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The Inter-War Depression in British India: Aspects of Its Economic and Social Impact, 1929-36

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ABSTRACT

During the last decade there have been several new works on the impact of the 1929 depression on the Indian economy, but most have concentrated on single provinces or single sectors of the economy. This study aims to synthesise the trends discussed elsewhere at provincial level in an analysis of the slump at an All-India level, though the great diversity of agrarian conditions has necessitated a focus on one, hitherto neglected, province. It studies the tensions created by the sudden impact of a short-term downturn and the long-term structural change in the Indian economy between the wars.

Several major conclusions emerge from this study. Firstly, that India withdrew from the international economy, partly through higher tariffs protecting the domestic market and partly the increasing uncompetitiveness of Indian exports, particularly after the devaluation of the yen in December 1931. This trend was to continue through the 1930s. For the first time, this study has disaggregated Burma from the Indian trade statistics, which has shown that British trade to India, prior to the slump was of greater magnitude than suggested by traditional studies. This explains the aggressive reaction of British exporters in the early 1930s to the threat posed by the loss of trade to India. Removal of Burma from the trade statistics also demonstrates more clearly the tendency of India towards disengagement from world trade, especially its traditional intra-Asian trade. This had major implications not only for the Indian economy but for India's partners within the Asian bloc, mostly Java.

Secondly, a study of the process of commercialisation within the backward province of Bihar and Orissa has provided an addition to earlier work on those provinces more highly integrated into the global economy such as Bengal and the Punjab. This has revealed the importance of the extension of the road network in the establishment of a provincial market and the continuation of the process of commercialisation despite falling rural incomes and a reduction of cash credit. The study of rural Bihar has shown also that by reducing land values, the depression pushed investment from rural to urban-industrial areas. Prior to the slump land values were increasing because of pressure on land created by a rapidly growing population. The collapse of prices of agricultural produce from 1929 abruptly halted the rise in land values due to an increase in rent defaults. Thus, the traditional investment in land became unprofitable and new investment opportunities had to be found.

This new capital provided a basis for the rise during the slump of import-substitution industries managed both by traditional European and new Indian agencies. Much has been written about the rise of indigenous business groups, but the early 1930s also witnessed the advent of multinational companies such as Imperial Chemicals and Dunlop anxious to establish plant within the shelter of the high Indian tariff. The growing strength of the Indian entrepreneurial classes was marked by increasing competition between Indian firms, particularly notable in an east-west split of financial interest groups.

The role of the Government of India has been assessed, especially its relationship with the British authorities. The action of the British Government during the Indian financial crisis of 1931 could be regarded as an attempt to re-impose imperial control over India. However, it was for purely financial rather than political reasons. This is seen in the economic results of the British action, gold outflows from India which rendered the United Kingdom debtor and the curtailment of British trade to India, which weakened the economic rationale of a British presence in India and so paved the way for decolonisation. The attempts by the Government of India to deal with the crisis were ad hoc and unsatisfactory. There was no major re-orientation of government policy. A comparision with the Government of Argentina, rather than the usual one with Japan, however, suggests that even if an independent Nationalist Government had been in power during the depression the general underdevelopment of the Indian economy would have constrained the abilities of the authorities to promote a more rapid recovery.

INTRODUCTION

The depression which shook the world economy in the late 1920s, differed from earlier recessions both in its severity, longevity and seemingly universal impact. Never before had the inter-dependence of the diverse elements of the global economy been so clearly demonstrated as in the rapid diffusion of the inter-war slump. The patterns of world trade and finance which had developed during the late nineteenth century had been disturbed by the dislocations of the First World War, but not destroyed. The dominant core-periphery relationships remained, particularly within the world's colonial empires, and such links facilitated the swift spread of the depression.

Contemporary views on the nature of the slump emphasised a world 'over-production' crisis in primary products, dating the onset of the crisis to the mid-1920s when prices of agricultural produce and raw materials began to decline from their inflated post-war peaks.[1] Thus, contemporaries believed that the slump in the advanced economies in 1929 aggravated an existing downturn in primary producing economies. The 'over-production' crisis resulted partly from the wartime expansion in primary produce and partly through the spread of mechanisation and the dissemination of new techniques during the 1920s. As a result, supply had outstripped demand, leading to price reductions and a growing balance of trade problem for primary producing nations which found it difficult to meet interest payments on loans. This in turn increased pressure on the London and New York Stock exchanges. The 'over-production' crisis was exacerbated by the 1929 slump when the credit which had been underpinning the expansion of production was halted abruptly and sales of primary produce to the advanced economies declined rapidly.

The 'over-production' theory has to be linked to the conditions of world markets to understand the nature of the supply and demand disequilibrium, as attempted by Timoshenko and Rowe.[2] Trade routes remained dominated by the core-periphery relationships evolved during nineteenth century. Thus, primary producers were competing in the same markets, principally those of Europe and North America. Over-production, then, was primarily in goods destined for the markets of the advanced economies, those markets increasingly being closed to primary producers in the 1920s through the imposition of tariff barriers. The formation of cartels and producers' organisations and product restriction schemes helped to promote the belief in an 'over-production' crisis without tackling the fundamental need to meet the changes in the demand structure.

In the wide and varied historiography prompted by the inter-war depression, it has now generally been accepted that the severity of the slump was the result of the combination of a crisis in the westernised finance and credit markets and a crisis in agricultural production in developing economies.[3] The focus of this study is British India, an economy which would have been open to both crises, firstly as a primary producer and secondly as a colonial possession of the British Empire. When this study was begun in 1982, the years of the depression 1929 to 1936, were studied in Indian historiography simply as an adjunct to the political problems engendered by the Civil Disobedience Movement.[4] Thus, for example, the no-rent and revenue campaign fostered by the Indian National Congress could be linked to the difficulties in paying fixed burdens due to the halving of cultivators' incomes during the slump. Since then, study of the economic and social impact of the inter-war depression in India has become more commonplace. At first there was a marked concentration in the historiography on imperial finance, peasant protest and the rise of an indigenous industrial elite.[5] Lately, however, there has been the first attempts to synthesise the information gathered to establish the networks of communication in the internal economy and the mechanism whereby an external crisis was transmitted to the internal economy. Such studies have suggested that the key mechanism behind the spread of the depression was a collapse of credit. The cultivation and marketing of agricultural products in India depended upon the transmission of credit from ports and urban areas through various intermediary traders/moneylenders/landowners, finally providing the peasant cultivator with the means to produce the crop for the next season, and so the credit cycle would begin again. Bose's study of Bengal and Bhattacharya's work on the Punjab have shown that falling demand and declining prices for agricultural produce during the slump were accompanied by a collapse of the credit mechanisms between urban areas and the mofussil. External credit agencies such as Marwari traders withdrew their credit operations from rural areas to concentrate upon investment in the urban-industrial sector, a sensible profit maximising change in investment practices at a time of falling land values and stagnant land market. This withdrawal of external cash credit, left rural dwellers, both landowner and tenant, without the means to pay their fixed burdens, ultimately leading to the curtailment of expenditure or a return to forms of credit in kind such as dadani, credit in the form of seeds for the next crop.[6]

The aim of this study is to assess the tensions created between the short-term stresses of the depression in 1929 to 1934 and the long-term structural change which was occurring in the Indian economy between the outbreak of the First World War and the award of independence in 1947. There are two central themes. Firstly, the changing colonial and imperial relationship between India and the United Kingdom. Secondly, the extent to which the depression had an impact on the process of commercialisation in India. It does not pretend to represent a complete synthesis of all trends present in India during the slump; there is still not sufficient data to do so. Also the sheer scale of the Indian economy prevents a completely comprehensive coverage and sectors such as indigenous banking and retail are not covered. This study, however, fills in some crucial gaps in the literature. Much of the recent work has been confined to the provincial level and most scholars have concentrated on those provinces most integrated into the international economy, most notably Bengal and the Punjab.[7] This study attempts to synthesise the trends discussed elsewhere at provincial level into an analysis of the impact of the slump at an All-India level. To do so, in discussing agriculture, the focus is a study of the agrarian economy of Bihar and Orissa. This tests theories based on studies of highly commercialised provinces on the poorest and most densely populated province of British India. As such, it provides an important counter-balance to earlier research on Bengal and the Punjab.

It has proved less difficult to test the most recent theories on the process of commercialisation of agrarian regions than some of the earlier work conducted in the mid-1970s on aspects of finance and trade. In the early 1980s many of the B and C proceedings of the finance and economic departments were destroyed due to the delay in completing the construction of the new National Archives of India in New Delhi. Attempts to repair the omissions in a tour of provincial archives in Northern India were thwarted by the political difficulties during my period of field study in Spring 1984. The Punjab State Archives, for instance, were closed to western scholars. Similarly, the Bihar State Archives were closed for long periods due to a ministerial crisis in government. Although, therefore, it was difficult to obtain access to local archives in India, one consolation was the discovery of the under-utilised Indian section of the National Library of Scotland which contains a wide variety of official publications, settlement reports and gazeteers of both Central and Provincial Governments in India.

Within the confines of the above, this study will attempt to assess the arguments about the nature of the impact of the depression set against the back-ground of long-term structural change in the Indian economy. Separate chapters will focus on trade, finance, agriculture, industry and the labouring classes and there will be a final overview. The study should then add both to the understanding of the long-term development of the Indian economy and add to the historiography of the impact of the slump on primary producers.

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CHAPTER ONE

Changes in the Structure of Indian Foreign Trade during the Slump

The foreign trade sector was one of the key mechanisms through which the international slump of the inter-war period was transmitted to the Indian economy. India's initial contact with the world crisis came in the rapid decline in the price of its chief exports during the 1929-30 season and the contraction in international credit. Contemporary studies suggest that India was one of the first economies to experience such price declines, which occurred before a similar fall in the staple exports of advanced economies.[1] Both official government statistics and League of Nations data provide evidence that the fall in Indian export values was relatively very heavy, declining by two-thirds between 1929 and 1933 for agricultural produce and raw materials.[2] Although prices began to rise once more from 1935, the recovery was slow and unsteady so that by 1939 the prices of India's staple exports were still below 1914 levels, far less those of 1929.[3] One result of this pattern of the early decline in export values was a deterioration in the terms of trade, since the value of goods imported from advanced economies did not decline so severely. Thus, Indian trade would appear to have experienced difficulties similar to those of other primary producers.[4] Changes in the volume of Indian trade followed the pattern of prices. The volume of Indian exports declined until 1936, after which most staged a recovery, except for tea and hides and skins. In the early 1930s, the volume of all imports into India was reduced except caustic soda and raw cotton. However, few of the former staples of India's import trade recovered the volume of 1929-30.

For India the depression was marked by the sudden fall in prices and the difficulty in obtaining credit. A decline in trade values helps to provide the parameters of the slump. The values of Indian exports had been falling since the mid-1920s, but the crisis of the depression was heralded by the first rapid reduction in export values in 1929, before the American stock market slump, but at a time when borrowing in international money markets was becoming increasingly difficult. As Table 1.1 (over) shows, the general index number for Indian export prices stood at 135.0 in 1929 (1914 =100) declining to 78.1 by 1931. Export prices then fell more slowly to reach their lowest point in 1934, when the index stood at 73.1. The slight recovery thereafter was affected by the 1937 recession in the United States so that even in 1939 the index number for exports was only 83.1. Import prices had been declining also from 1925. However, initially, prices of Indian imports were not affected by the depression to any marked degree. A time-lag operated with the first marked decline in import values being delayed until 1931-32. Between 1931 and 1934 the price of Indian imports declined from 143.8 to 107.0, so even at their depth, import values never fell below 1914 levels. The gap between the prices of exports and imports widened in favour of the latter, turning the terms of trade against India for the rest of the decade.

