India and millions of Indian artisans lost their skill and livelihood. They became labourers or fell back on land. This increased the pressure of population on agriculture, which, in turn, resulted in sub-division (and small size) of holdings.

Modern Industry: While India's old industries thus declined, the British acquired a monopoly in industries like indigo, tea and jute in India. The indigo cultivators and tea workers were cruelly exploited. Lancashire forced Factory Acts on India from 1881, but there was no regulation of working conditions in plantations till after Independence. Lancashire, again, got all import duties in India removed by 1882; on the other hand, its pressure resulted in an excise duty on products of India's cotton mills from 1896 to 1926.

Effects of the Drain

Thus there were injustice and exploitation in every field. The result was unemployment of millions; plenty turning into poverty; the deadly famines, with all their immediate and ultimate effects, "famines more frequent, more widespread and more fatal than any known before in the history of India" or of the world; the narrowing of the sources of national wealth, the almost exclusive dependence on agriculture and its further consequences; the loss of balance in the economy; the sharp increase in taxation, expenditure and public debt. Agriculture and industry, trade and shipping, banking and currency, all the branches of the economy suffered.

As Montgomery Martin put it in 1838, so constant and growing a drain would make even England poor; how severe then must be its effects on a poor country like India, where the wage of a labourer was two or three pence a day? Burke also described the ruinous effects of this constant drain. He said: the Tartar conquerors made India their home; so their unlawful loot went back to the people, and their own interests lay in India's prosperity; trade and industries prospered. But the English rulers were like birds of passage—and of prey—and there was an endless procession of new men going out to exploit India and to become "nabobs" overnight.

The Drain Theory examined. Epilogue.

Is this the whole of the story? Not quite; but these pages have noted several other examples of the evils of British economic policies in India and there is no merit in merely adding to the list here.

But was it a gloomy story all along with no bright spots? These too have been indicated. We are moved today by the very names of Bentinck, Munro and Wingate and there was a host of others. These, however, formed but a small section of the procession of administrators and they were helpless before the Company's Directors or the Secretary of State for India. The latter was responsible to the British Parliament, and gave priority to the profits of Lancashire magnates over the needs of Indians, with an income of a few pence per day.

There is, too, a bright side to the story. British rule offered many a priceless blessing to India. Among these, R. C. Dutt noted Western education, peace, strong and effective Government, wise laws and Courts of justice with high standards. One may add to them irrigation works, a fine system of famine relief, modern means of transport and communication and the resulting economic and political unity of India.

These, however, essential as they are, form only the foundation. When Indians tried to raise the superstructure with their own hands, they met with obstinate obstruction in India as well as in England, from official and non-official alike. Before it even Jamshedji Tata had to accept defeat in the field of shipping and Sir M. Visvesvarayya was helpless as late as the later 1930s.

But what about the drain itself? Was it all so much loss and no gain whatsoever? The answer is obviously 'yes' with regard to the Company's 'Investments'. The same cannot be said about the pay of British officers, civil and military. They did render some service, some of them very good service; that is not questioned. It is other aspects of the problem that are questioned. In 1820, for instance, Sir Henry Strachey proposed the appointment of Indian judges, who should be well-paid, i. e. paid less than one-tenth of the salaries of British judges in India. But nothing of the sort was done for decades. One can raise similar issues about the strength of the British army stationed in India, purchase of stores in England, role of British capital in India, 'home debt' and particularly that part of it which was incurred for building railways.

Interest on loans (raised in England) accounted for half the 'Home Charges'. In the 1930s, for example, interest on the debt of State railways amounted to nearly £9 million and interest on other debts to about £6 million. We have already examined the problem of railways vs. canals. Other questions which arise are: Were the particular railways necessary? Would not canals and roads have served better in several cases? Were the routes chosen with regard to India's interests and were the rates fair? Was the whole policy of guarantee well-considered? Were efforts made to induce Indian capital to participate?—this was the time when cotton mills were started in India with Indian capital.

What is particularly distressing is the deliberate harshness towards the poorest in a poor country. Consider the burden of land revenue on the farmer with his tiny holding of a few acres. Watch him parting with more and more land to the village bania. Imagine his condition when farm prices collapse and he has to sell the family ornaments as well. Look at other lands where Government is trying to raise farm prices. Then look at this other picture in India, where Government contracts currency and keeps prices low, so that an artificial exchange ratio may be maintained, Britain retain her markets in India and Lancashire magnates their profits. Spare a thought also for the indigo farmer and the recruit on the tea plantations.

In those days, of course, nations were not ashamed of having empires; indeed they were a matter of pride and glory. And empires were considered a legitimate source of raw materials and a natural market for the 'mother' country's manufactures. And what use were colonies if your younger sons did not adorn officers' chairs there? That was the common attitude and it is no use applying today's standards to that age of empire. And today even politicians who were behind bars under the British admit that the British in India were a decent people; indeed, probably the most fair-minded of all Imperial powers. The common citizen agrees.

But that age of agony is now happily over. No great power gave up such a huge empire as gracefully as the British in India did. The crowds shouted "Pandit Mountbatten ki jaya" ("Victory to 'Pandit' Mountbatten") and goodwill and understanding grew with the years. India was deeply moved when, during the Chinese invasion, England stood by her side in her hour of need. May their amity and friendship grow from strength to strength!

Questions for Revision

1. Analyse the elements in the economic drain from India under the British. OR "Under the British there was a constant economic drain on India, there was harsh and many-sided economic exploitation." Discuss.
2. "During British rule, the sources of national wealth were narrowed down in India". Discuss.
3. What were the effects of the economic drain on India's economy?
4. Show how, under British rule, public finance contributed to India's poverty, with special reference to home charges and public income, expenditure and debt.

THE TABLES

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For *a Note on the Tables,* please turn to the pages following the Preface.

Table 1

Dr. Francis Buchanan on "Economic Conditions in South and North India", 1800—1815.

Region and Year	Irrigation	Land Revenue	Rent	Prices & Wages	Industries	Trade, Transport & Banking	Concluding remarks
South India, 1800	(1) Old irrigation works everywhere—dams, canals, reservoirs. (2) Generally *landlords* financed building & repair of *canals*. (3) Many old works in *need of repair*. (4) *Reservoirs* by private individuals; larger ones by Govt., 2 were 8 x 3 miles. 40-50 large ones repaired by Mysore Govt. 80 years before.	(1) Heavy; often equalled rent. (2) Half of gross produce; the old Hindu rate was 1/6th of net produce. (3) In pre-British days, it was not collected strictly; & Govt. built, maintained & repaired irrigation works.	A third of gross produce—*too high;* the tiller was left with 22% of gross produce, at the most.		(1) *Spinning* and *weaving* were the national industries; women of all castes spinning. (2) *Village industries* like blacksmith's, carpenter's, found everywhere.	(1) *Trade* in costly & luxury articles & also in others. (2) *Weekly markets.* (3) *Carrying trade*, through bullock-carts, pack-bullocks & boats.	(1) The Company established *peace;* but (2) made the fatal blunder of *over-assessment*. (3) So, hopeless *poverty;* worse than in Mysore under Purnea.

Table 1 (Contd.)

Dr. Buchanan on "Economic Conditions in South and North India", 1800-1815 (Contd.)

Region and Year	Irrigation	Land Revenue	Rent	Prices & Wages	Industries	Trade, Transport & Banking	Concluding remarks
North India, 1808-15	Canals, tanks, reservoirs — largely maintained by *landlords*.	(1) *Heavy;* often absorbed the whole rent. (2) Strict and rigid *collection.*	*Rack-renting* in some places; generally $\frac{1}{4}$th of gross produce.	(1) *Great differences* in prices as between different places. (2) Prices & wages *very low;* e.g. (a) rice in husk at 140 lbs. per Re.; (b) a ploughman got 1 anna per day. (3) *Cost of cultivation* was half of gross produce.	(1) Some *industries* were of *national importance* — found everywhere, e.g. spinning, weaving. (2) Many other important industries also found everywhere, e.g. leatherwork, carpentry, pottery, iron work etc. (3) The usual textiles, metalware & many other articles produced. (4) *Some specialisation* in urban crafts. (5) *Indigo* factories of Europeans — not found in the South.	(1) *Trade* in costly & luxury articles. (2) *Weekly markets.* (3) Thread & cotton cloth from Lancashire; skins & hides to Europe. (4) *Carrying trade* through bullock-carts, pack-bullocks & boats. (5) *Roads* useless in the monsoon. (6) *Bankers* issued & discounted bills of exchange not mentioned for the South.	(1) People *miserably poor* (2) Their source of income threatened by the *decline* of *handicrafts.* (3) *Summing up*: Thus, as early as the beginning of the 19th Century, *economic conditions* in South India were *very similar* to those in the North.

Table 2

Prof. D. R. Gadgil on "The Old Indian Economy", early in the 19th Century.

Agriculture	Land Revenue	Prices	Industries	Trade and Transport	Other features
(1) India predominantly agricultural —in 1872, 68.5% depended on agriculture, which was also a subsidiary occupation for artisans. (2) The peasants' condition was depressed, chiefly due to heavy land tax.	The new settlements further depressed the peasants' condition. In Bengal, tenants not protected; in most other parts, *very heavy first assessments*.	(1) Prices in one part had no relation to those in other parts. (2) Sudden and violent *changes*, especially in foodgrains. Thus the effect of even a local famine was intensified.	(1) Industrial population widely spread—in villages. (2) Urban population: 10% or less. (3) 3 types of *towns*. (See *Table 8* on Types of Towns)	(1) *Transport* very defective and meagre; no roads in most parts; those built were very unsatisfactory. By far the greater portion had no bridges; so, useless in the monsoon. So, carts were primitive and transport rates very heavy. (2) So, very little *trade*, which was also restricted (a) to the very light and valuable products and (b) as to distance. (3) So, *prices* in different parts had no relation to one another i.e. *markets* were *local*.	The Village Community — self-governing, self-sufficient, with the artisans as village servants. (Details in Section II of Ch. I)

Table 3
Comparison of Rural and Urban Handicrafts

Features	Rural Handicrafts	Urban Handicrafts
(1) Market	The simple, poor villagers; no outside competition.	World-wide market for the high quality products, especially after the revolution in transport. So, foreign competition was also keener. The demand for other products was local—from the Court and the rich.
(2) Nature of products	Such as to satisfy the primitive and primary wants of the villagers.	Art and luxury products for the higher classes.
(3) Quality of products	Simple, crude, cheap.	Excellent quality, with world-wide reputation; yet never sacrificed utility.
(4) Number of artisans	The largest industrial group—as even today; most of them were village servants.	Much smaller. The urban population was 10% of the total.
(5) Organization	Primitive. Domestic system. The majority of artisans were village servants; cf. (7) and (9) also.	*Well-organized. Guilds* for each craft looked after quality of products and welfare of artisans. Workshops.
(6) Financing	*Payment*: (a) land at low rent; (b) fixed share of produce from every farmer; in return, the artisans rendered most of the services free.	By middlemen: their control over artisans grew.
(7) Role of middlemen	No middlemen; independent artisans.	When the handicrafts had to face foreign competition, the markets become wider and so more capital was needed. So they could not do without *middlemen*. Artisans lost independence.
(8) Technique and tools	Out-of-date technique; old, primitive tools.	Slow introduction of machinery and better methods.
(9) Organization and costs	*Primitive* organization. No large economies in cost because (a) no localization, (b) no specialization, (c) no division of labour, (d) small scale.	*Large economies* in cost, because (a) some localization, (b) more specialization, (c) much division of labour, (d) large-scale production.
(10) Result of contact with the West	(a) Foreign competition, which they could not face; *decay*. (b) Little change in organization. (c) The artisans (i) remained poor, or gave up old caste-based occupations and (ii) took to agriculture, or (iii) became day labourers or (iv) went to towns to become unskilled labourers, especially during famines. (d) Thus, in a fluid state; great loss of status and of old fixed position. (e) Payment by jobs taking the place of share of the harvest, but still mostly in kind. (f) The *Village Community* lost its self-sufficiency, compactness and self-government. (See Ch. I, Sec.II).	Western factory products beat them in price, not in quality. So, after 1850, rapid decline in quality and importance, and *continuous change in organization. The changes* were:— (a) growing importance of the *capitalist-middlemen;* (b) thus loss of (i) independence and of (ii) contact with consumer; (c) more of specialization, localization and concentration in big towns; (d) slow introduction of machinery and *new methods;* (e) wider markets; so, more competition. Thus, they were forced to *adopt features of the factory industry* to face competition from it.

