

Introduction

The economic history of India has been a contested field. The nationalist and the imperialist historiography was useful to get us started in thinking about different aspects of colonization and economic development in colonial and pre-colonial India. There have been important contributions from a large number of historians and economists. Economic historians Naoroji (1878) and Dutt (1906) made an economic argument against British rule using the concept of drain of wealth from India and the disproportionate influence of the imperial power in different spheres of the economy. This was a product of the time and an effective political weapon to make an economic case for independent economic policy that would prioritize economic development of the country rather than imperial interests. An imperialist view of colonial India in recent work comes from Niall Ferguson in *Empire: How Britain Made the Modern World* (2012). Ferguson sees British imperialism as playing a crucial role in bringing modernization to the colonies. The idea of modernization is defined as integration into world trade and financial markets and building of modern infrastructure. Very little is said about growth in per capita incomes and improvements in living standards. More recently, there has been a revival of the nationalist approach in Shashi Tharoor's *Inglorious Empire: What the British Did to India* (2018); this narrative contests the imperialist view. Without colonization, India would have prospered. Without the destruction of traditional industries, India would have become an industrial nation.

Neither Ferguson nor Tharoor use data as evidence. Neither say anything concrete about the fiscal capacity and technological capabilities in pre-colonial India and how to think about measuring living standards. For Ferguson the benefits flowed from Britain to the colonies, and for Tharoor there was a drain of resources from India to Britain.

Many of the conclusions from this literature have not stood up to empirical scrutiny. For example, the magnitude of economic drain has been debated. The economic impact of the railways has been shown to be more beneficial than merely a transportation network that served

imperial interests of trade. By the early twentieth century the network criss-crossed the country and connected markets and towns. The claim that colonial policy stopped industrialization does not square up with the evidence from subsequent research. A large import substituting cotton textile industry developed with Indian ownership. The interwar years saw a diversification of the industrial sector under Indian entrepreneurship and the entry of multinational corporations. Deindustrialization in the nineteenth century is flagged up as evidence of impoverishment, and specialization in agricultural exports is considered to be the cause of underdevelopment. Yet Indian GDP per capita declined in the eighteenth century when the textile trade prospered and stagnated in the nineteenth century rather than declined as India became an agricultural exporter. Data show that the main economic decline coincided with a booming trade in traditional textile exports.

British rule impacted on the Indian economy in significant ways. Without quantitative evidence it is difficult to understand which areas of the economy became underdeveloped and which areas developed, or which policies had a detrimental effect and which did not. There is an overarching moral critique of occupation of one country by another. This would not diminish in importance, should there be evidence of economic prosperity. Political freedom is factored into measurement of living standards today. By that yardstick, being a colony feeds into the index of underdevelopment. There are examples of economic growth under colonization, such as Malaysia in Asia and Senegal in Africa. A moral critique would still make a case against colonization, whereas an economic critique may not.

There is a rich literature using empirical evidence at the regional level to illustrate the impact of colonization on regions, communities, and social groups. Among them are contributions by Sugata Bose, Rajat Datta, Sumit Guha, Dharma Kumar, and David Ludden. There are rich evidence-based narratives of industry in the work of Amiya Bagchi, Morris David Morris, Rajat Ray, and Indrajit Ray. An evidence-based approach to an economic history of India was adopted in the work of historians of Mughal India such as Irfan Habib, Shireen Moosvi, and Najaf Haidar, and in the work on the colonial economy by Dietmar Rothermund, Tirthankar Roy, and B.R. Tomlinson. In the last twenty years there has been a revival of interest in Indian economic history. Data digitization has made it easier to build large data sets and researchers have used new granular data. New data, new sources, and digitization has made it possible to think of new questions and provide new perspectives.