Table 1.1: Index Numbers of Import and Export Prices and Terms of Trade (1914=100)

	Imports	Exports	Terms of Trade
1925	185.0	145.6	78.7
1928	150.0	132.5	88.3
1929	149.1	135.0	90.5
1930	137.7	110.6	80.3
1931	143.8	78.1	54.3
1932	121.9	75.0	61.5
1933	112.2	73.7	65.2
1934	107.0	73.1	68.3
1935	107.0	80.0	74.7
1936	107.0	79.3	74.1
1937	126.3	83.1	65.7
1938	125.0	80.0	64.0
1939	119.5	83.1	69.5

Source: Index Numbers of Indian Prices 1861-1931 (Calcutta) and annual supplements to 1940. Recalculated from Base 1873 = 100.

Indian foreign trade was affected adversely by international trends of the late 1920s and early 1930s, with serious implications for the Indian economy as a whole. To assess this adequately, some estimate (however crude) must be made of the significance of foreign trade for the Indian economy in general. Unfortunately, there is as yet no satisfactory set of calculations for Indian national income between the wars which would permit accurate measurement of the foreign trade/national income ratio over time. However, employing official figures for the value of foreign trade in private merchandise, less the value of Burmese foreign trade, together with such estimates as exist, the following trends emerge. Rao's estimate of Rs 16,890 million for national income in 1931-32 suggests that India's foreign trade as a percentage of national income was 15.00 per cent in that year. This estimate, however, is for a single year only. When Gowri's series of estimates of national income between 1931-32 and 1937-38 is used, the proportion of foreign trade in national income varies between 15.38 per cent in 1931-32 and 17.18 per cent in 1938-39.[6] Both Rao's estimate and the starting date for Gowri's series, though, is 1931-32, generally accepted as the year marking the depth of the depression. While their data can be used, therefore, to indicate the general level of importance of foreign trade for the Indian economy, they cannot be employed for more precise measurement of change through time.

More modern estimates are available for national domestic product rather than national income. Although this omits the very sector in which we are interested, it may still be useful to employ the ratio of foreign trade to net domestic product as a guide to the significance of the foreign trade sector for the Indian economy. Maddison's revised figures of 1985 provide a series from 1928 to 1939, figures which are lower than those of both Heston and Sivasubramonian since Maddison is less optimistic of growth in the agrarian sector.[7] These figures suggest a ratio of foreign trade to net domestic product which falls from 24.49 per cent in 1928 (net product = Rs 23,638 mill.) to a low point of 10.80 per cent in 1933 (net product = Rs 24,788 mill.) with a recovery to only 12.11 per cent in 1939 (net product = Rs 26,540 million). Thus the declining share of foreign trade as a proportion of net product is set against a rising trend in net product. Outwith the foreign trade sector there were obviously other growth areas in the Indian economy.

At the onset of the depression foreign trade was clearly significant for the Indian economy.[8] Trade had provided the initial stimulus to much of India's early industrialisation, notably jute, cotton yarn and woollens. The foreign exchange acquired through the export of India's raw materials and agricultural produce went partly to purchase technology for further development. Also, because India was a colonial economy, trade surpluses were essential to meet its sterling remittances to London. The profits of foreign trade were also the essential lubricant of the Indian credit structure from port traders through various middlemen to the producer. In all these ways the foreign trade sector provided a mechanism for the transmission of the depression into the Indian domestic economy and to the distress and discontent which followed.

The literature on Indian trade during the 1930s dwells heavily on the short-term impact of the depression, mainly in terms of government policy responses which will be discussed in the following chapter. The most widely commented aspect of the developments during the 1930s has been the changing trade relationship between India and Britain. In many ways, the events of the depression years have been viewed as the last battleground between the Lancashire/Whitehall alliance and India.[9] More important for Britain were the implications of changes in the structure of India's balance of payments. It has been accepted generally that, prior to the First World War, India played a major role in the pattern of settlements of international trade. Britain is said to have used its large surplus balances with India to settle a substantial proportion of deficits with the rest of the advanced world.[10] India continued to fulfil this role in a reduced capacity in the 1920s, but both Tomlinson and

Latham have argued that the changes wrought by the depression dislocated this pattern, with major implications for both India and Britain.[11] An interesting line of debate has been suggested by Baker and Chaudhuri, that the depression helped to promote the disengagement of India from the international economy, most clearly visible in the decline of intra-Asian trade in the 1930s. This argument echoes a suggestion made by Ganguli in the 1950s.[12]

This chapter, then, will examine the extent to which the structure of Indian foreign trade was altered as a result of the depression. The changes in aggregate trade by both value and volume will be considered as will the question of changes in the composition of Indian trade. The relationship between India's visible trade and invisibles will be studied, particularly the problematical issue of external credit. Finally the changes in the direction of Indian trade will be considered.

Did the price falls which occurred between 1929 and 1933 lead to a change in the commodity composition of Indian foreign trade as the terms of trade turned against agricultural produce and raw materials? Some primary producers, particularly in Africa, attempted to increase and diversify their exports through government sponsored campaigns to promote peasant production of new commercial crops.[13] Alternatively, several countries such as Australia and Brazil sought to decrease their import spending to offset the reduced value of their exports and so preserve their balance of payments.[14] In what ways did Indian trade adjust to the price falls? Were import levels reduced or was the massive export of gold after 1931 used to maintain the volume of imports? Were the contemporary commentators correct in asserting that price-responsive cultivators could change their production to the most profitable export crops?

The effect of the slump on India's trade relations also must be considered. Even in the 1920s Indian trade was dominated by those routes established in the late nineteenth century. Particularly crucial, of course, was the influence of India's colonial master, Britain. Up till the 1920s, Indian trade had been moulded by treaties concluded on India's behalf by the United Kingdom, though not necessarily best suited to its developing needs. Were the changes brought about by the depression sufficient to break the historic patterns of Indian trade.?

1. Changes in Aggregate Trade by Value

Table 1.1 illustrated the differential reductions in the value of India's imports and exports which had caused the terms of trade to turn against India, as had happened to most primary producing economies. These changes in the terms of trade are reflected in the differing experiences of the major commodities which India exported. The price of both raw and manufactured jute had been declining since the mid-1920s, reflecting the deep rooted problems of the jute industry. The decline accelerated between March 1929 and March 1930, with the index number for raw jute prices falling from 106 to 72. By March 1931 this figure was 45. Prices recovered slightly only to fall again, the index reaching its low point of 38 in March 1938.[15] The fall in the price of manufactured jute was equally as catastrophic in the early stages of the depression, the index number declining from 139 in March 1929 to 89 a year later. Since manufactured jute was used predominantly for packaging of agricultural produce, this commodity immediately felt the impact of the slump. However, the price fall slowed down after 1930-31 unlike the fall in the price for raw jute, thus the gap between the prices of both commodities widened increasingly in favour of manufactured jute.

Raw cotton prices also fell from their high pre-depression level: between March 1929 and March 1931, cotton prices declined from 161 to 107 to 93. Again the price levels of manufactured cotton did not decline to the same extent as those for raw cotton. Indeed, unlike most commodities, the price of manufactured cottons never fell below 1914 levels and recovery was steady from 1930. These cases illustrate that even within India, the terms of trade were favouring manufactured goods. Of course, this reflects the already diversified base of Indian trade in 1929, unlike that of many other primary producers, and helps to explain why the terms of trade against India were not as poor as for other underdeveloped economies.[16] Not all export commodities experienced the impact of the depression so rapidly. Oilseed prices, for example, were maintained until 1930-31 when they halved. This maintained the profitability of oilseed crops against some other export crops whose prices had been reduced by two-thirds. Tea prices, meanwhile, did not fall until 1931-32 when they also halved, a sign of the ultimate weakness of international tea restriction schemes.

Import values also declined although not to the same extent as export values and, again, at a later date. This is explained by the fact that the composition of Indian import trade was predominantly in manufactured goods. Metal goods imports did not fall until 1931 when they declined by one-third. Cotton piecegood prices did not decline until 1933. Meanwhile, the import price of kerosene remained remarkably static, falling by only one point on the index. This had major implications for the Indian consumer - a staple item of the domestic budget increasing in cost in real terms at a time of falling incomes. Overall, while export values declined by 45 per cent between September 1929 and 1931, the price of imports fell by only 17 per cent. However, as import values continued to decline by a further 13 per cent to December 1934, the rate of decrease for exports had slowed to a further 4.9 per cent fall. Thus, between 1929 and 1934 import prices fell generally by one-third compared to the halving of export prices.

To what extent, then, did the structure of India's foreign trade adjust to these changes in price levels? Tables 1.2 illustrate the changing value of India's foreign trade in private merchandise between 1925-26 and 1938-39.[17] In these tables, the value of Burmese foreign trade has been omitted to allow a more accurate long-term assessment. (The official statistics included Burmese foreign trade in the totals for British India until and including the 1936-37 season. Thereafter, with the separation of Burma from India, the official statistics excluded Burmese trade). The figures in Table 1.2, both aggregate and in index form, establish the unstable nature of India's trade even prior to the depression. The 1925-26 season marked the peak year in the value of trade with a sharp fall in the following season. By 1928-29, the value of Indian trade had nearly recovered to 1925-26 levels. However, in the two following seasons, India was hit by the depression. This resulted in the index number for Indian trade minus Burmese trade (1925-26 = 100) falling from 99.32 in 1928-29 to 92.16 in 1929-30, followed by the major decline to 63.25 in 1930-31 and to 46.92 in 1931-32. There are signs of a recovery from 1934 but the recovery of trade values of the late 1930s is in terms of a return to the position of 1930-31, not the mid-1920s or even 1929-30.