Table 4

CAUSES OF DECLINE OF INDIA'S URBAN HANDICRAFTS

- (*A*) *Contact with the West.*
  - (I) *The Company's Policy.* (Details in Chapter VI & in Table No. 17, column 2)
  - (*II*) *Other results of Contact with the West.*
    - (1) Disappearance of Native Kingdoms—*loss of old demand.*
    - (2) Foreign Rule & Influences
      - (a) *New Demand*
        - (i) European Officials and Tourists lowered the quality, because
          - Wanted cheap things; adulteration.
          - New fashions, badly copied.
        - (ii) The new educated class; ideals of rulers forced on them.
      - (b) Guilds weakened
    - (3) Competition of factory products from Europe; helped by
      - New Transport
      - Rates Policy of Railways
    - (4) Arms Act.
- (*B*) *Defects in the Handicrafts.*
  - (1) Absence of organization; so unable to use improved methods
  - (2) Neglect of industrial possibilities
  - (3) Conditions about raw materials were very bad.

Table 5

The Cycle of Adversity and Prosperity in Agriculture, as determined by Famines—or Normal Years and Famine Years

Normal Years		Famine Years	
Period	Duration	Period	Duration
1850-68	18 years		
		1868-78	10 years
1878-96	18 years		
		1896-1900	4 years
1900-18	18 years		
		1918-21	3 years
1921-42	21 years		
		1943	1 year (In Bengal only)
1944-65	21 years		
		1965-67	2 years

Note: The *duration of "famine periods"* becomes shorter, because of the new transport and irrigation and improving famine relief.

Table 6

The Farmer's Credit Needs

Type of credit	(I) Short-term (or Seasonal)	(II) Medium-term	(III) Long-term
(1) Purpose of loan [(2) to (5) depend on this]	(i) *Working capital* or expenses of cultivation: seeds, fertilizers, fodder, wages etc. (ii) *Domestic expenses*: maintaining family until harvest. (iii) Other payments: land revenue, rent, interest.	(i) Buying cattle, expensive implements (ii) Recurring improvements: e.g. digging up field, sinking well or repairing it.	(i) Repaying debts. (ii) Permanent improvements, e.g. irrigation, terracing, drainage, reclamation. (iii) Buying land, machines.
(2) Period of repayment	Within a year, after marketing the crop.	2-5 years.	Up to 30 years.
(3) Security offered	(i) The crop. (ii) Personal security.	Movable (जंगम) wealth: crop, cattle, ornaments.	Immovable (स्थावर) wealth: land.
(4) Agencies for credit	(i) Co-operative societies. (ii) Commercial banks.	The same as under (I).	Land mortgage banks.
(5) Their method of raising capital	Short-term loans from the public.	The same as under (I).	Long-term debentures.

Table 7
The Cotton (Mills) Industry in India, its history

Period	Influences	General Condition	Localization	No. of Mills	No. of Workers	Other features	Exports	Imports
I) 1860-80	(1) High price of cotton, due to Amn. Civil War, 1861-65. (2) Severe depression after that. (3) 1870-80—famines, etc.	Not favourable in 1860-70.	*Concentration.* In 1879, nearly 75% mills in *Bombay Presidency;* and more than 50% in *Bombay Island.*	1861-12 1872-73-20 1879-56	 43,000	*Spinning* dominant, especially coarser type.	*Yarn* to China & Japan.	Finest variety of finished goods from Lancashire.
II) 1880-95	(1) No famines.	*Steady, rapid and all-round progress.*	From '87, rapid growth of mills in *cotton tracts* —Nagpur, Ahmedabad, Sholapur. 1894-95 —70% in Bombay Presidency; 47% in Bombay city. Thus, some *dispersion.*	1884-85-81 1889-90-114 1894-95-144	62,000 99,000 1,40,000	(1) *Spinning* more dominant; upto '90, it grew faster, then the reverse, cf. Japan, (2) *Home market* for coarse yarns captured, by killing hand spinning. (3) Improvements in *machinery,* from 1885. (4) *Finer* yarns. (5) More *variety.* (6) New markets. Thus *all-round progress.*	(1) *Exports of yarn* grew rapidly in 1880-90; they went chiefly to China & Japan. Those to *China* more than doubled in 1885-90 (2) Exports to *Japan* fell, from 1890; she began buying our *raw* cotton.	
III) 1895-1914	(1) Upto 1900—2 severe famines. (2) Plague in Bombay, '96. So labour migrated. (3) 1902: Great American speculation in raw cotton, whose price shot up. (4) Depression in China, our chief yarn market. (5) Excise duty, 1896 to 1926.	Depression up to 1905, yet some growth. Rapid progress from 1907.		1900-01-194 1904-05-206 1913-14-264	1,56,000 1,96,000 2,61,000	(1) 1895-1900: *Spinning* growing faster; after that, *weaving.* (2) *Finer* quality.	(1) Market for woven goods: Arabia, Persia, E. Africa, Straits and Ceylon. (2) 9% to 15% of cloth output exported.	

Table 7 (Contd.)

The Cotton (Mills) Industry in India, its history.

Period	Influences	General Condition	Localization	No. of Mills	No. of Workers	Other features	Exports	Imports
IV) 1914-29	(A) *Upto 1923. Many favourable factors.* (*I*) (1) *Transport*: (a) shortage, (b) high freights for Lancashire (*2*) High revenue *duties* in India. So *little foreign competition.* (*II*) (1) *Good demand* & (2) *high prices* in India & Middle East. Prices in 1918-20, 3 times pre-War; but (3) Wages did not rise during the War. (B) *From 1923, depression. Causes*: (1) Post-war economic conditions. (2) Over-capitalization. (3) 1928, 1929: Long strikes in Bombay. (4) Higher wages. (5) *Prices*: fell steadily, 1921-32 & came to the 1914 level. (6) Large expansion at high prices. *Result*: (1) *excise duty removed* '26 (2) Rejecting Tariff Board's advice, Govt. levied only 55% *duty on yarn imports*, 1927, in spite of unfair competn. from Japan and later, depreciation of the yen.	1916-23: Prosperity. Then, depression.	*Further dispersion*: Ahmedabad, Madras, Central India, & U.P. gained, Bombay lost. Production in *1927-28*: in Bombay Island 49%, Ahmedabad 22%.	1920-21-257	3.3 lakhs	(1) Cloth *production* grew by 46% in 1914-20 & by 150% by 1929. (2) Fall in imports of *finer cloth* led to more production of this, especially coloured goods.	*Cloth*: Rapid growth in exports to the Middle East. (2) *Yarn*: Exports to China fell very low, as also total exports.	During the War the imports fell much. Those from Japan grew substantially in last years.

Table 7 (Contd.)

The Cotton (Mills) Industry in India, its history.

Period	Influences	General Condition	Localization	No. of Mills	No. of Workers	Other features	Exports	Imports
V) 1929-39	(1) *The Great Depression*—fall in *prices.* (2) Large production by *new mills,* with machinery ordered at boom prices. *But* the industry *suffered less* than other industries due to (a) 'Swadeshi' movement, (b) *Protection*: *1930*: 15% duty on Br. imports & 20% on non-Br. *1931*-increased twice for revenue; so 25% & 31.25% *1932*—50% on non-Br., due to continuous increase in Japanese imports & fall in prices after the depreciation of the yen. *1933*—75%	**Not very good.**		1930-31—339	4 lakhs	Rise in *per capita consumption* to 15 yards, due to more production, which was mostly consumed at home	1936-37: exports were 2% of total exports of merchandise from British India.	Home production displaced imports to some extent, especially those from Lancashire. Severe competition from *Japan*; so protection from 1930 (See "Influences")
1953	(Centenary year.)		*More dispersion. Location of Mills*: Bombay State 44% Bombay City 14% Madras State, 2nd largest—93 mills. Bombay State had 60% of the total looms & spindles.	**1953—457**	7.64 lakhs			
1964 (See under Exports')							*1964*: exports became 8% of total exports, the third largest item.	

Table 8

Types of Towns in pre-British India.

Types of towns	The kind of *Industries* (They depended on the type of towns)	Examples (of towns)	*Their importance*—and change in it
(I) *Sacred Places*, including places of pilgrimage.	Brass, copper and bell metal products, largely sacred *vessels*.	Banaras, Gaya, Puri, Allahabad, Nasik, Madura.	*Restricted* in number, and incapable of indefinite increase.
(II) *Dynastic towns*: Seats of Courts or capitals of Provinces.	*Luxury industries*: exquisite textiles, embroidery; fine gold and silver work; carving in stone and marbles, ivory and wood; other excellent artistic handicrafts.	Tanjore, Paithan, Devgiri, Bijapur, Ahmednagar, Golconda, Lucknow, Murshidabad, Dacca.	*The most important and numerous*; crumbled away rapidly when the Courts disappeared.
(III) *Trading* (or Commercial) *towns*.		Mirzapur, Patna, Saugar.	Importance due to strategic position on a trade route; more stable than (II); but not many of them, as internal trade was not very large.

Note on Tables 8 and 9

No. 8 refers to the position that prevailed for centuries *before* the advent of the British, i.e. before 1757—or even 1795, for it was from the time of Wellesley onwards that the Company began acquiring large parts of India.

Table 9, on the other hand, deals with changes that occurred mainly *after 1795*. The first railway line was opened in 1853, but the rapid extension of railways came about after 1860. Road-building also began vigorously in the 1850s and was speedily extended in the 1860s, to feed the railways and to serve military purposes — the latter need was acutely revealed by the Mutiny of 1857-58, which also contributed to the rapid railway-building after 1860.

Thus the common factor in the two periods is trade routes.

Table 9

Causes of the Growth and Decay of Towns under the British

Forces promoting Growth of Towns

(1) *New Trade routes*: (*A*) *Railways*: They increased trade, and so created new towns and enlarged old ones.

(*B*) *Other Trade routes*: ***Shipping route***: ***ports***: **e.g. Ran**goon—centre of rice export; then came industries. Karachi—wheat exports; no industries.

(2) (A) *Industries*: Most important elsewhere, but not in India: very few creations of factory industry, like Jamshedpur, Ahmedabad and a few jute towns in Bengal.