This book brings together old and new research and offers a historical perspective on how we can think of India's economic development. It aims to build a narrative based on the new empirical evidence to understand the nature of economic development or a lack of it in a large colonial economy, using concepts and theories from economics and economic history. It aims to use the available empirical evidence to understand the impact of British rule on the economy. It takes a long view to understand the changes from the pre-colonial economy to colonial rule and puts a timeline on what has come to be known as the *Great Divergence* between Europe and Asia, with a focus on India. Finally, it attempts to understand India's post-independence development from the perspective of an economic historian of colonial India. By taking a long view, the book explores persistent effects of historical institutions as well as policy-driven changes after independence in 1947.

I.1 Data on Colonial India

The East India Company and the colonial government produced detailed records on different aspects of the economy. Evidence on exports and imports from India, wages, and prices were documented carefully by the East India Company. Regional surveys produced evidence on the state of agriculture and industrial and service sector activities, occupation structure, and other aspects of living standards and quality of life. These resources have documented wages paid to workers in different occupations as well as prices of goods traded in the internal market and the records of fiscal spending. This information is patchy. From the time of Crown rule, we have more systematic data on population, production, disease environment, government revenue, and expenditure. The decennial censuses from 1872 made available district level data on population, occupations, civil condition, education, and other aspects of the economy and society. District gazetteers and sectoral reports provide more granular data. The reports of the Sanitary Commission provide health and demographic data. Agricultural censuses from 1891 recorded acreage under different crops, livestock, and irrigation at the level of districts. Yield per acre by crop was estimated for these districts. Investors manuals, business directories, and reports of industrial associations provide information on firm ownership, capital, the number of workers, and profits. Over the last two decades new research by economic historians has analysed this data using rigorous statistical methods and has brought new insights, some of which question existing views in the literature on the colonization of India.

Historical data can never be as good as contemporary empirical evidence. Still, it is possible to compile the evidence available and evaluate it statistically. This book is an attempt to look at the economic impact of colonial rule through the lens of recorded empirical evidence. I use data collected in my research on Indian living standards covering several centuries.

The book presents empirical evidence, old and new, based on the agricultural statistics from the nineteenth century and trade and production statistics for industry to discuss deindustrialization in the nineteenth century and the rise of modern industry. I have used primary sources of the data and evidence from secondary sources for my own research to put forward an evidence-based perspective. I also borrow from the research of others over the last decades to understand different aspects of India's long run development.

In the following chapters I use insights from research based on the empirical evidence to assess the response of economic agents to the process of colonization, the role of institutions in creating unequal access to resources, and the factors that shaped economic policy. The approach will be to study how economic agents in different sectors (farmers, labourers, entrepreneurs, and traders) responded to the changing environment of policy making. I evaluate the modernization of the economy through investment in physical and social infrastructure such as the railways, irrigation, and education, and the impact of integration into the global network of the British Empire. The book covers a long span of history from the time of Emperor Akbar to the reign of the East India Company and the period of Crown rule and, finally, Nehru's vision of a new India and the policies of regulation and subsequent economic reforms in independent India. The choice of dates is determined by the availability of data for long run comparisons. It ends roughly in 2000 as the consequences of history become less relevant given the momentous changes in Indian economic policy and outcomes. The chapters are organized thematically and traces the historical origins of different aspects of economic development.

I.2 Defining India over the Long Run

In this book, India is not the same unit over time. Mughal India covers the boundaries of the Mughal Empire. British India includes the modern states of India, Pakistan, and Bangladesh. 'India' after 1947 refers to only one country. Most historical discussions on economic change cover the area now included in India, Pakistan, and Bangladesh. The two long-lasting empires, the Mughal and the British, unified large parts of the

country under one political entity. The term 'India' will be used to refer to the political entity at a given point in time. Therefore, the borders and the area termed 'India' will not be the same as I move through centuries. Mughal India, British India, and independent India will form the changing contexts and geographic boundaries.