These trends are illustrated further by the patterns of India's export and import trades. Indian exports were declining in value more or less from 1925-26 onwards, a trend which was accelerated with the onset of the depression in 1929 (Table 1.2C). In 1929-30 the index number for the value of Indian exports minus Burmese exports (1925-26=100) was 82.71. This fell to 57.44 in 1930-31 and again to 34.54 in 1931-32. The recovery in the value of Indian exports was very slow, again in terms of the level of 1930-31. It is noticeable that the most positive recovery comes after the separation of Burma which gave a vital boost to Indian exports of coal and cotton yarn. Indian import values, on the other hand, (Tables 1.2E and 1.2F) showed a rising trend until the onset of the depression in 1929. Import values, however, never fell as far as those for exports, the index number falling to 52.47 in 1933-34 (1925-26=100), and recovery was more rapid. Again, import values increased after the separation of Burma. Thus, overall in the down-turn to 1932-33, the Indian position is only marginally altered by the removal of Burmese trade, but in the up-swing to 1938-39 Indian figures improve markedly minus Burma. This suggests that Indian foreign trade was more successful

TABLE 1.2A: TOTAL SEA-BORNE MERCHANDISE TRADE OF BRITISH INDIA
(Rs 1,000)

	Total Private Merchandise	Indian Merchandise Trade Minus Burma
1925-26	6,11,50,47	5,40,14,12
1926-27	5,40,66,64	4,77,54,41
1927-28	5,78,52,78	5,10,87,91
1928-29	5,91,26,72	5,36,51,51
1929-30	5,58,72,93	4,97,82,29
1930-31	3,90,43,03	3,41,69,03
1931-32	2,86,91,86	2,53,47,49
1932-33	2,67,97,57	2,38,05,43
1933-34	2,66,02,51	2,40,02,54
1934-35	2,87,50,19	2,60,24,78
1935-36	2,98,81,30	2,67,88,71
1936-37	3,27,50,59	2,95,47,48
1937-38	3,62,99,12	3,62,99,12
1938-39	3,21,64,27	3,21,64,27

TABLE 1.2B: INDEX OF TOTAL TRADE OF BRITISH INDIA

	Total Private Merchandise		Indian Merchandise Trade Minus Burma		
	(a)	(b)	(c)	(d)	(e)
1925-26	109.44		108.50	100.00	
1926-27	96.76		95.92	88.41	
1927-28	103.54		102.62	94.58	
1928-29	105.82		107.77	99.32	
1929-30	100.00		100.00	92.16	
1930-31	69.87	67.76	68.63	63.25	66.66
1931-32	51.35	49.80	50.91	46.92	49.45
1932-33	47.96	46.51	47.81	44.07	46.44
1933-34	47.61	47.17	48.21	44.43	46.82
1934-35	51.45	49.90	52.27	48.18	50.77
1935-36	53.48	51.86	53.81	49.59	52.26
1936-37	58.61	56.84	59.35	54.70	57.64
1937-38	64.96	63.00	72.91	67.20	70.81
1938-39	57.56	55.82	64.60	59.54	62.74

* (a) 1929-30=100
(b) 1925-26/1929-30=100
(c) 1929-30=100
(d) 1925-26=100
(e) 1925-26/1929-30=100

TABLE 1.2C: SEA-BORNE MERCHANDISE EXPORT TRADE OF BRITISH INDIA
(Rs 1,000)

	Total Exports Priv. Merch.	Total Burmese Exports Private Merchandise	Total Indian Exports Less Burmese Trade
1925-26	3,85,32,69	48,70,28	3,36,62,39
1926-27	3,09,44,56	39,76,05	2,69,68,51
1927-28	3,28,69,13	41,57,81	2,87,11,82
1928-29	3,37,96,12	33,70,86	3,04,25,26
1929-30	3,17,93,24	39,49,26	2,78,43,98
1930-31	2,25,63,66	32,27,92	1,93,35,74
1931-32	1,60,54,72	22,93,62	1,37,61,10
1932-33	1,35,49,14	19,21,82	1,16,27,32
1933-34	1,50,66,81	17,43,45	1,33,23,36
1934-35	1,55,21,54	17,41,62	1,37,79,92
1935-36	1,64,38,92	20,05,50	1,44,33,42
1936-37	2,02,36,54	21,18,28	1,81,18,26
1937-38	1,89,20,55		1,89,20,55
1938-39	1,69,21,52		1,69,21,52

TABLE 1.2D: INDEX OF SEA-BORNE MERCHANDISE EXPORT TRADE

	Total Private Merchandise	Total Indian Exports Less Burma		
	(a)	(b)	(c)	(d)
1925-26	121.19	120.89	100.00	
1926-27	97.33	96.85	80.11	
1927-28	103.38	103.11	85.52	
1928-29	106.29	109.27	90.38	
1929-30	100.00	100.00	82.71	
1930-31	70.96	69.44	57.44	65.49
1931-32	50.49	49.42	40.87	46.61
1932-33	42.61	41.75	34.54	39.38
1933-34	47.38	47.85	39.57	45.12
1934-35	48.82	49.48	40.93	46.67
1935-36	51.70	51.83	42.87	48.88
1936-37	63.65	65.07	53.82	61.37
1937-38	59.51	67.95	56.20	64.08
1938-39	53.22	60.77	50.26	57.31

Source: Calculated from Statistical Abstracts

* (a) 1929-30=100
(b) 1929-30=100
(c) 1925-26=100
(d) Average 1925-26/1929-30=100

TABLE 1.2E: SEA-BORNE MERCHANDISE IMPORT TRADE OF BRITISH INDIA
(Rs 1,000)

	Total Private Merchandise	Total Burmese Private Merchandise	Total Indian Imports Less Burmese Trade
1925-26	2,26,17,78	22,66,07	2,03,51,71
1926-27	2,31,22,08	23,36,18	2,07,85,90
1927-28	2,49,83,65	26,07,56	2,23,76,09
1928-29	2,53,30,60	21,04,35	2,32,26,25
1929-30	2,40,79,69	21,41,38	2,19,38,31
1930-31	1,64,79,37	16,46,08	1,48,33,29
1931-32	1,26,37,14	10,50,45	1,15,88,69
1932-33	1,32,58,43	10,70,32	1,21,88,11
1933-34	1,15,35,70	8,56,52	1,06,79,18
1934-35	1,32,28,65	9,83,79	1,22,44,86
1935-36	1,34,42,32	10,87,09	1,23,55,23
1936-37	1,25,24,05	10,84,83	1,14,39,22
1937-38	1,73,78,57		1,73,78,57
1938-39	1,52,32,75		1,52,32,75

TABLE 1.2F: INDEX OF SEA-BORNE IMPORT TRADE

	Total Private Merchandise	Total Indian Exports Less Burma		
	(a)	(b)	(c)	(d)
1925-26	93.92	92.76	100.00	
1926-27	96.02	94.62	102.13	
1927-28	103.75	101.99	109.94	
1928-29	105.19	105.87	114.12	
1929-30	100.00	100.00	107.79	
1930-31	68.43	67.61	72.88	68.24
1931-32	52.48	52.82	56.94	53.31
1932-33	55.06	55.55	59.88	56.07
1933-34	47.90	48.67	52.47	49.13
1934-35	54.93	55.81	60.16	56.33
1935-36	55.82	56.31	60.70	56.84
1936-37	52.01	52.14	56.20	52.62
1937-38	72.17	79.21	85.39	79.95
1938-39	63.25	69.43	74.84	70.08

Source: Calculated from figures in Statistical Abstracts, 1925-26 to 1938-39.

* (a) 1929-30=100
(b) 1929-30=100
(c) 1925-26=100
(d) Average 1925-26/1929-30=100

than that of Burma in the 1930s.

The role of Indo-Burmese trade is an important, but much overlooked, topic. Most historians have simply made use of official statistics without making allowances for the effect of the separation or the nature of Indian trade before 1936. Before the separation, Indo-Burmese trade was included in the statistics of coasting trade and classed, therefore, as internal trade. The major trade between India and Burma consisted of the exchange of manufactured cotton and jute goods for rice and petroleum products. India was the largest single market for Burmese goods and its share of total Burmese trade increased form 39 per cent in 1913 to some 60 per cent in 1940. India, however, provided Burma with a constant 50 per cent of imports, 7 per cent of which was classified as re-exports of foreign merchandise, mostly machinery and parts by the late 1930s.[18] Table 1.3 (over) illustrates India's constant deficit to Burma in the inter-war period, the deficit averaging Rs 17 crores.[19] Between 1929 and 1931-32 the deficit was reduced due to a larger decline in Burmese imports than Indian exports. However from 1932-33 the deficit reached new depths as India imported increasing quantities of Burmese rice. However, after the separation, when Burmese goods became liable to Indian import duties, Burmese exports declined as Indian imports rose and the Indian deficit was reduced once more to its pre-depression level. These trends obviously had major implications for India's balance of payments after separation, when Burma was classed as a foreign country for trade purposes.

2. <u>Changes in Aggregate Trade by Volume</u>

Having considered the changes in aggregate trade by value, it

TABLE 1.3: INDO-BURMESE MERCHANDISE TRADE (Rs 1,000)

	Exports to Burma	Imports from Burma	Balance
1925-26	18,58,23	30,84,50	- 12,26,27
1928-29	17,36,74	34,38,41	- 17,01,67
1929-30	17,27,93	31,67,16	- 14,39,23
1930-31	14,12,69	24,40,17	- 10,27,48
1931-32	12,27,18	23,02,53	- 10,75,35
1932-33	9,58,94	27,07,10	- 17,48,16
1933-34	9,31,42	29,49,11	- 20,17,69
1934-35	10,60,64	33,31,53	- 22,70,89
1935-36	9,93,52	34,09,35	- 24,15,82
1936-37	10,93,28	34,91,75	- 23,98.47
1937-38	11,29,09	25,96,51	- 14,67,42
1938-39	11,10,22	24,34,91	- 13,24,69

Source: Calculated from Review of Trade of India (Calcutta, annual) Statistical Abstract for British India in the years 1929-30 to 1938-39, BPP, Cmd 6333 of 1942, Table 252, pp.686-691.

is important to study the changes in volume. To what extent were Indian exports curtailed by falling demand or were levels of exports maintained despite falling prices? During the peak years of the depression, 1930-31, the volume of most of India's exports were reduced with only a few exceptions.[20] Oilcake exports, particularly from groundnuts, increased by 50 per cent, mostly for export to continental Europe where they were consumed in the drive towards agricultural self-sufficiency. Luxury exports such as seedlac and handwoven woollen carpets also increased, the latter by 100 per cent. The reduction in their price was obviously making them more competitive in foreign markets. Other commodities which increased their volume during the depression included spices and basic grains exported to the many areas of Indian migration, and tin and wolfram ores which were exported to Germany and the Netherlands.

For other commodities, the years of the depression marked a slump in foreign sales as can be seen in Table 1.4 (over). The jute trade, for example, had been facing difficulties already in the late 1920s. Demand was being reduced through the use of grain elevators and bulk transportation of agricultural produce. More importantly, the purchasers of jute manufactures were increasingly disillusioned by the monopoly control of India jute manufacturers and the high prices they charged. This led to the search for substitutes in both synthetic materials and natural fibres such as sisal, and even cotton, for use as sacking and cordage. The impact of the depression accelerated these trends. Since jute manufactures were used in the transportation of agricultural produce there was no time lag in the price falls as occurred with other manufactured goods. At the same time, although raw jute exports declined in the early years of the depression, they recovered in 1933 before exports of manufactured jute. While the two traditional major customers for raw jute, Britain and America, reduced their imports, new sources were discovered, as mills were established in South and Central America to substitute for imports of manufactured goods.