(3) *Natural Calamities*: (*A*) *Famines*: national unemployment, so temporary migration to towns; *temporary*, unless permanent jobs were available. Greatly checked since the improvement of transport, irrigation and famine relief.

(4) *Other adverse conditions*: (*A*) *Artisans. Landlessness*: Rise of a class of landless labourers, due to peasants losing land, and artisans their crafts. Only a *negative result*, i.e. people are available for migration to towns —if jobs are available there.

(5) Wealthy landlords and others migrated to towns, because of attractions and facilities of urban life.

Note—(1) & (2) had permanent effects.
(3) „ temporary „
(4) „ negative „
(5) „ very small „

Forces retarding Growth—or effecting Decay—of Towns

(1) *Diversion of old trade routes*: (*A1*) *Railways*: They left aside old towns, e.g. Mirzapur, Saugor, Patna, Ferozpur.

(*B1*) Change in *river's course*, e.g. Irrawaddy in Upper Burma, Ganges in Lower Bengal.

(2) (A1) *Decay of handicrafts*—due to abolition of *Courts* —more powerful than forces under (1) (A1) and (B1); *examples*: *dynastic towns*, like Malda, Santipur and Murshidabad in Bengal; Mandalay, Paithan.

(3) (A1) *Epidemics* drove people to the open country, e.g. plague in 1896, influenza in 1918, in Bombay, But the effect is *temporary;* people return to towns when the epidemic has passed.

(4) **(A1)** ***Bad housing and sanitation*** **in cities, e.g. Cal**cutta 'bustis' and Bombay 'chawls', discourage villagers from going there; also a ***negative factor*** **like 4 (A)**

Table 10

Analysis of the Condition of Industrial Labour

- (I) *Conditions of Supply*
  - (A) Quantity
    - (1) Number
    - (2) Scarcity
  - (B) Quality
    - (1) Efficiency
    - (2) Migration
    - (3) Absenteeism
  - (C) *Sources*
    - (1) *Places* Survey by Provinces
    - (2) Motives
    - (3) Classes
    - *Methods of recruitment*
      - (1) Jobbers
      - (2) Casual labourers
- (II) *Conditions of Payment*
  - (A) *Amount*
    - (1) Wages
    - (2) Deductions
    - (3) D.A.
    - (4) Bonus.
    - (5) Overtime
  - (B) Time
    - (1) Period of payment
    - (2) Time of payment
  - (C) Social Insuranc
- (III) *Working Conditions*
  - (A) Hours. Age limits for children
  - (B) Health Safety Welfare Holidays
  - (C) Equipment
  - (D) Industrial disputes Trade Unions
  - (E) Share in management
    - Works Committees etc.
    - Trade Unions
- (IV) *Living Conditions*
  - (A) Standard of living
  - (B) Housing
  - (C) Recreation, etc.

Table 11
Outline of Labour Legislation in India, 1880—1968: Dates of important Acts

Period	Influences	(I) Working Conditions: Factories	(I) Working Conditions: Mines, Railways, Plantations	(II) Social Insurance	(III) Industrial Relations	(IV) Wages and Debts	(V) Others
(I) 1880-1914 The beginnings.	(1) Pressure from Lancashire and Dundee; (2) electric lights in Bombay factories 14½-15 hours' work; (3) shocking labour conditions moved progressive employers & humanitarian leaders.	1881 1891 1911					
(II) 1914-31 The War etc. Wider range of labour laws	(A) *War*: So (1) consciousness of importance among labourers, (2) rise in prices & profits, but not in wages; (3) trade unions; (4) strikes; (5) Industrial Commission (1918); (6) I. L. O., 1919. (B) 1918—(1) Popular representation in legislatures; (2) labour, a concurrent subject.	1922	1922 — *Railways,* workshops covered by Factories Act. 1923 — *Mines;* 1929—regulation about women underground.	1923 — Com*pensation.* *Maternity*: Bombay-1929. C. P.-1930.	1926— *Trade Unions.* 1929 — *Disputes.*		
(III) 1931-37 Royal Commission. Range extended.	Royal Commission on Labour, 1931.	1933 — Pledging of Labour of *Children* Act. 1934—Consolidated Factories Act.	1934 — Emigrant Labour (*Tea*) Act.	1933 — Compensation Act amended: *Maternity*: Madras-1935. Mysore-1937.	1934 — Bombay — Disputes	*Protection of Debtors*: Punjab—1934. Bengal—1934. C. P.—1936, 1937. Madras—1941: Bihar—1948. Civil Procedure Code Amended, 1936, 1937. *Payment of Wages Act, 1936.*	

Table 11—(Contd.)

Outline of Labour Legislation in India, 1880-1968: Dates of important Acts

Period	Influences	(I) Working Conditions: Factories	(I) Working Conditions: Mines, Railways, Plantations	(II) Social Insurance	(III) Industrial Relations	(IV) Wages and Debts	(V) Others
(IV) 1937-39 Provincial Autonomy.	Popular Governments in Provinces.	1938—Children Act. 1938—Children Act Amended.	———	*Maternity*:- U. P.—1938. Bengal—1939.	1938—Bombay—Disputes. (B.I.D. Act)	Labour *Inquiry* Committees. 1938—Bombay, Kanpur, C. P. Bombay Textiles: 12.5% increase in *wages*.	
(V) 1939-47 The War etc.	(1) War. Compare effects of First World War; (2) 'Quit India' movement, 1942. (3) Tripartite Conferences, from 1942. (4) Labour Conference, 1945: 48-hour week.	1946	1946—Railways—Rajadhyaksha Award.	1941—*mines*—*maternity*.	*Disputes*: (1) 1942-43: Defence of India Rules. (2) *1947*: Acts by Governments of *India*, Bombay, C.P. and U.P.		1942: Industrial *Statistics* Act.
(VI) 1947-68	(1) *Independence* Comp. effects of Popular Govts. in IV. Expectations by labour under freedom, so Govt. besieged with demands. (2) Threat from Communist Party. (3) Constitution, 1950 cf. footnote. (4) *Adult franchise*. (continued)	1948 1954 (night work.)	1951 — *Plantations*. 1952—Mines.	*1948—E.S.I. Act.* *1948 — Provident Fund*, coal. *1952* — Provident Fund, factories. *1953 — Retrenchment and lay-off* (I.D. Act amended.)		*1948—Minimum Wages* Act. *1965—Bonus* Act.	1953—Collection of Statistics Act.

Table 11—(Contd.)

Outline of Labour Legislation in India, 1880-1968: Dates of important Acts

Period	Influences	(I) Working Conditions: Factories	(I) Working Conditions: Mines, Railways, Plantations	(II) Social Insurance	(III) Labour Relations	(IV) Wages and Debts	(V) Others
	(5) Econ. Planning from 1951—need of co-operation from labour. (6) Rise in no. of industrial workers. (7) Growth of *trade unions,* backed by political Parties. *Strikes.* (8) 'Socialist pattern' as goal.						

Note: Re. '(3) Constitution, 1950' in Col. 2, the Directive Principles of State Policy include the following: "The State shall endeavour to secure by..........legislation ....to all workers, agricultural, industrial...... work, a living wage, conditions of work ensuring a decent standard of life."

Table 12

Details of Labour Laws on Working Conditions

Year	(A) *Factories*: Children: Ages	(A) *Factories*: Children: Hours	(A) *Factories*: Women-Hours	(A) *Factories*: Men-Hours	(A) *Factories*: Other Provisions	(A) *Factories*: Scope	(B) *Mines*	(C) *Railways*	(D) *Plantations*
1881	7-12	9	..	..	..	Perennial factories with (i) 100 persons & (ii) use of mechanical power.	..	..	..
1891	9-14	7	11	..	*Inspection; weekly holiday,* rest periods; ventilation, cleanliness; space; *no night work for women.*	(i) 50 persons (ii) the same.	..	..	..
1911	..	6	..	12 (textiles)	*More effective* (a) inspection & (b) provisions about health & safety; half-hour *recess.*	(i) 50 persons (ii) the same, (iii) seasonal factories.	..	..	..
1922	12-15	..	11 per day, 60 per week, for both men and women.		*Inspection improved;* further extension of all provisions; one-hour recess; *overtime.*	(i) 20 persons (ii) the same.	..	Railway workshops covered by Factories Act, 1922.	..
1923 (Mines)	..	..	..	..	..	..	*Hours*: 60 above-ground; 54 below-ground; no underground work for child below 13; weekly holiday.	..	..
1928 (Mines)	..	..	..	..	..	..	12 hours per day.	..	..
1929 (Regulation for mines)	..	..	..	..	..	..	Gradual restriction of women underground.	..	..
1930 (Railways)	..	..	..	..	..	..	..	*Hours*: 60 for continuous work; 84 for intermittent work. Weekly rest. Overtime 1¼ times.	..

Table 12 (Contd.)

Details of Labour Laws on Working Conditions

Year	(A) *Factories*: Children – Ages	Children – Hours	Women-Hours	Men-Hours	Other Provisions	Scope	(B) *Mines*	(C) *Railways*	(D) *Plantations*
1932 (Tea)	..	..	..	..	..	..	..	..	Tea Districts Emigrant Labour Act.
1933 (*Children*)	Pledging of Labour Children	of Act.	..	..	..	..	..	..	..
1934 (Factories)	..	5	The same in seasonal factories; perennial: 10 & 54.		Overtime, first aid, rest shelters, creches, humidification, cooling.	..	..	..	..
1935 (Mines)	..	..	..	..	..	..	Above ground, 10 & 54; below, 9. No children *under* 15.	..	..
1946 (Factories)	..	..	Seasonal: 10 & 54; Perennial: 9 & 48.		*Overtime* at *double rate; paid holidays*: adult 10, child 14, in perennial factories.	..	..	..	..
1946 (Rajadhyaksha Award: Railways)	..	..	..	..	..	..	..	Hours: 54 for continuous work; weekly rest, *paid holiday*, leave reserves.	..
1948 (Factories) 1951 (Plantations) Details in last column 1952 (Mines)	14-18	4½	All factories: 9 and 48		*Leave with wages*, about 15 days; precise standards in health, safety, welfare; welfare officers; many new provisions; *admn.* by States.	(i) 10 persons (ii) the same (iii) 20 persons, if no power.	1952. (1) *Hours*: 48; daily: 9 above ground, 8 below ground, children under 18 not to work below ground (2) *Overtime*: 1½ times above gr.; twice below ground. (continued)	.. ..	1951. (1) *Scope*: Tea, coffee, rubber, cinchona. (2) Inspection. (3) Health, Welfare. (4) *Sickness and maternity benefits*. (continued)

Table 12 (Contd.)

Details of Labour Laws on Working Conditions

Year	(A) Factories				
	Children		Women-Hours	Men-Hours	Other Provisions
	Ages	Hours			
1954 (Factories)					1954 No night work for women and children.

	(B) Mines	(C) Railways	(D) Plantations
Scope			
	(3) *Women*: not to work below gr. or at night. (4) Provisions for health, safety, welfare. (5) *Leave with wages*: Yearly 14, for those paid on monthly basis; 7 for others. (6) Adequate penalties, including imprisonment, for breaking the law.		(5) Housing. (6) *Hours*: adults: 54; children: 40; no child under 12; no night work for children and women. (7) *Leave with wages*: about 15 for adults, 20 for children. (8) Weekly holiday. (9) ½ hour's rest after every 5 hours. *Note*: 'Leave with wages'— in factories, mines, railways, plantations, is the same as 'holidays with pay' or 'vacation'.