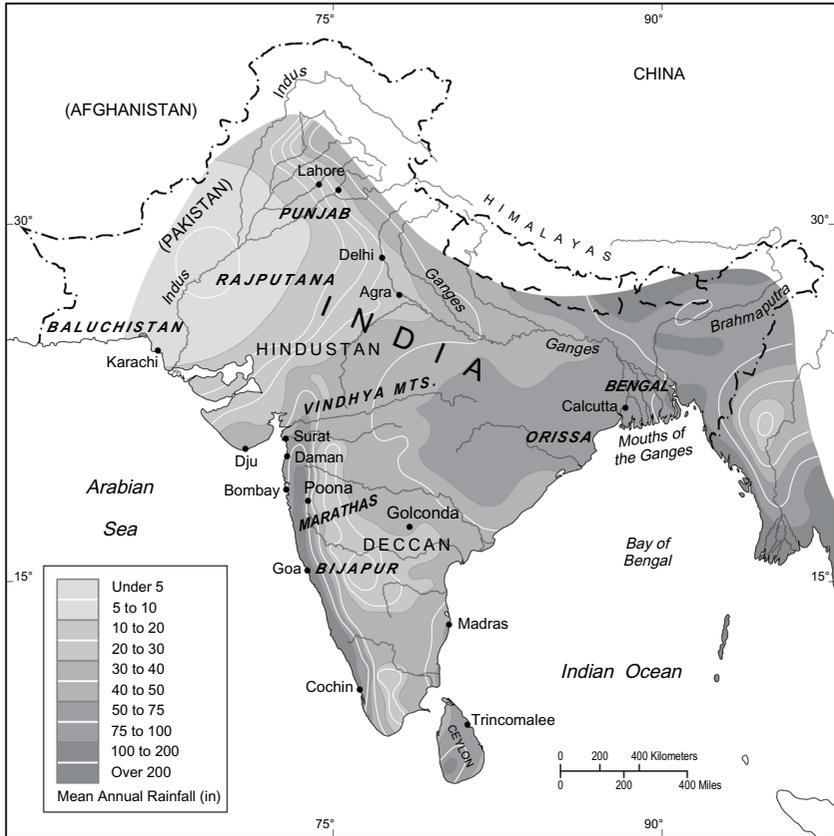
The Indian subcontinent is diverse in geography, the people that inhabit this region, the languages they speak, their religious practices, and the cultural heritage they own. In political terms, neither the Mughal nor the British Empire ruled over the entire region of today's India. Parts of Southern India remained outside the Mughal Empire and the princely states in British India were ruled by local elites, remaining outside the political boundary of the British Empire. In the year 2000, India, Pakistan, and Bangladesh were three separate countries. India after independence lives the shared history of the region. An analysis of post-independence economic changes in Pakistan and Bangladesh remains outside the scope of this book.

I.3 Geography

Geographically, the region can be divided into four zones – the Himalayas, the Indo-Gangetic Basin (the floodplains of the Ganges and the Indus), the arid or semi-arid areas of north-west-centre and south, including the Deccan Plateau, and the littoral (Gupta and Roy 2017). The southern part of South Asia has a tropical climate, while the northern part is more continental. The region depends on the south-west and north-east monsoon rains, which provide water for agriculture. Map I.1 also shows the regional variations in rainfall and highlights the extensive dry regions in the north-west and on the Deccan Plateau.

I.4 The Timeline of Empires

The Mughal Empire was established by Babur in 1526. The territory expanded under the reign of Humayun (1530–1540, 1555–1556), Akbar (1556–1605), Jahangir (1605–1627), Shah Jahan (1627–1658), and Aurangzeb (1658–1707), when it reached the largest geographical boundary (see Map I.2). After the death of Aurangzeb, the Empire began to crumble. The eighteenth century brought wars and conflict over territorial control, disrupting economic activity. The peak in prosperity in this Empire was reached during the reign of Akbar.



Map I.1 Rainfall map of 1908

The European trading companies began to arrive in India in search of spices and other exotic products. The Portuguese, British, Dutch, French, and Danish monopoly trading companies entered into trading contracts with the local rulers and set up trading posts in various parts of the country. The trading posts dotted the western and eastern littoral and various spots along the river Hooghly in Bengal. The companies bought textiles in India and exported them to Europe and other markets.