The volume of most Indian exports was reduced during the slump because they were raw materials or agricultural produce. As the depression hit advanced countries they reduced their production

Table 1.4: Volume of Principal Exports from India

	Coal & Coke (tons)	Coffee (cwts)	Raw Cotton (tons)	Cotton Twist & Yarn (lb 000)	Cotton Piece-goods (yd 000)
1925-26	240,962	205,346	747,334	31,873	164,833
1926-27	645,020	149,775	572,038	41,513	197,401
1927-28	634,507	276,668	482,336	24,696	168,623
1928-29	641,266	197,629	664,718	24,319	149,219
1929-30	685,259	184,220	726,864	24,570	133,426
1930-31	428,170	292,889	701,069	23,473	97,715
1931-32	515,117	155,600	423,080	22,043	104,636
1932-33	452,073	173,177	364,852	15,108	66,442
1933-34	372,894	185,995	503,720	16,388	56,461
1934-35	308,689	140,963	623,276	12,789	57,693
1935-36	198,025	215,951	606,536	9,668	71,250
1936-37	249,526	210,629	762,133	12,137	101,636
1937-38	1,005,899	135,142	487,764	40,124	241,255
1938-39	1,321,193	184,800	482,658	37,960	176,992

	Raw Jute (tons)	Jute Gunny Bags (No. 000)	Jute Cloth (yd mill.)	Tea (lb 000)	Pig Iron (tons)
1925-26	647,154	425,083	1,461	325,733	-
1926-27	707,782	449,089	1,503	349,264	309,505
1927-28	891,907	463,139	1,552	361,614	393,249
1928-29	897,863	497,685	1,568	359,602	448,946
1929-30	806,884	522,291	1,651	376,169	568,813
1930-31	619,705	434,046	1,271	355,301	439,135
1931-32	586,618	388,532	1,021	340,910	350,868
1932-33	563,063	415,085	1,012	378,837	218,384
1933-34	748,168	401,644	1,053	317,816	377,514
1934-35	152,474	422,949	1,063	324,833	417,059
1935-36	771,324	458,900	1,218	312,706	538,153
1936-37	820,591	567,422	1,708	301,838	574,310
1937-38	747,258	612,260	1,643	334,225	629,203
1938-39	690,439	598,436	1,550	348,050	514,427

1. Excludes Burma

Sources: Calculated from
Statistical Abstract for British India, 1919-20 to 1928-29, BPP, Cmd 3882 of 1931
Statistical Abstract, 1926-27 to 1935-36, BPP, Cmd 5804 of 1938
Statistical Abstract, 1929-30 to 1938-39, BPP, Cmd 6333 of 1942

levels and consequently their demand for raw materials. Thus, there was a slight time lag between reduction in price and reduction in volume of exports which generally occurred from 1930-31. Hence, the decline in sales of undressed hides and skins, dyeing materials, raw cotton, rubber, unhusked rice which was sold to Germany for starch production, and most of India's ore exports. Tea exports, a major component of India's foreign trade, was in a different category. The various international agreements aimed at protecting the major tea producers helped to keep the volume of tea exports relatively stable, although they failed to maintain price levels.[21]

From 1936 to 1939, Indian exports recovered in volume. The major exceptions were dyeing substances which had been superceded by synthetic dye production in Europe and America, spices and oils and raw cotton hit by declining sales to Japan. Tea and rubber exports also failed to return to the 1929 volumes, being restricted to the quotas of their respective international agreements. For other commodities the late 1930s marked a recovery with increased sales above the 1929 volume. Even jute manufactures increased in volume as sacking was once again required for expanding world trade in agricultural produce. As we have seen, much of this increase in export trade was simply a result of changing categories of statistics after the separation of Burma.

The volume of Indian imports also decreased during the slump, although it is more difficult to ascertain the direct effects of the depression through the many factors influencing volume levels. The change in volume of India's principal imports are contained in Table 1.5 (over). The shrinking purchasing power of the Indian masses

TABLE 1.5: VOLUME OF PRINCIPAL INDIAN IMPORTS

	Raw Cotton tons	Cotton Twist& Yarn lb.(000)	Cotton goods yds. mill.	Sugar tons (000)	Cement tons	Caustic Soda cwts	Wood Pulp cwts
1925-26	17,543	51,688	1,563	2,665	-	-	-
1926-27	45,676	49,424	1,787	2,256	99,349	160,834	307,172
1927-28	66,062	52,344	1,973	2,891	110,779	175,297	399,221
1928-29	28,882	43,766	1,936	2,092	125,988	173,643	445,558
1929-30	23,980	43,882	1,919	1,011	119,430	189,609	486,209
1930-31	58,464	29,140	890	1,003	109,740	231,901	454,316
1931-32	79,323	31,575	776	556	86,396	261,428	442,691
1932-33	84,758	45,103	1,225	402	80,342	284,529	312,819
1933-34	42,896	32,055	796	264	64,031	308,313	406,353
1934-35	60,564	34,022	944	223	65,966	377,633	390,123
1935-36	76,487	44,570	947	201	58,936	405,975	309,422
1936-37	64,988	28,520	764	23	47,696	424,013	220,944
1937-38	134,451	21,998	591	14	24,991	518,485	214,334
1938-39	96,374	36,459	647	36	15,913	501,134	276,862

Sources: Statistical Abstract for British India, 1919-20 to 1928-29, BPP, Cmd 3882 of 1931.
Statistical Abstract 1926-27 to 1935-36, BPP Cmd 5804 of 1938 Table 262, pp. 838-859.
Statistical Abstract 1929-30 to 1938-39, BPP, Cmd 6333 of 1942, Table 255, pp.698-719.

which resulted from the decline in export prices reduced demand for imports of consumer goods. Consumer goods of most varieties declined in volume - from staples such as cotton piecegoods, boots and shoes to more luxury items such as soaps, liquors and writing paper. At the same, time imports of certain capital goods also decreased; including cement, coal, railway equipment and rolling stock, machinery for metal-working, oil-crushing, mining, rice and flour milling and for tea processing, metal goods and fuels. While the impact of the depression can be traced in the reduced imports of machinery and fuel, especially for agricultural processing industries, the effect on other commodities is more subtle. For instance, the causes of the changes in the volume of cotton piecegoods are highly complex. Imports from Lancashire had been declining steadily since before 1914, but received a slight boost in 1928-29 during the prolonged cotton strikes in Bombay. However, Lancashire imports were affected further in the early 1930s from the Swadeshi and boycott campaigns of the Nationalists.[22] At the same time, the award of protection to the Indian mill industry was strengthening the position of the up-country mills in the domestic market against the Bombay enclave. Imports, however, began to creep up again after 1931 with the reduction in the price of Japanese exports because of the devaluation of the yen.[23]

To some extent, the volume of imports in the pre-depression period were being affected already by government policy. In particular, the mid-1920s marked a major change in the stores policy of the Government of India with the adoption of the notion that government contracts could be used to foster indigenous industrial development. From 1924, tenders were place increasingly with Indian rather than foreign or British firms. The impact of the depression in reducing government expenditure also would have diminished the number of tenders placed abroad. Through the early and mid-1930s, the proportion of Indian firms gaining contracts from the Government of India continued to increase. Equally, the policy of protection had been adopted before 1929, if in a restricted form. The effects of the depression seem to have increased the opportunities for Indian industries to receive protection under the stringent rules applied to its award. Currency depreciation and dwindling income levels played a major role in the reasons given for the award of protection during the depression years, for example, to the cotton and sugar industries. This spread of protection led to decreased imports of sugar, matches, soap and certain types of paper and iron and steel.

The impact of the depression can also be traced in the commodities whose imports rose. Currency depreciation made the price of Japanese rice cheaper then either Indian or Burmese rice and so imports increased, one factor in the demand for anti-exchange dumping legislation to be aimed at Japan.[24] The increase in most imports can again be linked to the award of protection. In the cotton industry more firms, especially in up-country districts, were increasing production of finer counts of yarn which resulted in increased importation of longer-staple cotton from America and East Africa. Improvements in the finishing of Indian piecegoods raised the demand for imported dyestuffs.[25] Imports of cotton machinery, especially weaving machinery increased, as manufacturers took the opportunities of reduced prices to re-equip, often with secondhand imported machinery. The increase in sugar machinery imports is also easily linked to the award of protection. Protection at a time of reduced cost of imported machinery was a double bonus to entrepreneurs, especially since imported machinery was not subject to the 25 per cent general increase in customs duties imposed in the Emergency Budget of 1931.

3. Changes in the Composition of Indian Trade

We must now consider the implications of changes in the aggregate trade of India on the composition of trade. Tables 1.6 and 1.7 provide evidence of whether or not the composition of Indian trade was altered by the impact of the depression. These tables are a revision of the work of Venkatasubbiah, the standard work on changes in Indian trade in the inter-war period.[26] Unfortunately, Venkatasubbiah's original calculations on changes in the composition of Indian trade did not make allowances for Indo-Burmese trade. The conclusions drawn by Venkatasubbiah, based on official statistics, were that, at first glance, the composition of India's export trade remained remarkably stable with raw cotton, raw and manufactured jute and tea remaining India's principal exports. However, he argued that the depression had appeared to have accelerated the process whereby India exported more manufactured and semi-manufactured goods and depended less on the export of raw materials and agricultural produce. He based this on the rising trend of his miscellaneous category which included processed oilseeds (in the form of oils and cattle fodder) and exports of iron and steel goods.

In the revision of Venkatasubbiah's work on the composition of Indian exports, detailed in Table 1.6 (over), allowance has been made for the trade between India and Burma. Indian coasting trade to Burma has been included as exports from India, while Burmese foreign trade has been wholly excluded. The result of this revision is to re-emphasise the stability of Indian exports. While the proportion of raw cotton, raw and manufactured jute and tea to the value of total export trade is increased in the revised series, there is no

Table 1.6: Composition of Indian Export Trade (Quinquennial Averages)

	Pre-War Average		War Average		1919-20 to 1923-24		1924-25 to 1928-29		1929-30 to 1934-35		1935-36 to 1939-40	
	Value	%	Value	%	Value	%	Value	%	Value	%	Value	%
Raw Cotton	337.4	16.4	336.3	17.6	674.4	24.0	717.6	23.1	360.5	21.7	322.3	18.8
Raw Jute	239.8	11.6	128.0	6.7	195.3	7.2	313.6	10.1	138.0	8.3	152.8	8.9
Seeds	254.0	12.3	121.7	6.4	230.4	8.5	273.7	8.8	157.4	9.5	140.0	8.2
Rice (unhusked)	78.1	3.8	20.8	1.1	48.5	1.8	116.2	3.7	7.5	0.5	28.8	1.7
Wheat	143.7	6.9	106.0	5.6	41.4	1.5	65.7	2.1	49.7	3.0	21.7	1.3
Tea	135.5	6.6	177.0	9.3	210.8	7.8	298.8	9.6	211.9	12.7	288.1	16.8
Raw Hides/Skins	134.6	6.5	98.7	5.2	94.4	3.5	78.5	2.5	45.1	2.7	43.1	2.5
Cotton Manufactures	124.9	6.1	141.2	7.4	218.5	8.1	121.6	3.9	63.4	3.8	72.5	4.2
Jute Manufactures	222.2	10.8	403.6	21.3	449.7	16.7	581.0	18.7	300.8	18.1	317.2	18.5
Dressed Hides/Skins	43.5	2.1	71.5	3.8	61.2	2.3	79.8	2.6	58.5	3.5	60.2	3.5
Other	347.3	16.8	293.2	15.4	510.7	18.9	458.8	14.8	268.3	16.1	263.1	15.4
Total	2,061.0		1,898.0		2,698.3		3,105.3		1,661.1		1,709.8	

Sources: H. Venkatasubbiah, Foreign Trade
p.29 Table B.
Review of the Trade of India (annual, Calcutta).

increase in the miscellaneous category highlighted by Venkatasubbiah. There is actually a decrease on this miscellaneous category between its average share of total export trade of 18.9 per cent in 1919-20 to 1923-24 to only 15.4 per cent in the period 1935-36 to 1939-40. Thus, despite the depression there is little diversification of India's export trade in the inter-war period. Of the three staple exports, raw cotton did experience a decline in sales to foreign markets, principally Japan, in the late 1930s, but it was still India's single most valuable export. The experience of the depression, therefore, seems to have consolidated the traditional elements of India's export trade. This has been a major criticism of the performance of Indian trade during the depression.[27] Many economies sought to diversify their export base as a response to the slump. However, it must be remembered that this occurred most readily in those economies previously relying heavily on mono-cultural exports. By 1929, in comparision, indeed by the outbreak of World War One, the Indian export trade was already a highly diversified mixture of raw materials and manufactured goods by the standards of other primary producers.