Table 13

Workmen's Compensation Act, 1923; amended, 1933

Type of injury	(I) *Adults* (more than 15 years old)				(II) *Minors*				Remarks
	How many months' wages		Maximum—Rs.		How many months' wages		Maximum—Rs.		
	1923	1933	1923	1933	1923	1933	1923	1933	
(1) Fatal	30	30	2500	4000	Rs. 200	Rs. 200	Rs. 200	Rs. 200	Fixed sum.
(2) Permanent	42	42	3500	5000	84 months' wages	Rs. 1200	Rs. 3500	Rs. 1200	The only case of reduction.
(3) Temporary	Half the wages		Rs. 15 per fortnight	Rs. 30 per fortnight	Two-thirds of wages		Rs. 15 per fortnight	Rs. 30 per fortnight	The same maximum as for adults
Waiting Period	To be paid after the first **ten days** of disablement; later reduced to **seven days.**								

Scope: (i) Both injuries and occupational diseases covered. (ii) All organised industries included by 1933.

Note: (a) Employers' liability; no contributions from workers. (b) No provision for medical aid. (c) Claims to be settled through Courts. (d) No separate machinery for administration.

Table 14

Social Insurance Legislation in India

(I) Sickness, Maternity & Employment Injury

Legislation	Scope of the Legislation: Industries	Scope of the Legislation: Workers	Scope of the Legislation: Risks	Benefits: in cash	Benefits: in kind	Qualifying period	Waiting period	Administration	Remarks
(1) Workmen's Compensation Act, 1923; amended, 1933, etc.	Factories, Mines, Railways, Ports, Plantations, Building trades etc.	(a) Those getting up to Rs. 400; (b) Clerks & casual workers excluded.	Employment injury by (a) accident, (b) occupational disease.	According to (a) wages, (b) whether minor or adult & (c) nature of injury. See *Table* 13.	Nil	Nil	7 days	By W.C. Commissioners, who may also be Labour Commissioners or Distt. Magistrates.	(a) Employer's liability, no contribution by workers; (b) Claims to be settled through courts; (c) details given in *Table No.* 13.
(2A) Maternity Benefits Acts, 1929–48, by 15 *Provinces* & Native States (out of 28).	(a) Factories, (b) Mines, (c) Plantations in W. Bengal & Assam.	(a) No income limit; (b) only manual workers.	Maternity	6-12 as. a day; for the majority 8 as.; usually for 8 weeks.	Nil	6-9 months' service	Nil	By Factory or Mines Inspectors, etc.	(a) Same as (a) above; (b) *varying standards;* (c) I.L.O. Convention, 1919. (d) No medical aid under (1) & (2A). Compare (d) under (2B) below.
(2B) Mines Maternity Benefit Act, 1941 (*Central* Govt.).	Mines in India.		-do-	12 as. a day for 8 weeks. Thus more than in (2A) above.	Free medical treatment; provision of creches, additional rest intervals, etc.	6 months' service	Nil	By Inspectors of Mines.	(a) Same as (a) above; (b) *Uniform standards;* (c) See (c) for (2A); (d) *free medical treatment, etc.* unlike in (2A) and (1).
(3) Employees' State Insurance (E.S.I.) Act, 1948.	Perennial factories, with power & at least 20 workers each.	Those getting up to Rs. 400. Rs. 500, from 1966;	(a) *Sickness:* .. (b) maternity:	*Generally half wages.* Half wages upto 56 days in a year. Half wages for	(i) Medical treatment & attendance;	(i) 9 months for sickness & mater-	(i) Nil for medicine (ii) For Cash:	*Autonomous* body, E.S.I. Corporn. with representatives of Govts., Lab.,	(a) A Social *insurance* law; so *contribns.* from Lab. & Cap. (ratio: 1:2);

Table 14 (Contd.)

Social Insurance Legislation in India

(I) Sickness, Maternity & Employment Injury

Legislation	Scope of the Legislation: Industries	Workers	Risks	Benefits: in cash	in kind	Qualifying Period	Waiting Period	Administration	Remarks
(Introduced in 1952; covered 31 lakh workers by 1966).			(c) Employment injury: also funeral expenses for all.	12 weeks; minm: 75 paise. Generally, half wages.	extended to *families* (ii) Provision for preventive medicine & rehabilitation.	nity benefits in cash. (ii) Nil for others.	2 days in sickness, 7 days in disablement.	Cap., Medicine, Parliament	share in costs by Govts. (b) *Integrated* scheme; so economy, efficiency. (c) *Compulsory* insurance (d) *Periodical* (not lump sum) *payments* for Injury. (e) *Scope*: much narrower than that of W.C. Act or M.B. Acts, re: 'Industries'.
(4) Maternity Benefits Act, 1961.	All factories, mines and plantations, except those covered by the E.S.I. Act. Aim: *Uniform standards for maternity* benefits.								
Remarks on various aspects of the Acts:-	See 'Remarks' (e) under the E.S.I. Act.		*'Sickness'* covered for the first time by the E.S.I. Act.		*Medical aid* for injury & maternity for the first time.			*E.S.I. Act*: better machinery. Earlier, officials had little time for this subsidiary work.	*Need for co-ordination & integration*, i.e. a single socl. sec. organisn., for all lab. in organised inds., with uniform methods of collection of contribns. & distribn. of benefits, & with common admnve. & judicial machinery, specially set up for socl. sec. — would be more cheap, efficient & equitable.

Table 15

Social Insurance Legislation in India

(II) Old Age and Unemployment

Legislation	Scope of the Legislation: Industries	Scope of the Legislation: Workers	Scope of the Legislation: Risks	Benefits and conditions	Contributions	Administration	Remarks
(1) Coal Mines Provident Fund Act, 1948.	Coal Mines.	Those getting up to Rs. 300 per month, as basic wage.	Old age	(a) *Full amount*: (i) at the age of 50, (ii) in case of permanent, total disablement (no such provision in (2) (a) below.) (b) *Partial payment*: (i) after 10-25 years' service — own contribn. & int. on it, plus *half* employer's contribn. & int. on it. (ii) less than 10 years' service — only the former above.	Vary acc. to income groups—about 6.25% of (basic wage + D.A. + overtime, etc.) Equal amount by employer. Raised to 8% in units with at least 50 workers each in 1963.	Tripartite Board of Trustees constituted by Central Govt.	All these schemes give a sense of security to labour, & so result in a stable & contented labour force — & in industrial peace and efficiency.
(2) Employees' Provident Funds Act, 1952. By 1966, 45 lakh workers covered, & fund of Rs. 650 crores.	*Factories* with at least 50 workers each, in 6 groups of inds.: textiles iron & steel, mechl. & genl. enging., cement, paper, cigarettes. (See 'Remarks')	(a) Those getting up to Rs. 500. (b) Contract labour excluded. (c) After 1 year's continuous service. cf. (3) (a) below.	Do	(a) *Full amount*: as in (a) above; & also after 20 years' service; — no such provision above. (b) After less than 5 years' service: only own contribn., with interest.	6.25% of (basic wage + D.A.) by employee & employer; raised to 8% in 1963 for the larger units in some inds.	Tripartite Central Board of Trustees, i.e. as in (1) above.	(a) The *scope* extended, to cover all industries with more than 10,000 workers each; more than 5 dozen covered, incl. tea factories, sugar.
(3) Industrial Disputes (Amendment) Act, 1953.	Indl. establishments employing more than 50 each, in scheduled inds., *factories* & *mines*. 1954—*Plantations* also.	(a) Those in continuous employment for more than a year under an employer. (b) Casual & substitute labour excluded.	Certain types of *unemployment*. (a) temporary involuntary unemployment; *lay-off*: (b) permanent *retrenchment*.	(a) *Lay-off* compensn.: *50%* of basic wages & D.A., up to *45 days* in a year. Employees not to refuse reasonable alternative employmt. & not to work elsewhere. (b) *If retrenched, 1 month's* notice (or wages) & *a gratuity* equal to 15 days' av. pay for every completed year of service.	Nil	Judicial machinery under the Industrial Disputes Act, 1947.	Should have been embodied in the socl. insce. scheme, rather than in the I.D. Act. (2) Does not apply to the smaller units covered by other lab. laws, incl. those on socl. insce.

(4) *1964. Death Relief Fund*: On the death of a Worker, at least Rs. 500 to his family.
Family Pension Scheme: Wife to get a life pension of at least Rs. 25 per month; children's pension for some years.

Table 16

Collective Bargaining since Independence

Note. Three phases: Collective bargaining is a corollary of trade unionism and has three phases: *Passive*: an advance upon having no trade unions and no joint consultation; mainly settling *past* disputes, e.g. the bonus agreements below. *Active*: deciding on a *method* for settling *future* disputes; it shows the desire of the parties to preserve industrial peace for mutual benefit. *Dynamic*: *removing* likely *causes* of dispute. The table also brings out the importance of *wages* and *personnel*, as factors in disputes. The problem of *bonus* has become prominent, as also joint consultn. & recogn. of *tr. unions*. The problems of rationalisation, and the solutions, are highlighted in No. (I) (1) below.

Year	Duration	Industries or firms	No. of workers affected	Points of Agreement	Type, etc.
(I) *At the National Level*:—					
(1) 1951	—	All Industries	—	*Rationalisation* and allied matters: (i) *Workloads* to be fixed, (ii) No fresh recruitment or filling of vacancies. (iii) *Surplus labour* to be given work in other depts., where poss. (iv) Retrenchment of only new lab., who (v) **should be *re-trained* for other work,** at Govt. cost, and maintained by employer. (vi) Higher *Wages*.	Called the 'Delhi Agreement'.
(2) 1956	—	Tea Plantns.	10 lakhs	*Bonus* for 1953-56	*'Passive'* type.
(II) *At the Level of Industry*:—					
(1) 1952	5 years	Bombay Textiles	2.5 lakhs	(1) *Bonus*: the same as (2) below. (2) Joint Committee to study the total requirements for *rehabilitation* & renovation of the industry. (3) Rs. 50 lakhs by millowners for 4,000 tenements for workers.	Of 12 agreements. 3 in 1955 & 7 in 1956.
(2) 1955	5 years	Ahmedabad Textiles	1.2 lakhs	*Bonus*: half to three months' basic income	'Passive' type
(3) 1955	1.5 years	"	"	To settle *future* disputes through negotiation or arbitration; not to go to Court.	'Active' type.
(4) 1956	1954-57	Bombay Silk	—	*Bonus*: One-third to three months' basic wages.	'Passive type'.
(III) *At the Level of the Undertaking*:—					
(1) 1955	3 years	Batanagar (Bata Shoe Co.)	—	(A) *Standing Orders*: Elaborate provisions about *personnel*: recruitment, job classificn., promotions; *wages*, *D.A.*; hours, *overtime*, holidays, leave; safety, housing, grievance procedure etc. (B) Recognn. of *trade union*, no discriminn. against members.	Earlier agreemt., 1948. I.L.O. Recommendn.—1951
(2) 1956	3 years	Jamshedpur (Tata Iron & Steel)	—	(i) Recognn. of *tr. union* as sole bargaining agent, (ii) full scope and facilities for legitimate T.U. activities, (iii) Labour's co-opern. for higher productivity, (iv) job evaluan., (v) revision of *wages* and gratuity.	'Dynamic' type,
(3) "	2 years	"	—	Three-tier system of joint consultation.	
(4) "	—	Modinagar	—	On the same lines as (III) (2) ..	'Dynamic' type,
(5) "	5 years	Belur Aluminium	—	(i) *Wages* acc. to job evaluan., (ii) *bonus*, (iii) *joint consultn.*, (iv) grievance procedure, (v) canteen, lunch allowce., night shift tiffin, grain store.	'Dynamic', replacing the one for 1951-56.
(6) "	"	Bhadravati Iron	—	(i) Rise in *wages*, (ii) payment of *bonus*, production bonus & arrears of bonus.	Replaces a 1953-56 truce