In 1757, the ruler of Bengal was defeated by the English East India Company and thus began the Company's rule of Bengal. From a trader, the Company transitioned into a fiscal consolidator and expanded its reign to other regions of India. By the middle of the nineteenth century, it looked more like a ruler than a trading firm. Map I.3 shows the timeline of the conquest by the Company. In 1858, India came under



Map I.2 Mughal India

Crown rule. The transition to Crown rule integrated India into the economic project of the British Empire. The princely states were ruled by local princes and coexisted with British India although they remained outside its political control (see Map I.4).

The independence of India came at the cost of a partition of the country. The movement for independence had been led by the Congress party under the leadership of Mohandas Gandhi, Jawaharlal Nehru, and Vallabhbhai Patel. The Muslim League, formed in 1906, came to see a separate state for the Muslims as their political goal. By the 1940s their support had grown and the colonial government accepted the demand for a two-state solution for independence.

The political boundaries of India and Pakistan were drawn in an arbitrary fashion. Cyril Radcliffe, a British barrister, was assigned the task



Map I.3 Political conquest by the East India Company

of drawing the dividing line. This was his first visit to the country and he had five weeks to do the job. On the western side the region of West Pakistan and on the eastern side East Pakistan were carved out to form the new state of Pakistan. British India was partitioned on lines of religion and its end was one of the bloodiest episodes in the history of the subcontinent. Map I.5 shows the partitioned state of British India and the presence of the two largest religious groups, Hindu and Muslim. In 1971, East Pakistan became the independent country of Bangladesh. At the time of independence, the numerous princely states became a part of India. In 1952, the newly independent state of India became a republic.

Jawaharlal Nehru, the first Prime Minister, adopted policies that were very different from the path followed by the colonial government of the



Map I.4 British India

British Empire. Colonial India had been a part of a globally connected economy. India after independence became one of the most inward-looking economies in the world. The Nehruvian policies of state that directed development have come under much criticism. However, any evaluation of the policies after independence without considering the policies under colonization and their implication for the economy ignore the context in which the post-independence policies were made and how their impact should be evaluated. By taking a historical perspective, this book will look at economic outcomes before and after 1947 and reflect on the continuity and departure from the past. The book will end with a comparison with the East Asian economies of South Korea and Taiwan that gained independence from Japanese colonization around the same



Map I.5 Partition of India

time in order to understand the historical differences that may explain their differences in economic performance as independent countries.

I.5 A Narrative of Colonial Underdevelopment

In this book, I have used empirical evidence to understand the economic outcomes in pre-colonial and colonial India. My analysis differs from much of the existing literature in the following aspects. First, I argue that the role attributed to colonial policy on the decline of traditional industries and lack of development of a modern industrial capability need rethinking. Second, the stagnation in colonial India was not because of developments in industry but because of the stagnation of the main

sector of the economy, which was agriculture. The provision of agricultural infrastructure was low and resulted in declining yield per acre in many parts of the country. Third, the emphasis on secondary and tertiary education rather than on an extension of primary education had consequences for the development of human capital and provided an advantage to the service sector, but deprived industry the benefit of a literate workforce.

The overall narrative of an agricultural decline is consistent with the findings that GDP per capita began to decline from the middle of the seventeenth century from a highpoint in 1600. The decline in Mughal India may be explained by falling yield per acre in agriculture as marginal land came into cultivation. The decline coincided with the rising trade in traditional textiles. The colonial government did not do enough to stem the decline in agriculture output. The changes in GDP per capita track changes in per capita agricultural output in the nineteenth century. Industry, on the other hand, did not see a systematic decline or stagnation after 1850. Modern industries in jute, tea, and cotton began to develop, assisted by the colonial state in the case of export industries but despite the colonial policies towards import substituting industries. After the First World War, the attitude of the colonial government towards import substituting industries began to change and several new industries emerged in the interwar years. A comparison with the South Korea and Taiwan emerging from Japanese colonization at the same time points to the differences in policies towards agriculture and education to understand where India lagged behind and what might explain the different outcomes in the two East Asian economies and India after 1950.