Table 1.7 provides a similar revision to Venkatasubbiah's original conclusions on the changes in the composition of India's import trade. Again, without making allowance for Indo-Burmese trade, Venkatasubbiah concluded that the Indian import trade reflected the growing industrialisation during and after the slump. He stressed the decline of cotton manufactures and sugar imports as evidence of the rise of import-substitution industries within India. Also he emphasised the growing importation of industrial machinery so that, by the end of the 1930s, the machinery category had overtaken that of cotton manufactures to form India's single largest group of imports.

In the revision of Venkatasubbiah's calculations, contained in Table 1.7 (over), allowance has been made once more for Indo-Burmese trade. In this table imports from Burma to India via the coasting trade have been included, as have India re-exports of foreign merchandise to Burma. Also, deducted have been direct sea-borne imports into Burma. With Burma removed from the statistics it is clear that the import of cotton piecegoods as a percentage of total Indian imports was far larger in the pre-war period than earlier assumed by Venkatasubbiah. This makes the reduction of cotton good imports during the depression and post-depression periods even more dramatic, and explains the near panic displayed by Manchester millowners and cotton exporters at the changing nature of the Indian market for their goods.[28] Another major change is in the oils category, reflecting India's purchase of kerosene and petroleum from Burma. Again, the greatest revision of Venkatasubbiah's earlier work concerns his miscellaneous category. The revised figures are markedly higher than Venkatasubbiah's in the last period, 1935-36 to 1939-40 but lower in the other periods. Thus, the development in the Indian economy reflected by the increased demand for new categories of imports, is much more marked than Venkatasubbiah's original work suggested. Venkatasubbiah argued that the greatest change in the structure of the Indian import trade occurred during the depression, but that demand for new products declined again during the late 1930s. The revised figures, however, show a gradual long-term change

Table 1.7: Composition of Indian Import Trade (Quinquennial Averages)

	Pre-War Average		War Average		1919-20 to 1923-24		1924-25 to 1928-29		1929-30 to 1934-35		1935-36 to 1939-40	
	Value	%	Value	%	Value	%	Value	%	Value	%	Value	%
Cotton Manufactures	533.8	40.5	504.0	39.7	691.5	29.6	660.0	30.2	216.7	18.8	164.8	11.7
Woollen Manufactures	31.2	2.3	16.2	1.3	22.6	1.0	40.4	1.8	23.5	1.7	23.0	1.6
Silk Manufactures	27.9	2.1	28.0	2.2	41.2	1.8	33.6	1.5	26.2	1.9	16.8	1.2
Metal Manufactures	137.5	10.3	98.2	7.7	379.2	16.2	236.4	10.8	155.0	11.1	186.0	13.2
Metals	157.7	11.8	116.0	9.1	270.8	11.6	255.1	11.7	125.3	9.0	113.4	8.0
Oils	65.7	4.9	76.1	5.9	136.0	5.8	158.0	7.2	195.0	14.0	123.9	8.8
Sugar	134.9	10.1	145.0	11.4	195.4	8.3	170.2	7.8	64.8	4.6	12.2	1.0
Other	241.3	18.1	284.5	22.4	601.4	25.7	632.4	28.9	539.7	38.8	770.0	55.0
Total	1,330.0		1,268.0		2,338.1		2,186.1		1,391.2		1,410.1	

A. Includes twist and yarn
B. Includes hardware, machinery and millwork and railway plant and rolling stock

Sources: H. Venkatasubbiah, Foreign Trade of India, 1900-1940: A Statistical Analysis (Bombay, 1946), Table A, p.28.
Review of the Trade of India (Calcutta, annual).
Conditions and Prospects of United Kingdom Trade in India (London, annual).

in the structure of India's import trade, a trend which accelerated during the slump but which was at an even greater pace in the late 1930s. Between 1935-36 and 1939-40, the miscellaneous category amounted to 55 per cent of all imports. Thus, there was a continual increase in demand throughout the 1930s for new imports such as long staple raw cotton from East Africa, electrical appliances, chemicals, pharmaceuticals, motor vehicles and machinery and parts.

Overall, then, there were divergent trends in the composition of India's export and import trade. The depression consolidated the traditional pattern of India's export trade, reflecting the more diversified nature of Indian exports prior to the slump in comparision with other primary producers. In the import trade, however, there was a new demand for increased machinery and raw materials for domestic consumer industries, with a corresponding decline in the import of consumer goods such as cotton piecegoods and sugar. This provides a further explanation of the stability of India's export trade. The development taking place during the 1930s was based on consumer industries for home demand rather than for export.

4. India's Balance of Trade and Payments

Although, as we have seen, the volume of some of India's principal exports began to recover after 1936, values failed to return to 1929 levels. For instance, in 1929-30 India exported 522.2 million gunny bags valued at Rs 21.8 crores, whereas in 1938-39, 598.4 million bags were exported at a value of Rs 12.4 crores. The position for raw material was similar. In 1929-30, 19,681 tons of raw cow hide were exported valued at Rs 2.18 crores, but the 19,417 tons exported in 1936-37 earned only Rs 1.09 crores. Again, the 434,959 tons of raw hemp sent abroad in 1929-30 was valued at Rs 68,33 lakhs, whereas the 816,312 tons exported in 1938-39 was valued at only Rs 71,98 lakhs.[29] This decline in value disrupted the traditional Indian pattern of large trade merchandise surplus. At first this was masked by the official figures for the total visible balance of trade which seemed to remain healthy despite the slump. However, a breakdown of the balance of trade, to be found in Table 1.8 (over), reveals the true picture. While India's merchandise balance never went into deficit, the large surpluses dwindled away to only Rs 3,22 lakhs in 1932-33 when only re-exports of foreign merchandise maintained the surplus. The merchandise surplus increased again from 1933 reaching Rs 77,76 lakhs in 1936-37, but this was still slightly below the 1929 level and only half of the surpluses recorded in the mid-1920s.[30] In the last two years before the war, the surplus declined again with rice and petroleum products being imported from the newly separated Burma.

These poor merchandise balances were masked by the large scale export of gold from 1931, again a reversal of the traditional Indian patterns of being an importer of treasure. The value and distribution of these exports is given in Table 1.9 (over). The gold exports were on private account, with the Government of India only being involved in one year (1929-30) when it sold Rs 4 lakhs. It was government silver reserves which were being exported in this period.

From 1931, gold bullion became India's most important export commodity, accounting for some 30 per cent of total export value between 1931-32 and 1934-35, although it declined after that date.

Table 1.8

Balance of Trade (Rs lakh)

	1929-30	1930-31	1931-32	1932-33	1933-34
Export of Indian Merchandise (P)	+3,10,80	+2,20,49	+1,55,89	+1,32,27	+1,47,25
Re-export of Foreign Merchandise (P)	+7,13	+5,15	+4,66	+3,22	+3,42
Imports of Foreign Merchandise (P)	-2,38,95	-1,63,58	-1,25,72	-1,32,27	-1,15,00
Balance of Trade in Merchandise (P)	+78,98	+62,06	+34,83	+3,22	+35,67
Gold (Private)	-14,22	-12,75	+57,98	+65,52	+57,05
Silver (Private)	-11,89	-11,65	-2,59	-73	-1
Currency Notes (Private)	-9	-3	+26	+14	+19
Total Visible Balance of Trade	+52,78	+37,63	+90,48	+68,15	+92,90
Purchase of Sterling by Reserve Bank	-20,39	-7,26	-53,04	-48,18	-59,97
Sales of Sterling by Reserve Bank	-	+7,75	+18,98	-	-
Transfers of Govt. Securities	-29	-8	+6	-13	-11
Interest Drafts on India in respect of Govt. of India Securities	-33	-83	-32	-32	-36
Balance of Remittances of Funds	-21,01	+8	-34,32	-48,63	-60,44

Table 1.8 (Contd.)

	1934-35	1935-36	1936-37	1937-38[a]	1938-39[a]
Export of Indian Merchandise (P)	+1,51,67	+1,60,52	+1,96,12	+1,80,93	+1,62,79
Re-export of Foreign Merchandise (P)	+3,55	+3,77	+6,24	+8,28	+6,42
Imports of Foreign Merchandise (P)	-1,31,80	-1,33,74	-1,24,60	-1,73,33	-1,51,79
Balance of Trade in Merchandise (P)	+23,42	+30,55	+77,76	+15,88	+17,42
Gold (Private)	+52,54	+87,36	+27,85	+16,34	+13,06
Silver (Private)	-37	-1,27	-13,59	-2,26	-1,75
Currency Notes (Private)	+37	+29	+24	+28	+58
Total Visible Balance of Trade	+75,96	+66,93	+92,26	+30,24	+29,31
Purchase of Sterling by Reserve Bank	-42,82	-45,58[b]	-70,87	-29,51	-32,64
Sales of Sterling by Reserve Bank	-	-[b]	-	-	-
Transfers of Govt. Securities	+32	-56	-18	-11	-8
Interest Drafts on India in respect of Govt. of India Securities	-28	-31	-29	-28	-28
Balance of Remittances of Funds	-49,98	-46,45	-41,34	-29,90	-33,00

Notes: + signifies net export and - signifies net import
a excludes Burma
b Figures in previous columns relate to sterling purchases and transfers by Government.

Source: Statistical Abstract for British India from 1929-30 to 1938-39, BPP, Cmd 6333 of 1942, Table 164, p.758.

Table 1.9

Value of Treasure Exported by Sea

	1929-30 Rs 1,000	1930-31 Rs 1,000	1931-32 Rs 1,000	1932-33 Rs 1,000	1933-34 Rs 1,000
Gold					
United Kingdom	-	49,01	48,10,59	39,24,79	44,23,41
United States	-	-	7,36,19	22,88,61	9,10,43
Total Private	99	49,34	60,78,25	66,84,09	58,15,30
Total Government	4	-	-	-	-
Total Value	1,03	49,34	60,78,25	66,84,09	58,15,30
Total Quantity (oz 000)	2	87	8,181	8,526	6,830
Silver					
United Kingdom (Govt.)	3,32,34	1,39,68	3,01,89	2,74,23	3,37,24
United Kingdom (Private)	-	18	36,58	75,04	69,18
Hong Kong (Private)	79,78	1,68,22	1,00,82	-	-
Total Private	1,47,36	1,81,33	1,82,60	90,03	79,79
Total Government	3,32,43	1,57,37	3,02,21	2,74,23	6,87,65
Total Value	4,79,79	3,38,70	4,84,81	3,64,26	7,17,44
Total Quantity (oz 000)	34,796	30,689	43,540	32,947	57,861
Total Value Gold and Silver Exports	4,80,82	3,88,04	65,63,06	70,48,35	65,32,74

Table 1.9 (Contd.)

	1934-35 Rs 1,000	1935-36 Rs 1,000	1936-37 Rs 1,000	1937-38 Rs 1,000	1938-39 Rs 1,000
Gold					
United Kingdom	35,07,87	24,44,48	12,46,96	9,14,75	9,31,00
United States	17,02,05	12,48,73	16,66,20	7,10,69	3,71,22
Total Private	53,25,68	38,30,55	29,45,49	17,89,24	13,80,77
Total Government	-	-	-	-	-
Total Value	53,25,68	38,30,55	29,45,49	17,89,24	13,80,77
Total Quantity (oz 000)	5,775	4,123	3,183	1,938	1,436
Silver					
United Kingdom (Govt.)	5,77,84	3,84,25	-	-	45,66
United Kingdom (Private)	1,49,19	1,81,56	23,50	57,59	21,35
Hong Kong (Private)	2,40,00	28,37	-	-	-
Total Private	4,07,91	3,18,85	28,47	74,49	28,31
Total Government	5,77,84	3,84,25	-	80,77	49,61
Total Value	9,85,75	7,03,10	28,47	1,55,19	77,92
Total Quantity (oz 000)	68,262	48,321	2,144	8,365	6,006
Total Value Gold and Silver Exports	63,11,43	45,33,65	29,79,96	19,44,43	14,58,69

Source: Statistical Abstract for British India in the years 1929-30 to 1938-39, BPP, Cmd 6333 of 1942, Table 263, pp.754-57.