Table 17

India's Foreign Trade, 1700—1947

Period	Trade Policy and Industrial Policy	Other influences	Composition: Exports	Composition: Imports	Direction of Trade	Other features and remarks
(I) 1700—1800	(1) Silk winders forced to work in Co.'s factories, 1769. (2) Prodn. of *raw* silk to be encouraged, & that of silk *fabrics* to be discouraged, in Bengal. 1769. (3) Inland *duties* up to 1853, on Indian goods.	(1) Mogul Empire broke up, 1707; no central authority. (2) *Native princes dethroned*, 1757 onwards. (3) *Ind. Rev. in Eng.*, from 1760. (4) Result: *handicrafts* begin declining.	Cotton & silk yarn & piecegoods, minerals, drugs, spices, sugar, indigo. *Markets* developed by the Co. Old: Asia, Europe: New America, Africa.	Metals, woollen manufactures.	See under 'Exports'	(1) ***Trade suffered.*** (2) *Company's monopoly.* (3) *Indians' share in our foreign trade fell.*
(II) 1800—1850	(1) 1813 *Inquiry*: how to replace Indian manufactures by the British. (2) The latter forced on India through the G. G. & the	(1) *The New Transport*: roads, steamers. (2) Handicrafts continue declining. (3) British	Food, *raw materials*: raw cotton, silk and jute, oil seeds, dyes, hides; saltpetre.	*Manufactures*: Sugar, iron, cotton twist, and *piecegoods;* about 1850, cotton piecegoods	U.K.'s share increased.	(1) British *ships* carry our goods. (2) We become *importers of manufactures and exporters of agricultural*

Period	Trade Policy and Industrial Policy	Other influences	Composition: Exports	Composition: Imports	Direction of Trade	Other features and remarks
	Comml. Residents. (3) The former shut out from the U.K. by prohibition or by prohibitive *duties*, 70%, 80%. (4) But British goods allowed in India without duty. (5) Inland duties for Indian goods continue. (6) Weavers forced to work for the Company. (7) Company's trade monopoly abolished, 1813. (8) Company not to trade, 1833; so trade of private Britishers rose.	rule spread over major part of India; *uniform administration*. (4) uniform *currency*, 1835.		accounted for half the imports.		*products—position reversed.*

Table 17 (Contd.)

India's Foreign Trade, 1700—1947

Period	Trade Policy and Industrial Policy	Other influences	Composition: Exports	Composition: Imports	Direction of Trade	Other features and remarks
(III) 1850—1900	(1) *Free trade*—boon to England, ruinous for India. (2) *Inland duties removed* by 1853, most export duties by 1874 and most import duties by 1882, the last, under pressure from Manchester, as also, Factories Acts, 1881, 1891. Excise on mill-made cotton cloth, 1894-1926, for the same reason.	(1) *Communications and Transport* improved further; railways and roads, post and telegraph. (2) *Suez*, 1869. (3) Br. Mercantile Marine developed. (4) Due to (1), *markets* became wider and better organized; see (6) also. Huge increase in trade; *methods* of trade *revolutionized.* (5) Security of life and property. (6) Localization, and increasing production, of export crops. (7) *Famines*, 1870-80, 1896-1900.	The majority were *cheap and bulky goods,* including perishable food stuffs — wheat, Burma rice and raw materials; rapid increase in tea, coffee; oilseeds, hides and skins; raw cotton (from 1890 to Japan) and jute.	Great rise in *manufactures*: Cotton piecegoods, machinery, hardware, railway materials.	*U.K. predominant* due to: Br. rules companies; control of banks, railways, shipping and fiscal policy; commercial organizations.	(1) Steady and *huge rise* in trade up to 1914. (2) With the *Suez,* the *Modern period* begins: London to Bombay reduced from 11 to 6 thousand miles. (3) (1873-1900, *Slow growth* due to *fall in the Re.* from Sh. 2 to 1 Sh. 2d., 1872-93—violent changes in its value. (4) Due to Suez freights and insurance charges reduced, more safety, larger s. ships, quicker turnover, interest saved.
(IV) 1900—1914	Free Trade continued.	(A) *Indian*: (1) The Re. was stable at 1 Sh. 4 d. (2) Railways and irrigation expanded. (3) No famines. (B) *Others*: (1) World prosperity. (2) More gold production — prices rose.	(1) Raw materials. (2) Value of total exports doubled. (3) Some *diversion from U.K.* (in imports also—see next column).	(1) Manufactures. (2) Value of total imports doubled. (3) Japan, France, U.S. & Germany compete with *British manufactures,* which were *replaced* to some extent.	U.K. still dominant, but *diversion* in both exports and imports. Diversion contd. in next 3 periods to 1929.	*Cycle* of ups and downs, 1900-47. *Favourable Period* (1) Great increase in trade. (2) Value of both exports & imports doubled. (3) Balance of trade rose. It was generally favourable, mainly due to "Home Charges".

Table 17 (Contd.)
India's Foreign Trade, 1700—1947

Period	Trade Policy and Industrial Policy	Other influences	Composition: Exports	Composition: Imports	Direction of Trade	Other features and remarks
(V) 1914—1918	(1) Heavy *import duties* to finance the War and to keep out Japan and the U.S.A. (2) Export duties on tea, jute. (3) Favourable government *policy towards industries*: Munitions Board, 1917; Govt. factories; Indl. Comn., 1916-18.	*War* (1) Huge demand for *transport*: but submarines, dislocation. So scarcity and high freights. (2) No trade with *enemy countries*. (3) Import restrictions by, and production of war goods in, foreign countries; so imports fell. (4) Ban on export of some goods. (5) Currency and exchange muddle. (6) *Prices;* import prices rose by 168%, export prices by 50%; thus terms of trade became unfavourable.	Decrease in food stuffs and raw materials. Manufactures rose from 22.4% to 36.6% due to reduction of foreign competition. Thus *change in composition of trade.*	Imports fell heavily (also see next column).	Artificial channelization; yet manufactures from Japan and U.S.A. replace the British.	(1) *Great setback*—34% fall in *volume*. (2) *Internal trade* stimulated by reduced foreign trade and higher purchasing power. (3) Great increase in *favourable balance* of trade. (4) *Terms of trade* turned *against* India—see (6) in 'other influences'.
(VI) 1918—1923	*'Industries'* became *a provincial subject,* 1919 — Depts. of industries—some giving technical aid, trade information and help in starting industries.	(A) *External*: (1) Short-sighted Treaty of Versailles. (2) Heavy tariffs. (3) Exchange dislocation. (4) Gold Standard given up. (5) England—deflation; Germany — inflation. (6) Depression, 1920-22. (7) War-time restrictions disappear. (B) *Internal*: (1) More industrialization. (2) Boycott of Br.	More manufactures.	(1) Fall in manufactures—piece-goods; (2) Rise in mineral oils, chemicals, broken rice. (3) Imports stimulated by high exchange.	(1) Fall in **imports** from England. (2) Empire's share rose. (3) Trade with most of the important countries. (4) Raw cotton exports to Japan.	*Unfavourable period*: (1) Terms of trade turned against India. (2) Both exports and imports fell. (3) *Adverse balance* of trade, 1920-22.

Table 17 (Contd.)

India's Foreign Trade, 1700—1947

Period	Trade Policy and Industrial Policy	Other influences	Composition: Exports	Composition: Imports	Direction of Trade	Other features and remarks
		goods. (3) Deflation—fall in prices — inactivity and strikes. (4) "Industries" became a Provincial subject. (5) Artificial rate of exchange — Sh. 2 gold. (6) Failure of rains, 1918-1920, and so high agricultural prices in India.				
(VII) 1923—29	(1) Discriminating *Protection* from 1923.	(A) *External*: (1) Recovery the world over (2) Europe politically and economically	(1) Much rise in manufactures like cotton and jute products. (2) Foodstuffs re-	Fall in manufactures.	(1) *Diversion from U.K. continues,* especially in imports—	*Improvement*: (1) Substantial adjustment of export and import *prices.* (2) Slow recovery;

Period	Trade Policy and Industrial Policy	Other influences	Composition: Exports	Composition: Imports	Direction of Trade	Other features and remarks
		normal. (3) England on Gold Standard 1925. (B) *Internal*: 1sh. 6d. ratio.	covered from the heavy wartime fall.		Japan, U.S., Germany gain.	pre-war *volume* surpassed in 1927-28.
(VIII) 1929—1935	*Several Trade Agreements*: (1) *Ottawa Agreement,* 1932. Imperial Preference. (2) Mody-Lees Pact with Lancashire, 1933-35. (3) Agreement with Japan, 1934. (4) Indo-British Trade Agreement, 1935, supplementary to Ottawa. (See 'Direction of Trade'.)	(A) *External*: (1) *The Great Depression; collapse of prices, especially agricultural,* the world over. (2) England left the Gold Std., 1931. (B) *Internal*: (1) More production of cotton **textiles, sugar** & iron and steel products due to protection. (2) 'Satyagraha' movement: use of 'Swadeshi' (Indian) products encouraged.	(1) *Fall.* (2) Much fall in export of food grains. (3) Huge export of *"distress gold"*, due to agricultural distress. (4) Heavy fall in twist and yarn.	(1) Fall, but more steady. (2) Heavy fall in cotton piecegoods, iron and steel products and sugar.	(1) Rise in imports from U.K (2) Tr. with Empire grew. (3) Fall in trade with Java and U.S.A. *Thus diversion towards U.K. and Empire.* (See 'Trade policy'.)	*Set-back*: (1) *Terms of trade* turned against India: greater fall in agricultural prices. So greater fall in value of exports. (2) World trade *recovering since 1933;* India's also: our exports and balance of trade improve.

Table 17 (Contd.)

India's Foreign Trade, 1700—1947

Period	Trade Policy and Industrial Policy	Other influences	Composition: Exports	Composition: Imports	Direction of Trade	Other features and remarks
(IX) 1935—1939		(A) *External*: (1) Rise in agricultural prices, due to depletion of stocks and restrictions on production. (2) Devaluation. (3) Armaments race. (4) *Trade revival*, partly due to (3). (B) *Internal*: (1) Burma separated, 1935. (2) More industrialization.	Substantial *revival*, particularly in *raw cotton* and jute *manufactures*. The latter were the most important export group, tea was second, oilseeds a close third; & No. 4 was grain, pulse & flour.	Rise in imports of machinery.		*Revival*: (1) World trade 15% less in volume in '36-37 than in 1929. (2) Export and import *prices* move nearer. (3) *Balance of trade* favourable. (4) Exports recover substantially.
(X) 1939—1947	(1) Controls, priorities, licences. (2) Two Reports on raising industrial production not even published in India. (3) Govt. did not accept proposals for producing several means of transport, in spite of their acute shortage, which hindered the war effort.	*War*. Compare effects of 1st. World War: (1) No Trade with 'enemy countries' and some neutrals. (2) Rise in *demand* and *prices*: more demand from Allies, new markets in Middle East. (3) Much shortage of *shipping*; very high freights and insurance charges.	(1) Fall. (2) proportion of *manufactures* went on *rising*, especially jute and cotton. (3) Proportion of raw materials fell, due to industrial growth.	(1) *Heavy fall*.	(1) No trade with 'enemies' and some neutrals. (2) More trade with the Commonwealth. (3) Much more trade with U.S. (4) More trade with the Middle East, especially exports of manufactures, replacing England and Germany.	(1) The balance of trade very favourable up to 1944; then adverse. (2) After the War, rise in both value and volume of trade.