Chapter 1 provides a long view of the living standards and economic growth from the Mughal Empire to the end of British rule, followed by economic changes in independent India. Living standards are measured in terms of income categories such as average wages and estimates of per capita incomes. What was the effect of colonization on these indicators? How prosperous was Mughal India? Does the picture of the opulence of the elites in pre-colonial times and the vibrancy of urban centres represent how the average Indian lived? I show that Indian per capita GDP was 60 per cent of British level in 1600. But Indian per capita GDP began to decline from the seventeenth century, well before the conquest of Bengal by the East India Company. It stabilized in the nineteenth century and even grew a little in the latter half. The first half of the twentieth century showed stagnation and increasing divergence with Britain.

How did the economy change after independence? The policies of Nehru's government are analysed in the context of a failure of colonial

policies to bring about modern economic growth and in the context of the theories of underdevelopment put forward in postcolonial settings in different parts of the world. The chapter argues that the economy moved from stagnation to positive economic growth after independence. Although the rate of growth was low compared to recent decades, it marked a structural break with its historical trend and set India on the path of modern economic growth.

Chapter 2 focuses on the largest sector of the economy, agriculture. The rural economy produced most of the output in Mughal India and British India and 85 per cent of the population lived in rural communities. How did this sector evolve over the centuries as population increased and less productive land came under cultivation? The chapter considers the successes and failures of agricultural policies before and after 1947. The economic history of India has a rich narrative of regions, of introduction of new institutions, and integration of the cultivators into commercial exchange of food and raw material at the regional level. This chapter brings together an overall narrative of the regions and explains why some regions prospered while others declined. It sees the role of infrastructure as an important part of this discussion, that is, the impact of the railways and irrigation. While British investment in irrigation and new technology in agriculture was inadequate and can explain agricultural stagnation in different parts of the country, the railways played an important role in integrating markets. The chapter ends with a discussion of the building of agricultural infrastructure after independence and the *Green Revolution* of the 1960s and its importance in economic growth and development.

Chapter 3 is about industry. In the discussion of colonization, the decline of the traditional textile industry is seen as a major cause of economic decline under colonial rule. This chapter takes a different view. The world textile market underwent significant changes with the industrial revolution in Britain and new technology in the production of cotton textiles. The effect on the traditional textile industry in India was devastating. However, this industry was a small part of the Indian economy. So, its rise in the eighteenth century and decline in the nineteenth century had significant effects in some regions, but its effect was negligible on the average living standards measured by GDP per capita. A modern industrial sector developed from the middle of the nineteenth century, which was more productive than the traditional sector and it grew rapidly. In 1947, the shares of the modern and the traditional sectors were roughly the same. Entrepreneurship and capital for the modern import substituting cotton textile industry came from the Indian trading communities. British investment in industry was initially in the export

sectors, such as tea and jute, and later in the interwar period in modern import substituting new industries. I have argued in this chapter that lack of industrialization was not the major consequence of colonial policy. This sector saw a reasonable growth in productivity and size and in 1945 did not look very different from the industrial sectors in East Asian countries. Most of the industrial production was in consumer goods. The intermediate and capital goods production was limited.

After 1947, India adopted a strategy of intermediate and capital goods-led industrialization. The process of industrialization was led by the public sector with highly interventionist policies towards trade and industrial location. The role of the private sector was constrained. Yet, the industrial conglomerates owned by family-based enterprises of the Tatas and the Birlas and other industrial houses prospered and dominated the industrial sector in the second half of the twentieth century. Several of these groups had come into industry in the colonial period and grew in size and shape by venturing into new sectors.

Chapter 4 discusses the origins of India's service sector advantage. Although modern industries developed in the colonial period and the policy of public sector-led industrialization after independence led to the development of industries producing consumer, capital, and intermediate goods, the share of the sector in employment has remained low. Industry in India did not play the same role in structural transformation as it did in the context of European industrializers and in China today. The service sector in India has been the most productive sector historically. Labour productivity in services in the early twentieth century was higher than in industry. Labour productivity in industry grew faster until the 1980s and thereafter the service sector has led productivity growth. The service sector today has a concentration of workers with secondary and tertiary education, but this was also the case historically. The caste level literacy data from the colonial censuses shows high literacy in the trading castes and other upper castes, who were typically engaged in service sector occupations including medical and financial services and the civil service. The service sector-led growth in India today has historical origins. The education policies in colonial India prioritized secondary and tertiary education for a few at the cost of universal primary education. This continued after independence. Only in recent decades has expansion of primary education become a priority. India continues to spend a large share of the education budget on higher education.