The reasons why the gold outflow occurred will be dealt with in later chapters. At this point it is sufficient to say that large profits could be made by the export of gold from India.

The major question to be asked of the gold flows is how were the profits actually utilised? Between 1931 and 1939 the total value of gold exports amounted to Rs 338.49 crores, which Shirras estimated to be equivalent to 20 per cent of the internal stocks of gold.[31] Rothermund has argued that this was a disinvestment in India during the years of the depression largely for the benefit of Britain.[32] Indeed a League of Nations economist commented in 1932 that the gold flows from India "were of material help in enabling the Bank [of England] to pay off its foreign credit".[33] In 1930 and 1931, the officials in both India and Britain feared a flight from the rupee. India's credit was weakened through the conjunction of the international depression and a period of constitutional uncertainty. The gold exports restored the credit of India in international money markets and were material in aiding the Government of India to meet its remittances in London.[34] Had the gold exports not occurred India's balance of trade would not have been sufficient to meet these remittances, India would have been forced to default and a flight from the rupee would have been unavoidable.

Gold exports probably helped to maintain the level of total purchasing power available in India and could even have increased it. While the impact of this in the internal sector will be dealt with in later chapters, for our present purposes it should be noted that within the structure of Indian imports there was an increased proportion of machinery and parts. It is possible that some, at least, of the profits from gold sales were being invested in Indian industry, particularly since the new Indian industrial class was evolving from the trading families, the Birlas and Thapars of the north and the Chettiar families of Madras. Birla certainly was involved in bullion export.

To concentrate solely on the visible balance of trade, however, would give only a partial view of the nature of India's external financial relations. In many ways it is the patterns of the invisible balances which are more enlightening. Information on these trends, however, is very slight, and at best, estimates. The most comprehensive survey of India's balance of payments is still Banerji's work concluded in the early 1960s.[35] The most recent survey of India's financial development by Goldsmith, a long-term study from 1860-1977, concludes, after the briefest of discussions, that there was a net outflow of capital of Rs $1^1/_2$ million between 1930 and 1939 or 0.6 per cent of national product. Goldsmith, however, provides little evidence for this conclusion.[36]

Banerji estimated that between 1921-22 to 1938-39 India had a balance of payment deficit of Rs 217 crores, of which there was a deficit of Rs 22,435 crores between 1921-22 and 1929-30 but a small surplus of Rs 7.32 between 1930-31 to 1938-39. However, this does not show the nature of the impact of the depression. Indian trade balances were essential for the sterling remittances of the Government of India and for the lubrication of the internal credit structure of the Indian economy through the purchase of sterling for the finance of trade. If the depression brought a sharp reduction in the amount of capital entering India, both the external finances of the Government of India and the internal credit structure would come under attack which could provide a mechanism of transmission of the world financial slump into the Indian economy. Both Tomlinson and Rothermund have suggested that this was what occurred providing an explanation for the deepening of the slump in the Indian economy in 1931 before the rupee crisis, but neither have provided evidence to support such a suggestion.[37]

It is very difficult to obtain information on the flow of capital in and out of India. In evidence to the Central Banking Enquiry, the exchange banks which had the monopoly of the finance of foreign trade, submitted a consolidated balance sheet for the year ending 31st December 1929. Of total resources of Rs 88 crores, Rs 10 crores were in bills of exchange in transit to London and overseas, Rs 26 crores in Government securities and Treasury Bills and Rs 46 crores in loans, cash credit, overdrafts and hundis. The figure of Rs 10 crores is, as Banerji has put it, 'The only indication available of the magnitude of funds imported into India in the busy season to finance the trade of India' and of the relationship between the funds the exchange banks put into overseas and internal trade.[38] However, even as early as December 1929, these figures could have been distorted by the depression. In particular, the Rs 26 crores invested in government securities and treasury bills could have contained a proportion previously used to finance trade. The Controller of Currency reported that in December 1929 the exchange banks were investing in treasury bills attracted by the higher rate of interest which was utilising some of the capital left free since it was no longer needed to finance trade.[39]

Contemporaries seemed to worry more about a withdrawal of funds from India between 1929 and 1931 than the general squeeze on international credit since between those dates Indian interest rates were higher than those in the advanced capital markets which should have attracted funds. Investors were being deterred both by the economic position of India and the political difficulties. Between 1929 and 1931 there were widespread fears over the safety of foreign investments in India under a new nationalist government after Nehru's call at the 1929 Congress for repudiation of debts and nationalisation of foreign concerns.[40] The importance of political difficulties holding back short-term investment is seen in the early part of 1931 during the lull created by the Gandhi-Irwin Pact. During this time, Taylor, the Controller of Currency, estimated that some Rs 10 to Rs 15 crores were invested in short-term government treasury bills from outside India.[41]

The evidence for a withdrawal of funds is of a qualitative rather than a quantitative nature. In 1930, for instance, the Indian Trade Commissioner in London, H. Lindsay, reported to a meeting of the Board of Trade Advisory Council that there had been some repatriation of funds, but in his estimation this 'was not serious'.[42] The Reports of the Controller of Currency also referred to repatriation of foreign investment between 1929 and 1931 as well as speculative foreign investment by Indians themselves, but again does not provide any estimates for these outflows.[43] Kindersley, in his series of surveys of British overseas investment, argued that repayments to Britain increased from 1931 and were larger than new investment. However, there is no breakdown of the source of the repayments so it is impossible to assess how much might have been repatriation of investment from India.[44]

The important factor was the credit problem at governmental level. Most of the sterling needed to meet the requirements of the Secretary of State was sold to the Government of India by the exchange banks during the busy season. However, as trade faltered, there was less demand for finance in the busy season and sales of sterling to the government stopped. Indeed the Government of India was forced to sell sterling from November 1930.[45] The Government of India had to borrow on the London market at the high rates of 1929-31 and to remit through its currency reserves which meant contracting currency within India. However, as we have seen, the contraction of currency was simply mopping up the excess money in circulation due to falling prices and reduced demand for Indian produce. Therefore, the credit squeeze in rural areas must have been the result of a failure of internal mechanisms for transferring money from urban to rural areas, a process which will be discussed in later chapters. Outwith the governmental sector, there is no adequate study of the financial linkages between India and the outside world, so that the suggestion that the depression was transmitted to India through a contraction of international credit must remain speculative, if attractive.

5. The Direction of Indian Trade

The trends already detailed resulted in alterations to the direction of Indian trade, figures for which can be found in Table 1.10.[46] Trade with Britain and its imperial possessions increased for a few years under the impetus of imperial preference.

Table 1.10

Percentage Shares in Indian Trade of Principal Countries (Value)

	UK	Germany	USA	Japan	France
1919-20	32.2	0.2	11.6	10.5	3.0
1925-26	33.1	6.7	9.0	12.4	4.0
1928-29	31.2	8.2	9.7	8.9	3.9
1929-30	30.1	7.7	9.4	10.1	3.9
1930-31	29.3	6.9	9.3	12.0	3.6
1931-32	31.0	7.2	9.4	9.6	2.5
1932-33	32.3	7.2	3.9	13.0	3.8
1933-34	36.0	7.1	6.9	11.3	3.4
1935-36	34.8	7.4	8.5	14.8	2.9
1937-38	31.6	7.2	8.8	11.4	1.9

	Belgium	Nether-lands	Canada	Australia	South Africa
1919-20	1.6	0.4	0.3	1.0	0.3
1925-26	3.0	1.9	0.6	1.5	0.4
1928-29	3.5	2.3	0.9	2.7	0.5
1929-30	3.4	2.4	0.8	2.2	0.5
1930-31	3.2	2.6	0.8	1.8	0.6
1931-32	2.6	2.5	0.7	1.5	0.6
1932-33	2.8	2.2	0.7	1.9	0.5
1933-34	2.7	2.3	1.0	1.5	0.6
1935-36	2.7	1.7	0.9	1.4	0.6
1937-38	2.6	1.5	0.9	1.3	0.6

Source: Calculated from Table 264, pp.506-7 and Table 208, pp.518-21 Statistical Abstract, 1919-20 to 1928-29, BPP Cmd, 3882 of 1931 Table 254, pp.694-97, and Table 256, pp.720-25, Statistical Abstract 1929-30 to 1938-39, BPP, Cmd 6333 of 1942.

However, British exports quickly began to decline once more while India increasingly sold more to Britain. Germany's share of the

Indian export trade recovered quickly from the slump based on the export of dyestuffs for India's cotton industry. India's share of the German market declined though from 1933 under the impetus of the self-sufficiency campaign aimed at substituting foreign raw materials. The two new trade conventions with Japan initially increased Indian sales, particularly of raw cotton, to Japan but in the long term the conventions benefited Japan as the exporter of manufactured goods. Trade with India's other major partner America, fluctuated. High tariff barriers in America reduced Indian imports, especially jute goods. At the same time, as India imported more long stapled cotton from East Africa and Egypt, America's share of India's import trade also declined.

These changes are seen in greater clarity when studied in terms of the balance of trade. The merchandise balances are recorded in Table 1.11 (over). The most striking changes are the reversal of the traditional relations with Britain, Japan and Germany. The massive gold flows dramatically changed the relationship with Britain ending Britain's traditional large surpluses with India. From 1936 India's balance with Britain became a surplus rather than a deficit as India exported more to Britain while India increasingly became a less attractive market for British goods. On the other hand, India's traditional surpluses with Germany and Japan became deficits. There were similar patterns with the Strait Settlements and Egypt. Elsewhere India's trade surpluses were greatly reduced through the slow recovery of export values. This had major implications for India's traditional role in the settlement of multilateral payments. After the depression it was Britain's surpluses with Malaya and

Table 1.11: Balance of Merchandise Trade of India with Major Partners

	Rs (1,000) 1925-26	1928-29	1929-30	1931-32
United Kingdom	-39,59,75	-44,20,11	-36,54,75	-1,93,85
Canada	+81,92	-51,65	+49,46	+1,06,93
Australia	+6,09,84	-1,07,92	+19,25	+1,36,74
Union of South Africa	+2,39,95	+1,88,71	+1,64,34	+1,21,82
Ceylon	+12,98,47	+11,66,28	+10,95,40	+6,27,10
Hong Kong	+2,00,90	+1,62,40	+2,20,53	+1,27,11
Straits Settlements	+4,15,43	+2,70,28	+1,74,01	+1,78,51
Kenya Colony	-1,42,54	-1,32,28	-2,03,29	-2,81,00
Egypt	+4,33,66	+2,91,97	+3,44,48	+43,56
USA	+24,41,99	+21,75,05	+18,46,67	+1,02,71
Japan	+38,46,80	+16,74,90	+8,68,17	+60,31
Germany	+13,46,59	+16,48,73	+10,77,58	+8,05
France	+17,87,10	+12,99,19	+12,23,77	+5,46,36
Italy	+14,72,54	+7,72,81	+4,90,31	+1,91,64
USSR	+19,24	-59,96	-1,40,87	-2,52,42
Java	-9,27,64	-11,81,63	-7,46,12	-3,16,82
China	+12,83,80	+5,12,07	+8,92,32	+5,01,10
Burma	-	-	-	-