Table 18

Commissions (and Committees) on Currency and Exchange, 1866—1926

Name and Year	*Circumstances* that led to the appointment	Recommendations: About the Standard of Currency	Recommendations: About the Exchange Ratio	Recommendations: Others—and Remarks	Government's Reaction
(1) Mansfield Commission, 1866.	(1) Public demand for Gold Standard. (2) Government of India also pressed for it.	(1) To introduce gold as legal tender.	Re. 1=2 sh. (so £.1=Rs. 10)	(1) First of its kind. (2) No Indian on it.	Recommendation about Gold Standard not accepted.
(2) Herschell Committee, 1892-93.	(1) Rapid fall in the price of silver; so rise in prices; and fall, and instability, in exchange. Surplus budget became deficit, so higher taxation. So men and institutions connected with commerce agitated for closing the mints to the free coinage of silver and	(1) To close the mints to the free coinage of silver to the public. (2) No specific provision for introducing Gold Standard; but to be introduced after (a) a period of transition & (b) building up a gold reserve.	Re. 1=1 sh. 4 d. (so £1 =Rs. 15)	(1) No Indian on it.	Act of 1893: (1) Closing the mints to the free coinage of silver. (2) Ratio of 1 sh. 4d. also introduced.

	for adopting the Gold Standard, 1878-92. (2) Government of India made the same recommendations, 1892.				
(3) Fowler Committee, 1898.	Government of India asked for ending the period of transition to the Gold Standard, 1898.	To adopt Gold Standard, as (a) it would attract capital from Gold Standard countries, which had it—and India needed it; (b) 80% of India's trade was with Gold Standard countries. So it would facilitate interchange.	Re. 1=1 sh. 4 d.	(1) No Indian on it.	Entirely accepted by the Act of 1899, which made the sovereign and half sovereign legal tender, along with the rupee. Later, manipulation to Gold *Exchange* Standard.
(4) Chamberlain Commission, 1913-14.	*Crisis* of 1907-08: (1) Gold reserves fell heavily; (2) the exchange fell; (3) fall in exports. (4) Strong public criticism. (5) So Govern-	To discard the idea of Gold Standard with gold currency, as (a) people neither desire, nor need, gold currency, (b) *Gold Exchange Standard* is	—	(1) Paper Currency to be made more elastic. (2) One Indian on it.	Gold *Exchange* Standard to be continued.

Table 20—(Contd.)

N.B.—Study both 'horizontally' and 'vertically'.

Agriculture under the Five-Year Plans

Plan and Period	Investment: % of public sector outlay (agriculture + community development) i.e. *relative* investment	Investment: Expenditure: crores of Rs. i.e. investment in *absolute* terms	Result of this investment	Other causes of this result	Other features	Lessons for the future
			nes. As a symbol of the '*Wheat Revolution — 1968*', we have a 20-paise postage stamp. In 1965 Shastriji gave us the slogan 'Jai Kisan' (Victory to the Farmer), which is depicted on a 15-paise stamp. The farmer does seem to have been victorious in '67-68, with the help of the agricultural scientist.			(6) *Surplus farm income*: It must be mopped up, through higher taxes, loans, & irrigation charges; & stoppage of subsidies. Otherwise, waste through conspicuous consumption, purchase of gold, silver & land; danger of inflation. Also, encourage farmers to re-invest in land.

Fertilizer output:

lakhs of tons

Type	*Targets*	*Actuals*
Nitrogenous	8	4.5
Phosphatic	3.3	1.8

Growth rate per year:

Population :	2.4%	So, rising demand for food.
Income :	4%	
Food :	2.6%	So imperative need to *check growth of population.*

Table 18 (Contd.)

Commissions (and Committees) on Currency and Exchange, 1866—1926

Name and Year	*Circumstances* that led to the appointment	Recommendations: About the Standard of Currency	Recommendations: About the Exchange Ratio	Recommendations: Others—and Remarks	Government's Reaction
	ment began a long correspondence and particularly criticized the Secretary of State for India.	very similar to other systems, (c) people must be educated to use more economical forms of currency.			
(5) Babington-Smith Committee, 1919.	The Silver Crisis, 1917-19. Great rise in the price of silver and in the exchange ratio.	—	Re. 1=2 sh. gold.	(1) One Indian, whose Minority Report insisted on the ratio of 1sh. 4d.	Majority view accepted.
(6) Hilton-Young Commission, 1925-26.	In spite of Government efforts to keep *the exchange* at 2 sh. gold, it fell till it reached 1 sh. 5 d. This involved a huge loss to Govt. and importers. So the Commission was appointed to examine the currency and exchange system and to recommend changes '*in the interests of India*'.	The currency should be based on a more simple, certain and stable basis. Gold should be the standard of value, but should not circulate; i.e. *Gold Bullion Standard* as in England (1925-31).	The majority for 1 sh. 6d. i.e., £1= Rs. 13.33. The minority favoured 1 sh. 4 d.	(1) *Reserve Bank* of India to be started, with proportional reserve. (2) 11 members—4 Indians, of whom Sir. P.T. wrote a Minority Note.	(1) 1 sh. 6 d. accepted. (2) Gold Bullion Standard and Reserve Bank could not be established. Reserve Bank started in 1935.

Table 19

Irrigation under the Plans

Plan & Period	Irrigation potential created–in million acres			Irrigated land, as percentage of cultivated land	Utilization of potential created during the Plan: per cent	Irrigation potential as percentage of usable flow of water	Investment in irrigation, in crores of Rs.	
	Major & Medium works	Minor Works	Total				Major & Medium works	Minor Works
Pre-Plan 1951.	22	29.5	51.5	19	—	17	—	—
I Plan 1951-56.	6.5	9.7	—	—	48	—	256	225
II Plan 1956-61	11.7		—	—	71	27	420	
III Plan 1961-66.	19.6	13	32.6	—	79	36	650	174
All Plans	37.8	22.7	60.5	—	—	—	1326	399
Total including pre-Plan	59.8	52.2	112	29	—	—	—	—

N.B. See also '*Note on Irrigation under the Plans*', which supplements the table.

A Note on Irrigation under the Plans

A supplement to Table 19

Inadequate utilization: The woeful gap between the potential created and its utilization was due primarily to the delay in the construction of field channels. This, in turn, was the result of financial difficulties and the lack of adequate preparation of the land. The other factors were the lack of financial and other facilities, the farmers' ignorance or unpreparedness, inadequate preparation of projects, lack of technical experts, rise of sub-soil water and absence of proper co-ordination between the supply of water and that of other inputs. However, there has been a tremendous improvement over the plan period, but there is no cause for complacency.

Other Problems. Low Returns etc.: For instance returns through betterment levies etc. are disappointing. The remedies are: the education of farmers in the economical use of water and in developing a suitable crop pattern, linking irrigation charges to the amount of water consumed, imposition of a compulsory water cess, rise in the water rate, reduction in working expenses; and co-ordination of the construction of head-works, canals, distributaries, field channels and culverts. An effort should also be made to have double cropping in the irrigated areas. Lastly, there are the problems of salt-effervescence and water-logging; the latter is sometimes the result of a wrong choice in the location of the works.

The Minor Works: The major works are very impressive and the States fight for having them. But the minor (and medium) works have their special advantages. Their principal benefit is quick returns. The other advantages are: spread of employment, smaller cost, ability to cover the entire country with irrigation and lastly, no need to have a highly trained staff.

Their relative position: In spite of these advantages, the minor works did not receive enough attention from Government. Particularly in the first two Plans, when the major and medium works added 18.2 million acres to the irrigation potential, the addition to minor works was only 9.7, i.e. about 50% of the former. The figures for the Third Plan show some improvement in the position: they are 19.6 and 13 respectively, i.e. the latter is about 66% of the former. But even this improvement occurred mainly in 1964-66, the last two years of the Plan, after the emergency created by the Chinese invasion in October 1962. During these two years Rs. 143 crores (out of the Plan total of Rs. 174 crores) were invested in the minor works. In spite of this the relative position in 1966, as compared to 1951, was reversed. In 1951 the minor works supplied irrigation to a substantially larger area than the others. In 1966 it was the other way about. The share of the major and medium works grew from 22 million acres to about 60, something like trebling (or about 200% more). But the share of the minor works rose from 29.5 million acres to about 52 only, an increase of about 77%.

Let us now compare the irrigation potential created (by the two types of works) to the relative investment in them. The minor works received less than one-third (i.e. 33%) of the investment in the other works; but they added about 60% of the potential created by the other works. Of course we must remember that many of the latter are multi-purpose projects

As a symbol of these, we have a 1-anna postage stamp on the Tilaiya dam on the Damodar.

The overall situation: However, the total potential was more than doubled during the three Plans, growing from 51.5 million acres to 112. There was a similar doubling of this potential relative to the usable flow of water — from 17% to 36%. Thus more was achieved in these 15 years of planning than in the 150 years under the British. The total area which can be irrigated is about 190 million acres, or about half the cultivated land. Today the area under irrigation is about 29% of the land under the plough. Thus we have yet a good deal of the way to cover. And the works which will be taken up now will cost more. The task before us is, therefore, still a tremendous one. So far, during the three Plans, about Rs. 1700 crores have been invested in all works. This shows the huge amount of funds that will be needed to irrigate half the arable land in the years to come. It also makes the irrigation works one of the two greatest public undertakings in the country, along with the railways.

One point may need explaining: the irrigated area was 55 million acres in 1939-40, but only 51.5 million acres in 1951. That was due to the partition of the country in 1947. Some big works, like those in the Punjab and the Sukkur Barrage in Sind, are now in Pakistan.

Table 20

N.B.—Study both 'horizontally' and 'vertically'.