No discussion of growth and development is complete without understanding the distributional consequences. Chapter 5 focuses on four different aspects of economic and social inequality. The first is regional inequality. There were historical differences in levels of economic

development across provinces. The Bombay Presidency was one of the richest parts of colonial India and had been the centre of activities for several Indian trading communities involved in the Indian Ocean trade and China trade. It was also the region where the first modern cotton textile industry developed. Maharashtra and Gujarat today are among the richest provinces in India. Punjab saw investment in irrigation in colonial India and agricultural growth. It was the first region of the Green Revolution and today it ranks among the rich provinces. The poorer regions in colonial India, such as the United Provinces and the Central Provinces, rank among the poorer regions today. The regional differences in colonial India persist in many different contexts.

The second aspect is the trend in income inequality from the early twentieth century. Income inequality was high in the 1930s and 1940s and the first decades after independence saw a decline in inequality following the policies of public sector-led development. Since the economic reforms of 1980, income inequality has increased but it is not as high as in the colonial period. Unlike in many other colonies, Indians always had a substantial share in top incomes reflecting the economic prosperity of urban communities of traders and industrialists.

Third, the chapter discusses caste inequality by looking at indicators in literacy and heights in colonial India and changes in outcomes in education and jobs after the introduction of affirmative action for the lowest castes after independence. Upper castes were healthier and more literate in colonial India. There is continuity in caste inequality in many dimensions, but also changes. Lower castes have better access to education and jobs as a consequence of policies of affirmative action. However, big differences in economic and social outcomes remain.

Finally, the chapter looks at an aspect of gender inequality that is specific to India: the preference for sons. I discuss this by using the standard measure from the literature: missing women in the population, measured by sex ratio. There was a regional variation in son preference in colonial India. Biased sex ratios and female deficit was more prevalent in the north-west compared to the south and the east. The difference emerged in the early years of life, but was most pronounced in adolescence. I discuss the persistence of regional variation in sex ratio. Regions of son preference in the early twentieth century continue to have male biased sex ratios today. However, the share of missing women by age groups has shown some changes over the century. Maternal mortality in adolescence has declined, but there are more missing girls at birth due to the availability of sex-selective abortion.

Chapter 6 discusses the policies of colonization in India in a comparative perspective with Korea and Taiwan under Japanese rule. The slow

growth in India after independence has been compared with the high growth in East Asia. This comparison rarely looks at the historical context, with the exception of Kohli (1994). In this chapter, I take a historical approach and consider the differences in policies of colonization. At the time of independence, the share of industry in total GDP was not very different in the three countries. Modern industries had developed in India, Korea, and Taiwan during the colonial period. The two big differences in colonial policies were with respect to agriculture and education. First, Japan imported essential food grains from the colonies, which prompted investment in improvements in agriculture to raise productivity. A large proportion of land came under irrigation in both colonies, enabling the introduction of new varieties of seeds. The British government in India did relatively little to raise agricultural productivity. Second, Japan as a colonizer expanded primary education. A large proportion of industrial workers became literate. In India, as a result of the emphasis on higher education, it was mainly the service sector occupations that benefitted in terms of human capital. The chapter argues that the history of colonization may have contributed to the divergent paths of the two regions.

In this book on Indian economic history, I offer a long run perspective on India's economic development. I analyse India's development path, bringing in data as evidence and offering a comparative perspective. The book discusses the timing of the *Great Divergence* between India and Britain and the impact of colonial policies on measures of economic development. The book also offers a comparative perspective with East Asia under a different colonizer and different policies. The first thirty years of slow growth in independent India is assessed with a historical perspective.