	Rs (1,000) 1933-34	1935-36	1938-39
United Kingdom	-37,81	-1,71,03	+9,02,28
Canada	+1,19,43	+1,24,17	+2,23,10
Australia	+1,96,64	+1,61,52	+56,02
Union of South Africa	+95,67	+1,25,19	+1,14,47
Ceylon	+4,61,88	+5,63,77	+3,91,59
Hong Kong	+62,91	+7,94	+43,24
Straits Settlements	+58,17	+75	-2,09,09
Kenya Colony	-1,75,51	-2,82,55	-4,43,29
Egypt	+47,66	-28,45	-96,39
USA	+6,87,54	+7,98,03	+4,10,07
Japan	-2,89,22	+4,39	-82,34
Germany	+95,13	-2,83,86	-4,37,24
France	+5,86,43	+5,85,84	+4,79,04
Italy	+2,84,09	+1,51,66	-6,51
USSR	-1,55,77	-1,25,81	+17,67
Java	-1,94,02	-1,38,20	+21,78
China	+2,30,84	+3,02	+73,54
Burma	-	-	-14,31,54

Sources: Statistical Abstract for British India from 1919-20 to 1928-29, BPP, Cmd 3882 of 1931, Table 204, pp.506-7, and Table 208, pp.518-21.
Statistical Abstract for British India from 1929-30 to 1938-39, BPP, Cmd 6333 of 1942, Table 254, pp.694-97, and Table 256, pp.720-25.

Africa which helped to pay its deficits elsewhere, including India, rather than its surpluses with India as formerly. The implications of this will be considered more fully in the next chapter.

There were major changes in the structure of Indian foreign trade during the 1930s, many resulting directly from the short-term impact of the depression. The changes in both composition and direction of foreign trade resulted in India gradually disengaging from the international economy, a reversal of previous trends. As we have seen this was a long-term trend begun during the First World War and accelerated during the depression with the growing importance of the home market. To this extent, contemporary economists like Thomas and Anstey were correct to assert that Indian trade was less vulnerable to the slump than many other primary producers. While India shared the common experience of steep declines in export values and a worsening of the terms of trade, the Indian economy was not as dependent as some smaller countries upon the export sector or upon one major export commodity. Thus, the composition of India's export trade remained relatively stable during the depression. Unlike other primary producers, India's export trade offered fewer opportunities for diversification. Instead, diversification was occurring in the internal economy with the expansion of the industrial sector.

This does not mean to say that the foreign trade sector was unimportant and that the trade depression did not have serious implications for the domestic economy of India. The steep decline of export values resulted in a major reduction of income for both cultivators and trading houses and consequently reduced purchasing power. Was there, therefore, a shift in the patterns of investment from traditional channels of agriculture and trade into industry? Changes in the composition of Indian imports hint that this was occurring. The reduction of trade surpluses was of vital importance to the central government, which was heavily dependent upon customs duties and the maintenance of a favourable balance of trade to meet its remittance obligations. If government revenue was reduced, this would limit its abilities to make an effective response to the challenges of the depression.

Ultimately, India's trade structure could be affected by changes in government policy. Many governments sought to manipulate their trade policies to mitigate the effect of the depression. Governments promoted tariffs, quota restrictions and new export crops and marketing schemes to try to increase domestic income levels. How far did the Government of India change its trade policies to protect the domestic economy or was its position as a colonial authority a constraint on its ability to respond? The nature of the government's responses and their effectiveness in mitigating the effects of the slump in India's trade will now be assessed.

Notes

1. S.K. Sinha, 'India in the Depression', Sankhya, 4, 4, 1939-40.

2. League of Nations, World Economic Survey, 1931-32, (Geneva, 1932), p.64.

3. Index Numbers of Indian Prices, 1939 Supplement, (Calcutta, 1940).

4. See, for example, A.J.H. Latham, The Depression and the Developing World 1914-1939, (London, 1981); C.H. Lee, 'The Effects of the Depression on Primary Producing Countries', Journal of Contemporary History, 4.4, 1969, pp.139-155.

5. Calculated from Statistical Abstract for British India, 1929-30 to 1938-39, Cmd 6333 of 1942.

6. V.K.R.V. Rao, The National Income of India, 1931-32, (Oxford, 1939); B.S. Goswari, 'The National Income of India, 1931-32 to 1938-39', Indian Journal of Economics, 1954.

7. A. Maddison, 'Alternative Estimates of the Real Product of India, 1900-46', Indian Economic and Social History Review (Hereafter IESHR) 22, 2, 1985, pp. 201-210.

8. Kindleberger has given examples of foreign trade representing some 30 to 40 per cent of national income. See C.P. Kindleberger, Traditional Income and Foreign Trade, (New York, 1968), Tables 3.1 and 3.3.

9. D. Rothermund, 'British Foreign Trade Policy in India during the Great Depression', Indian Economic and Social History Review, (hereafter IESHR), 18, 3 and 4, 1981, pp.349-376.

10. S.B. Saul, Studies in British Overseas Trade, 1870-1914, (Liverpool, 1960); Tomlinson, Political Economy, pp.44-45; A. J. H. Latham, The International Economy and the Undeveloped World, 1865-1914, (London, 1978).

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13. J.F. Munro, Africa and the International Economy, 1800-1960, (London, 1976), pp.157-159.

14. G.B. Schedvin, Australia and the Great Depression, (Sydney, 1970); W. Baer, Industrialisation and Economic Development in Brazil, (Homewood, Illinois, 1965).

15. The index figures are those calculated by D.B. Meek, Director of Commerce and Intelligence for the Government of India. Base 1914 = 100. Indices are contained in the annual Conditions and Prospects for British Trade in India, 1929 to 1936, prepared by T. Ainscough, British Trade Commissioner in India.

16. See Lee.

17. Statistics in this chapter use 1925-26 as the base year to avoid the unstable years of the post-war boom, recession and recovery. This year is generally accepted as a 'normal' season for the purposes of comparison. In this year, also, there was a change in the composition of official statistics which makes direct comparision, with earlier years more difficult.

18. A. Hlaing 'Trends of Economic Growth and Income Distribution in Burma, 1870-1940' Journal of the Burma Research Society, 1, 47, 1964, pp. 89-148.

19. The data from which this table is calculated can be found in Appendix 1.

20. Trade statistics from Statistical Abstract for British India from 1929-30 to 1938-39, British Parliamentary Papers (hereafter BPP), Cmd 6383 of 1942, Table 255, pp.698-719.

21. Sir P. Griffiths, The Indian Tea Industry, (London, 1967).

22. For complaints by British manufacturers about the effects of the boycott and of protection see A.R. Burnett-Hurst, 'Lancashire and the Indian Market', Journal of the Royal Society of Arts [hereafter JRSA], 1932, pp.395-440. Also comments by Sir H. Clay during discussion of paper, p.444.

23. Special Tariff Board Enquiry into Cotton and Silk (1936), Table XX, pp.34-35.

24. See, for instance, NAI, Government of India, Commerce Department, File 312-T(4), July 1933-A-1-34, 'Representations for anti-dumping legislation'.

25. D. Rothermund, 'The Great Depression and British Financial Policy in India, 1929-34', IESHR, 18, 1, 1981.

26. H. Venkatasubbiah, Foreign Trade of India 1900-1940. A Statistical Analysis (Bombay, 1946). His original tables are contained in Appendices 2 and 3.

27. See, for example, A. Maddison , Economic Growth and Class Structure (1971), p. 51.

28. There are numerous files in the India Office bearing witness to the fears of Manchester millowners. See, for instance, India Office Library and Records, London [hereafter IOL] LEG/9/167, similarly in Board of Trade papers, for example, PRO, B.T. 11/103, CRT 5256/32.

29. Statistical Abstract, BPP, Cmd 6333 of 1942, Table 257.

30. Ibid., Statistical Abstract for British India from 1919-20 to 1928-29, BPP, Cmd 3882 of 1931, Table 243, p.593.

31. Sir G.F. Shirras, 'The Position and Prospects of Gold', Economic Journal, 50, 1, 1940, p.215.

32. Rothermund, 'British Financial Policy', p.11.

33. League of Nations, World Economic Survey 1931-32, (Geneva, 1932), p.78.

34. Memorandum by Hoare, 'The Situation in India, 1931-33', 3rd February 1934, Public Record Office, London [hereafter PRO] CAB 24/247, CP 28(34).

35. A.K. Banerji, India's Balance of Payments (London, 1963).

36. R. Goldsmith, The Financial Development of India (Yale, 1983).

37. D. Rothermund, The Economic History of India (London, 1988).

38. Banerji, p.34.

39. Report of the Controller of Currency for 1929-30 (Calcutta, 1930), p.13, para. 17.

40. For fears of the European business community, see, Annual Report, BCC, 1932, p.XXVII. Memorandum by President, Board of Trade, 'Discrimination in India against British Trade and Shipping', 16.12.32, in PRO CAB 24/235, CP 36 (32). Minutes of Meeting of Board of Trade Advisory Council, April 1930, PRO CAB 24/211, CP 129 (30).

41. Report of the Controller of Currency for 1931-32 (Calcutta, 1932) p.6, para. 11.

42. Minutes of Meeting of Board of Trade Advisory Council, April, 1930, PRO CAB 24/211 CP 129 (30).

43. Report of the Controller of Currency (Calcutta) 1929-30 and 1930-31, Introduction.

44. R. Kindersley, 'British Overseas Investment in 1938', Economic Journal, 49, 4, 1939, p.692.

45. Report of the Controller of Currency for 1930-31 (Calcutta, 1931), P.13, para. 21.

46. It was not possible, due to lack of adequate data, to remove Burma from this table. Such data as exists leads to the conclusion that removal of Burma would not significantly alter the trends shown in Table 1.10.

CHAPTER TWO

Trade and Tariff Policy in the 1930s

For many governments of developing nations, the depression was marked by a period of experimentation in trade policy in the effort to protect their economies from the worst impact of the slump. Such experiments ranged from use of the tariff structure to promote import-substitution industries to new marketing organisations and techniques aimed at securing as great a share as possible of the dwindling world markets in primary produce.[1] In India, the link between the conditions of Indian trade and the health of the Government of India's budgetary position was the major factor underlying policy decisions. The Central Government relied upon a favourable balance of trade with which to meet its sterling obligations in London. Thus trade policy during the depression was dominated by the issues of the exchange rate and tariff levels, including the question of imperial preference. There was no period of bold experimentation in India at this time with only sporadic attention to policies of quality control or the marketing of Indian produce and proposals which might have necessitated large inputs of government capital were shelved quickly.