Agriculture under the Five-Year Plans

Plan and Period	Investment: % of public sector outlay (agriculture + community development) i.e. *relative* investment	Investment: Expenditure: crores of Rs. i.e. investment in *absolute* terms	Result of this investment	Other causes of this result	Other features	Lessons for the future
I Plan 1951-56	15	206	*17%* rise in output; more in cash crops. Comfortable food position.	(1) Good *Weather*. (2) 15% rise in *acreage*. (3) 5% rise in *productivity*.	*A good record.* In the first two Plans, 4% rise in output per year, equal to the world's.	(1) *Investment*: It was more than doubled in the II Plan and again doubled in the III Plan. But the results do not correspond to this great increase. So, other factors are very important; they follow.
II Plan 1956-61	11 Thus, less than in I Plan.	530	*20%* rise in output, but serious shortfalls in a few major items: cotton, jute, oilseeds—i.e. the cash crops	(1) *Bad weather* 1957-58, '59-60, (2) Inadequate *inputs*: irrigation, seeds, fertilizers etc. (3) *Complacency*. (4) 18% rise in *productivity*.	Attempt at *diversified pattern*: More emphasis on cattle, fisheries etc.	(2) *Weather*: Unpredictable and often crucial. So, we must allow for bad seasons, get more out of irrigation (see 'Note on Irrigation') & build up buffer stocks of food, cotton etc.
III Plan 1961-66	**14** Thus, rise to about the level of the I Plan.	**1050**	*30%* rise in output *planned*, but less than half that *expected* now. In *1961-65*, *2.8%* rise per year (compound rate) — *target*: *5.4%*. *Foodgrains* target: 101.6 million tonnes; estimate: 72.3 million tonnes, i.e. shortfall of 29%. *1967-68*: estimate: 95-100 million ton-	(1) Vagaries of *weather*: e.g. 2 *famines* in 1965-67 (2) No consistent *policy* (3) Faulty *implementation*: non-utilization of irrigation potential, inadequate credit & inputs, e.g. fertilizer output: see next column.		(3) *Acreage*: 15% rise in I Plan, no such rise later. Will have to depend on higher productivity for increasing output. (4) *Diversification*. When sure of enough grains, we must aim at nutritious, balanced and varied diet. (5) *Govt's. role*: Complacency, lack of consistent policy & faulty implementation have to go.

Table 21

N.B.—For a shorter version please refer to **Table 22.**

Corporations for Industrial Finance and Development

(1)	(2)	(3)	(4)	(5)	(6)	(7)
No., name, & year of establishment, etc.	**Capital authorised, etc.**	**Functions**	**Type & Period of loan; rate of interest**	**Limits of Amount of loan; & to which units, (their size)**	**Total loans**	**Ownership and other features**
(I) The Indl. Finance Corporation, 1948 (The I.F.C.)	Rs. 10 crores. The public can*not* buy its shares. Reserves: Rs. 3 crores. *Debentures*: Rs. 33 crores. *Loans from Govt.*: Rs. 40 crores. Share Capital: Rs. 8 crores.	(*i*) To *guarantee loans* of indl. concerns, which are *public* limited cos. (*ii*) To give them *loans* – & to indl. co-opves. (*iii*) To *buy* their *shares* & *debentures*. (*iv*) To *underwrite* these. (*v*) To guarantee deferred payments for purchase of machinery. *1948-68*: Net amt. sanctioned, in crores of Rs. *for* (*i*)–51; *for* (*iii*) & (*iv*)–25; *for* (*ii*), *in Rs.* –190, *in forn. currencies* –38. For *new projects*–200; *old* projects–105.	*Long-term*: up to 25 yrs. Present effective rate, 8% on Rupee loans.	*Rs. 10 lakhs to 1 crore, to large public,* limited cos.	*1948-68*: Rs. 409 crores sanctioned; net sanctioned: 305. Outstanding: 187.	(*a*) *A mixed instn.*, owned by the Central Govt., the Reserve Bank (R. Bank) & priv. instnal. investors — banks, L.I.C. etc. (*b*) The *shares of Govt. & the R. Bank now transferred to the I.D.B.I.* – No. (VII) here – *which owns 50%. Thus* the I.F.C. *is a subsidiary of the I.D.B.I.*
(II) The State Financl. Corporns., from 1951, in all 15 States. (S.F.C.s.)	(1) Rs. 33 crores in all. (2) *Bonds* & debentures: Rs. 26 crores.	Loans to *public & private* limited *cos., partnerships,* indl. co-opves & private concerns. *Methods of finance*: The same as (i), (ii), & (iv) above. *The State Bank* has lent a large amount to small units.	*Long & medium term,* up-to 20 yrs. *Int.*: 8 to 9%	*Rs. 1 to 10 lakhs, to medium & small units,* under any type of ownership. Smaller loans by Depts. of State Govts.	*1953-66*: Rs. 123 crores sanctioned. So far, *mainly loan cap. for fixed assets* — land, bldgs., machs.; *& more to medium units* than the small ones.	(*a*) The same as (a) above, but incl. State Govts. (*b*) The *R. Bank* can *inspect* them; & *co-ordinates* them with the banking instns. (*c*) *Supplements the I.F.C., which lends* to only *large* units— & *for a long period* only; cf. (I). (*d*) So far, mainly *loan capital* for fixed assets; – & more to *medium* units.

Table 21—(Contd.)

N.B.—For a **shorter version** please refer to **Table 22.**

Corporations for Industrial Finance and Development

(1) No., name, & year of establishment, etc.	(2) Capital authorised, etc.	(3) Functions	(4) Type & Period of loan; rate of interest	(5) Limits of Amount of loan; & to which units, (their size)	(6) Total loans	(7) Ownership and other features
(III) The Natl. Indl. Development Corporn, 1954 to 1964 (N.I.D.C.)	(1) Rs. 1 crore; (2) paid-up: Rs. 10 lakhs, all from Govt. of India.	(*i*) To set up new inds. or develop new lines of prodn. in basic & heavy inds., where priv. cap. is shy. due to risk & huge amount. (*ii*) Design & consultancy services. (*iii*) *To finance rehabilitn.* & modernizn. *of cotton, jute* & mach. tools inds. *Methods of finance*: as under (I), the I.F.C.	**Up to** *15 yrs. Int.*: 7.5%; 5%, if paid in time.	*To large* **units.**	Sanctioned, *up to* March, *1966*: (1) Cotton: Rs. 19.7 crores (2) Jute: Rs. 7.5 crores (3) mach. tools: Rs. 1 crore. Total: Rs. 28.4 crores.	(*a*) Emphasis on *developmental* rather than on purely financing *functions.* Comp. (V): N.S.I.C. (*b*) March, *1964*: activities ended. Most *functions transferred to the I.D.B.I.*, i.e. **(VII)**.
(IV) The Indl. Credit & Investmt. Corporn. of India, 1955. (I.C.I.C.I.)	(*1*) Rs. 25 crores. (*2*) Shares by Indn. & forn. priv. investors. (*3*) *World Bank*: Several long-term loans: $140 million. (*4*) *Govt. loans*: Rs. 7.5 crores + 20 crores, incl. Rs. 10 crores from *P.L. 480* counterpart *funds.* (*5*) Int. free deposit, of Rs. 7.5 crores, from the *Techl. Coopn. Admn.* of the U.S.A. (*6*) Power to borrow, upto 3 times paid-up cap. & Govt. *deposit*; etc. *Total* cap.: Rs. *42* crores + $140 million.	To assist, expand & modernize priv. indl. units. Main function: underwriting; provides equity cap., by buying shares. Loans. Guarantee for loans. *Impt. source of forn. exchange, esplly. from World Bank*, to import machry. & materials.	***Long & medium term*** **loans. 7 to 8% interest.**	*Rs. 5 lakhs to Rs. 1 crore to large units.*	*1955-65*: *Rs. 124 crores, half in forn. currency, to 390 cos.*, 179 of them new. Sanctioned in *1964*: Rs. 22.7 crores; *1965*: Rs. 24.2 crores; *1966*: Rs. 18.9 crores. *Total underwriting*, up to 1965: Rs. 28 crores.	(*a*) Owned & managed by priv. industrialists & bankers, but largely helped by Govt.

Table 21—(Contd.)

N.B.—For a shorter version please refer to Table 22.

Corporations for Industrial Finance and Development

(1) No., name, & year of establishment, etc.	(2) Capital authorised, etc.	(3) Functions	(4) Type & Period of loan; rate of interest	(5) Limits of Amount of loan; & to which units, (their size)	(6) Total loans	(7) Ownership and other features
(V) The National Small Inds. Corporn., 1955 (N.S.I.C.)	(*1*) Rs. 10 lakhs by Govt. (*2*) Loans by it. (*3*) Long-term loan from the U.S.A., of $10 million, for importing machs.—also from others, for the same.	*To promote small inds.*, i.e. with cap. below Rs. 5 lakhs. *Methods*: (*1*) *Marketing* service, at home & abroad. (*2*) Hire-purchase of *machs.* (*3*) To stock & supply iron & steel & other *raw materls.* (*4*) To develop *ancillary inds.* Thus, *not a pure financing instn.*; in this, it is *like the N.I.D.C.*, which helped only large units. *Most States* have now *similar* Small Industries *Corporns.*	*Medium term.* To buy machines, *8 years,* at 4.5% to 6%; 1% less for co-opves.	*To small units.*	*Orders* from Govt. Depts. and Railways. *Supplied Macchines,* worth — & 16,000 Machines worth *Rs. 25 crores by 31.3.'66.*	*Crores of Rs.* *1963-64* / *1964-65* 34.2 / 17.3 5.4 / 3.6
(VI) The Refinance Corporn. for Industry Pvt. Ltd., 1958-64. (R.C.I.)	(1) Rs. 25 crores. (2) Rs. 26 crores from the sale of U.S. Wheat under P.L. 480.	*Re-finance to* comml. banks, in loans *for buying machs.*, equipment etc., through re-discounting of bills. Less of official element & more flexibility re. credit worthiness. 1960, '61: The Scheme liberalised in 5 respects. Refinance *to State Financl. Corporns. also.* Widening *range of inds.* & more refinance to *new units;* e.g. in 1963, 60% of sanctioned amt. was for starting new units.	*Medium term*: 3 to 7 years. *Int.*: 5%; later, 5.5%.	*Up to* Rs. 50 lakhs; later: 1 crore; to *Medium-size units* (with cap. of Rs. 5 to 250 lakhs).	*1958-64*: Sanctioned — Rs. 75 crores. Refinance to 19 instns. in 1962, & to 27 in 1963, including banks & State Financl. Corporns.	(*a*) Shares worth Rs. 12.5 crores by the R. Bank, the L.I.C. and 15 large banks. (*b*) 1964: merged with the (I.D.B.I.) i.e. (VII) below.

Table 21—(Contd.)

N.B.—For a shorter version please refer to **Table 22.**

Corporations for Industrial Finance and Development

(1) No., name, & year of establishment, etc.	(2) Capital authorised, etc.	(3) Functions	(4) Type & Period of loan; rate of interest	(5) Limits of Amount of loan; & to which units, (their size)	(6) Total loans	(7) Ownership and other features
(VII) The Industrial Development Bank of India, 1964 (I.D.B.I.)	(*1*) *Rs. 50 crores.* (*2*) Interest-free 15-Year *loan by Govt.*: Rs. crores: 10+45. (*3*) Can issue *bonds,* like the other Corporns. (*4*) Can borrow from the *National Indl. Credit Fund* (started by the R. Bank), which will have Rs. 35 crores by 1969.	As the *apex instn.*, in the structure of term-lending Corporations, it co-ordinates and supplements their activities, in two ways. The amounts *sanctioned* in *1965-66* are given below, in *crores* of *Rs.*, against the method of help. (*A*) *Direct* (or primary) *lending,* through: (1) loans .. 42 (2) purchase of their shares, debents. etc. .. 2 (3) underwriting these .. 13 (4) guaranteeing their loans & deferred payments 10 *Total*: 64.5 *Disbursed*: 58 crores of Rs., to 38 units, mostly new, with a wide range.	*Long & Medium term*: 3 to 25 years. *Interest*: 8% on direct loans.	Up to Rs 1 crore for re-finance. Earlier: 50 lakhs.	*Total* finance sanctioned in *1965-66*: Rs. 106 crores. (A) *Direct* lending: 64.5 (B) *Indirect* lending: 42 —Details in col. (3).	(a) A wholly owned *subsidiary of the R. Bank,* which manages it. (*b*) *Why set up*: finance by the above not enough; & much greater freedom needed.

Table 21—(Contd.)

N.B.—For a **shorter version** please refer to **Table 22.**

Corporations for Industrial Finance and Development

(1)	(2)	(3)	(4)	(5)	(6)	(7)
No., name, & year of establish-*ment, etc.*	Capital authorised, etc.	Functions	Type & Period of loan; rate of interest	Limits of Amount of loan; & to which units, (their size)	Total loans	Ownership and other features
		(*B*) *Indirectly, through refinance*: (*1*) re-financing loans, of the other financl. instns., for 3-25 years; & of comml. (& State Co-opve.) banks for 3-10 years; & of export credits of 0.50 to 10 years. .. 25 (*2*) Re-discounting bills of industrial units .. *17* *Thus total* sanctioned (in 1965-66) .. 42 *Total of* (*A*) *&* (*B*) 106 As we saw above, No. (VI)—the R.C.I.—merged with the I.D. Bank, when the latter was estd. in 1964. The *total re-finance, incl.* that by the *R.C.I.*, in *1958-66* was Rs. *102 crores, for 663 applicns.*				

Table 22

N.B.—For a **Fuller version** please refer to **Table 21.**

Corporations for Industrial Finance and Development.

Number	Name	Year of establishment etc.	Authorized capital *crores* of Rs.	Period of loan	Up to how many *years*	Rate of interest	Amount of loan—*lakhs* of Rs. — Minm.	Maxm.	Total loans—*crores of* Rs.	Loans *to which units*—their size	Ownership and other features
(I)	The I.F.C. (The Indl. Finance Corporn.)	1948	10	long	25	Effective rate, 8% on Rupee loans	10	100	Net amt. sanctioned: 305 in 1948-68.	*large, public,* limited cos.	(*a*) *A mixed instn.*, owned by the Cent. Govt., the Reserve Bank (R. Bank), L.I.C., Comml. banks etc. (*b*) Since 1964, *a subsidiary of the I.D.B.I.*—No. VII (*c*) *Other sources of funds*: (i) Loans from Govt.: Rs. 40 crores (ii) Bonds & debentures: Rs. 33 crores (iii) Loans from abroad.
(II)	The S.F.C.S.—in all 15 States (The State Financl. Corporns.)	From 1951	33 in all. Bonds etc.: Rs. 26 crores	long & medium	20	8 to 9%	1	10	123 sanctioned, 1953-66	Medium & small — under any type of ownership.	(*a*) The same as (a) above, but incl. State Govts. (*b*) *Supplements the I.F.C.*, which lends to only large units — and for a long period only. (*c*) So far, mainly *loan cap.* for fixed assets;—& more *to medium units.*
(III)	The N.I.D.C. (The Natl. Indl. Development Corporn.)	1954 to 1964	1	long	15	7.5%	—	—	28 sanctioned up to 31.3.'66	large	(*a*) *Emphasis on development*, rather than finance —Comp. (V), the N.S.I.C., *rehabiltn. of cotton & jute inds.* (*b*) *1964: wound up;* most *functions transferred to the I.D.B.I.*—No. (VII) here.

Table 22—(Contd.)

N.B.—For a Fuller version please refer to **Table 21.**

Corporations for Industrial Finance and Development

Number	Name	Year of esta-blish-ment etc.	Authorized capital *crores* of Rs.	Period of loan	Up to how many *years*	Rate of interest	Amount of loan—*lakhs* of Rs. Minm.	Maxm.	Total loans—crores of Rs.	Loans *to* which *units*—their size	Ownership and other features
(IV)	The I.C.I.C.I. (The Indl. Credit & Investmt. Corporn.)	1955	25. Total cap.: Rs. 42 crores plus $140 million.	long & medium	—	7 to 8%	5	100	143 by 1966	large	(*a*) Priv. instn., but large loans by Govt., incl. Rs. 10 crores from P.L. 480 counterpart funds & other help from the U.S.A. (*b*) *World Bank loans in forn. currencies*: $140 million.
(V)	The N.S.I.C. (The Natl. Small Inds. Corporn.)	1955	0.10 (Rs. 10 lakhs)	Medium	8	4.5 to 6%	—	—	—	small	(*a*) *Marketing service*: Orders worth tens of crores of Rs. from Govt. & rwys. (*b*) *Supplied machines,* worth crores of Rs., under hire-purchase. (*c*) Other *developmental* activities. (*d*) Thus, like (III) – the N.I.D.C. (*e*) *Most States* have now similar Small Inds. Corporns.
(VI)	The R.C.I. (The Refinance Corporn. for Ind. Pvt. Ltd.)	1958 to 1964	25; & 26 from the sale of U.S. Wheat under P.L. 480	Medium	3 to 7	5.5%	—	100	75	medium	(*a*) Shares held by the R. Bank, L.I.C. & 15 large banks. (*b*) *Refinance for buying machines* etc. (*c*) *1964*: *merged with* (VII) *–The I.D.B.I.* below.

Table 22—(Contd.)

N.B.—For a **Fuller** version please refer to **Table 21.**

Corporations for Industrial Finance and Development.

Number	Name	Year of esta-blish-ment etc.	Authorized capital *crores* of Rs.	Period of loan	how many *years*	Rate of interest	Amount of loan *lakhs* of Rs. — Minm.	Amount of loan *lakhs* of Rs. — Maxm.	Total loans — *crores* of Rs.	Loans to which units their size	Ownership and other features
(VII)	The I.D.B.I. (The Indl. Developmt. Bank for India.)	1964	(1) 50. (2) Int. free 15-Yr. loan by Govt.: 10 plus 45 (3) Can issue bonds, like the other Corporns. (4) Loans from the Natl. Indl. Credit Fund, which will be 35 crores of Rs. in 1969.	Long & Medium	3 to 25	8% for direct loans	—	100	106 sanctioned in 1965-66.		(*a*) A wholly owned *subsidiary of the R. Bank,* which manages it. (*b*) *Why set up*: finance by the above not enough; & much greater freedom needed. (*c*) *2 types* of finance: (*A*) *direct* (*or primary*) lending, like the other Corporns. for term-finance. (*B*) *indirectly through re-finance* of loans by comml. banks & the other term-lending Corporns; & the re-discounting of bills of indl. units. *Details* given *below.*

(VII) The I.D.B.I. — Amounts sanctioned, in 1965-66, in crores of Rs.

(A) *Direct* (*primary*) *lending*:

(1) Loans:	42
(2) Purchase of Shares:	2
(3) Their underwriting:	11
(4) Guaranteeing loans & deferred payments:	10

Total: *64.5. Disbursed*: *58 crores to 38 units, mostly new, with a wide range.*

(B) *Indirectly,* through *re-finance*:

(1) of loans by the other Corporns. .. & of loans by comml., & State Co-opve. Banks:	25
(2) Re-discounting of bills of indl. units: ..	17

Total: *re-finance, 1958-66, incl. that by* (*VI*) — the R.C.I., *Rs. 102 crores, for 663 applicns.* Sanctioned in *1965-66*: *42 crores.*

Thus total finance sanctioned in *1965-66*: *Rs. 106 crores.*

THE LANDMARKS

Note: For a connected account please refer to Section I, Chapter I.

(I) The Trading Company, 1600-1765:

1600 The East India Company was granted a Charter, by Queen Elizabeth I of England, to trade with the East.

1707 Death of Aurangzeb, the last Great Mogul.

1757 The Battle of Plassey — beginning of the British Empire in India.

1760 The Industrial Revolution begins in England.

(II) The Ruling Power, 1765-1858:

1765 The Company obtains the 'diwani' from the Mogul.

1773 The Regulating Act.

1793 The first Charter Act. Permanent Settlement in Bengal.

1813 The Charter Act abolished the Company's monopoly of trade with India.

1833 The Company's right to trade abolished.

1835-93 The Silver Standard.

1848 Gold discovered in California.

1849 The Abolition of Corn Laws in England.

1850 Gold discovered in Australia.

1850s The new Public Works Dept. of Dalhousie built modern roads in India.

1853 The first Railway line opened in India. The first factory, a cotton mill in Bombay.

1857 The Sepoy Mutiny.

(III) Under the Crown, 1858-1914:

1858 The Crown took over the Governance of India.

1861 The Indian Councils Act.

1861-65 The American Civil War.

1869 The Suez Canal opened.

1881	The first Factory Act.
1885	The Indian National Congress founded.
1893	1 sh. 4 d. ratio.
1894-1926	Excise duty on millmade cotton cloth.
1904	The Co-operative Movement born.
1905	Japan's victory over Russia. The Partition of Bengal — the 'Swadeshi' Movement.
1909	Morley—Minto Reforms. Tata Iron and Steel Company established.
1913-14	The Chamberlain Commission — Gold Exchange Standard.

(IV) From the First World War to the Second, 1914-39:

1914-18	World War.
1916-18	The Industrial Commission.
1918-20	The Post-War boom.
1919	The I.L.O. established Montague-Chelmsford Reforms — Dyarchy in the Provinces. Rowlett Act — Massacre at Jallianwala Baug.
1920	The Non-cooperation Movement launched.
1920-22	The post-War depression.
1920-21	Acworth Committee on Railways.
1923	Discriminating Protection. Workmen's Compensation Act.
1926	The Trade Unions Act.
1927	1 sh. 6 d. ratio.
1929	Maternity Benefits Act, Bombay. Industrial Disputes Act.
From 1929	The Great Depression — export of 'distress gold'.
1930	The 'Satyagraha' Movement launched.
1930-31	The Royal Commission on Labour.
1932	The Ottawa Agreement — Imperial Preference.
1935	The Govt. of India Act. Burma to be separated. The Reserve Bank of India.
1936	The Indian Companies (Amendment) Act. The Payment of Wages Act.
1937-39	Provincial Autonomy — Popular Governments in the Provinces.

(V) The Second World War and after, 1939-47:

1939-45	The Second World War. Inflation. Food Problem.
1942	The 'Quit-India' Movement. Tripartite Labour Conferences.

(VI) Independence and Planning, Wars and Famines, 1947-68:

1947	Independence and Partition.
1948	Minimum Wages Act, E.S.I. Act, Coal Mines Providt. Fund Act. Indl. Finance Corporn.

1951-56 The First Five-Year Plan:

1951	The Plantations Act.
1952	The Community Development Programme.
1953	Compensn. for lay-off and retrenchment.

1956-61 The Second Five-Year Plan:

1956	The 'socialist pattern of society' as the objective.

1961-66 The Third Five-Year Plan:

1962	Chinese Invasion.
1965	Conflict with Pakistan.
1965-67	Two successive famine-years.
1966-69	Fourth Plan postponed by three years.
1966	Devaluation of the Rupee.
1967	Dr. S. Chandrasekhar becomes Minister in charge of Family Planning — a vigorous programme is launched. Closure of the Suez Canal.
1967-68	Industrial Recession. Good monsoon.
1968	Good monsoon. "The Wheat Revolution". Exports look up.
1969	The fourth Five-Year Plan to be launched in April.

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