Contemporaries were sharply divided in support of, or opposition to government trade policies. The pro-government stance adopted by economists such as Coyajee, Anstey, Dey, Madan and Adarkar, maintained that the manipulation of exchange policy and the adoption of imperial preference had kept open India's most important export market, the United Kingdom, at a time of proliferating trade barriers elsewhere in the world. They also argued that the Government of India was justified in refusing demands for an embargo on the export of gold from 1931 since such exports had re-established India's credit by restoring a favourable balance of trade.[2] On the other hand, opponents of the government such as Vakil, Gadgil amd Munshi demanded an end to the rupee-sterling link, allowing a full devaluation of the rupee and increasing the competitiveness of Indian exports. For them, Imperial preference invited retaliatory action by non-empire countries especially those of Continental Europe thus reducing both markets open to Indian goods and opportunities for the conclusion of favourable bilateral trade agreements.[3] Balanced between these extremes of opinion were a few economists such as P. Ray and Thomas. Ray, for example, who criticised nationalists and Indian businessmen for their continued agitation in support of the 1s 4d exchange rate which prolonged the destablisation of business conditions, was equally critical of the adoption of imperial preference as harmful to long-term prospects for Indian trade.[4] Similarly, while Thomas supported much of the government's trade policies, particularly the gold exports, he attacked fiercely the lack of integration of such policies into a coherent development strategy for the Indian economy.[5]

The views of Indian nationalists, that trade policy between the wars was shaped by the United Kingdom for its own benefit rather than that of India, gained some broad acceptance over the years. However, it came under criticism from historians such as Tomlinson, Dewey and Charlesworth. They argued that the impact of the First World War had loosened the imperial bonds which tied India to Britain, culminating in the Fiscal Autonomy Convention of 1923, which supposedly gave the Government of India the right to regulate its own tariff policy, for instance, in the appointment of a Tariff Board.[6] This view echoed the work of the Canadian historian, Drummond, that the imperial importance of India to Britain was eclipsed by that of the White Dominions in the inter-war period.[7]

Qualifications of these ideas have been expressed recently by Rothermund and Chatterji, who have suggested that while there was some diminution of imperial control in the war this was short-lived and that Indian fiscal autonomy did not shift the balance of power decisively.[8] In the inter-war period, according to this argument, British authorities merely paid lip-service to fiscal autonomy while seeking new ways of preserving the British hegemony of the Indian market. For such critics, the Ottawa Agreement with its adoption of imperial preference was the successful climax to British attempts to re-assert control over the Empire, and, within that, over India.

To some extent, these arguments can be tested by the use made by the Government of India of its fiscal autonomy during the depression. Did the Indian authorities join in the scramble to make bilateral trade agreements which seemed to affect governments throughout the world? The Canadian Government, for instance, seemed to enter an almost frenzied period of trade bargaining during the

1930s, concluding new agreements with the majority of its trade partners from Great Britain and the United States to Paraguay and the Honduras.[7] To what extent did the Government of India consider using tariff policy to shield the domestic economy from the worst ravages of the slump? Tariffs could have been used to block the importation of cheaper foreign agricultural produce or as a stimulus to import-substitution industries as occurred in Japan, Latin America and the Dutch East Indies.

Of course, the major consideration for the Government of India in determining its trade policy during the depression was the possible consequences upon its budgetary position. Under the constitution of 1920, the Government of India was forced to rely upon customs and excise duty for one-third of its total revenue needs.[10] Railway revenue provided the other major source for government funds, but during the depression the Indian Railway Department as a whole was running at a loss.[11] Nor during a depression would there be much scope for increased income tax or excess profit tax.[12] Thus the Government of India was forced back to customs increases to meet its budgetary needs, but any dramatic reduction in imports would in turn increase the serious constraints upon government resources.[11]

Policy decisions of the Government of India also had implications for areas outwith India's national boundaries. The most obvious example is in India's imperial relationships, but the disengagement by India from the international economy, noted in the previous chapter, impinged on the fate of other developing economies. For instance, the adoption of protection for the sugar industry wiped out imports of Javanese sugar, deepening the impact of the slump in the Dutch East Indies.[14] Naturally, this was a two-way process. Australia's agreement to sell iron ore to Japan hit India's pig iron exports. Did the policies of the Government of India invite retaliatory action by other authorities, as the nationalists suggested? If so, what were the implications for Indian trade in the longer-term?

The discussion of the trade and tariff policy of the Government of India during the slump, and the implication for long-term developments in India's trade will focus on three key areas. The first two centre on aspects of tariff policy. Firstly, the relationship between Delhi and Whitehall will be studied. Clearly, the ~~major~~ discussion here will focus on the adoption of imperial preference, the impact this had on Delhi's relations with the Indian business community, and the effects on Indian trade. Secondly, trade policy with the non-empire countries will be assessed, with emphasis on the problems with Japan. Thirdly, there will be an analysis of policies adopted by the Indian Government to improve the country's trading position during the slump. Again, a crucial element in this discussion is the varying response of Delhi to different sectors of the Indian business and commercial communities.

Indian Tariff Policy Before 1929

To understand the changing structure of Indian tariffs which resulted from the depression, it is necessary to sketch a brief history of policy trends before 1929. Tariff policy had proved to be one of the most contentious facets of India's colonial history, provoking conflict not only between the Government of India and nationalist groups, but also between Delhi and Whitehall. Broadly speaking, until the First World War, with Whitehall governing tariff policy, India was forced to accept a free trade doctrine not best suited to its developing needs. Cotton duties proved the focus of conflict. An increase in the cotton import duty seemed to provide a reliable and simple method of raising extra revenue for the Indian Government. However, such suggestions provoked protests from the powerful Lancashire mill lobby for which India was the principal market. Whitehall inevitably supported Lancashire, arguing that increased cotton duties would prove protectionist, not fiscal, and thus contrary to the free trade doctrine. By the mid-1890s, revenue needs made the imposition of a cotton duty a necessity, however London was able to impose a counterveiling excise duty on Indian cloth. Thus, it seemed clear to Indian nationalists that London would always place British needs before those of India, manipulating tariffs to maintain British hegemony of the Indian market.[15] Even in 1913, Britain supplied some 64 per cent of Indian imports.[16]

The First World War highlighted once more India's strategic importance within the British Empire. Meanwhile its dislocating effect on trade reversed the traditional economic relations, pushing Britain into deficit with India. These trends provided the Government of India with greater political leverage against Whitehall than was usual. Therefore, in return for a gift of £100 million to the British Government, Delhi was able to increase cotton duties without a corresponding rise in the counterveiling excise, thus giving the Indian cotton industry an important measure of protection.

During the war, Japan and America increased their share of the Indian market from 2 per cent each to 12 per cent and 8 per cent respectively.[17] The war forced Britain officials to realise that British trade in India was now vulnerable. Thomas Ainscough, British Trade Commissioner to India, produced a gloomy long-term view of British trade prospects in India. He cited the dynamic practices of Japanese and American firms; direct shipping routes; branch offices in India; brighter advertising and packaging. Such firms had dealers up-country negotiating directly with local traders and Japanese cotton importers even had established their own ginning mills. Besides this, the attitudes of British firms seemed almost arrogantly conservative. Their only response was to demand government action against 'unfair competition', and thus, in Ainscough's words, 'to go on in the old, inefficient and haphazard way'.[18]

The impact of the war was to demonstrate that India's tariff policy could no longer be regulated from London. The 1918 Industrial Commission recommended that India be given control over its own trade and tariff policy so that it could be used to promote economic growth.[19] This was re-iterated in the Montagu-Chelmsford Report of 1919,[20] but was not embodied in the consequent constitutional reforms.

Fiscal autonomy was not finally recognised until 1923, although many British parliamentarians and business groups refused to accept this because it was not embodied in a parliamentary statute.[21] The Secretary of State for India still retained the ultimate sanction of veto should any fiscal proposal of the Government of India appear too controversial for Whitehall. However, from Montagu onwards, most officials regarded the fiscal autonomy convention as abrogating their right of interference. Thus, in 1930 the then Secretary of State, Wedgewood Benn, protested about the proposed increase in cotton duties in the forthcoming Indian Budget since he 'deplored' the effect on Lancashire, but concluded that he was defenceless to act against Indian fiscal autonomy.[22]

At the same time, there was some recognition of the potential use of tariff policy for the encouragement of industrial development. Legislation permitted the Government of India to establish a Tariff Board to consider applications by individual industries for tariff protection. Industries for which protection was recommended would have to fulfil a stringent set of criteria including 'natural advantages' over foreign imports and the ability in time to dispense with the need for government support.[23] In itself, this was an important step away from a purely fiscal tariff. However, as usual in any advancement towards Indian control of its own affairs, there were qualifications. The recommendations of the Board were not binding on Government and could be rejected in part or completely. Above all, the Tariff Board was not a permanent body. Separate boards were convened to consider the case of individual industries. Thus industries had already gone through a selective governmental process even before reaching the Board. The absence of a permanent board as recommended by the Industrial Commission marked the absence of a full-blooded commitment to a policy of protection by the Government of India. Protection was merely another ad hoc solution to individual pressures.[24]

Probably a more important aid to development than the attempted use of tariff protection was the grant of free or lowered duty 'given regardless of revenue considerations on broad grounds of national policy'. Such goods affected included machinery, drugs and fertilisers.[25]

India's tariff policy was adapted further in 1927 with the introduction of 'discriminating protection' in the case of iron and steel: that is the Tariff Board recommended lower duty on imported British Steel than on 'foreign' steel. The Tariff Board reasoned that Indian industry was suffering more from cheap imported continental steel than British imports. Although Wagle has pointed out that this was a true reflection of the evidence provided by the Tatas, India's major steel producer, other Indian groups felt that it was merely a method of allowing British firms to circumvent India's supposed fiscal autonomy. These suspicions were further fuelled by the application of 'discriminating protection' to cotton in 1930.[27] Markovits has argued recently that the acceptance of 'discriminating protection' was a major factor dividing the Bombay business community from its fellows elsewhere in India.[28]

Thus, at the beginning of the 1930s, the Government of India regarded its policy as 'a single-decker tariff consisting mainly of purely revenue duties but containing certain duties in pursuance of the policy of discriminating protection for Indian industry.'[29] In other words financial considerations remained paramount in trade policy. Thus, for instance, for fiscal reasons, the Indian Government imposed higher tariffs on certain categories of raw materials and plant entering India than on the actual finished manufactures of the same kind.[30]

Changes In Tariff Structure During The Depression

During the early years of the depression, the Government of India was obsessed with its budgetary position and the impending financial crisis. Dwindling trade surpluses created major difficulties for the Indian authorities both in meeting the remittance obligations and maintaining the exchange rate of the rupee. The tariff, therefore, was used in its traditional form, almost purely for revenue purposes, with duties increasing steadily from 1929, including the imposition of a 25 per cent surcharge in the Emergency Budget of September 1931. In this, Delhi was encouraged by Whitehall officials equally worried by the unsteady financial position of India. Whitehall, in its turn, was obsessed by the fear of a run on the rupee which might ultimately bring down sterling as well. Since the British Government was also facing financial difficulties, partly through the ever-dwindling surpluses with Africa and Asia, the fear that India might default on its obligations was very great.

The Government of India, therefore, was under constant pressure from Whitehall to balance its budget and the correspondence exchanged on budget proposals became increasingly voluminous and acrimonious.[31] Once again, the traditional debates over India's tariff policy re-emerged. While the Indian Government wanted to raise customs duties to protect its revenue position, London argued that it should be finding new sources of income. London constantly charged the Indian authorities with failing to take the budget position seriously and favoured strengthening of Treasury control over the Indian budget, particularly after promises in July 1931 that Britain would support India's credit.[32] Such moves provoked a sharp response from the Indian Government.

> 'While recognising that the Treasury are entitled to full information, and gratefully welcoming helpful suggestions and advice from them as from you, we trust you will not press us to accept the declaration by His Majesty's Government as giving the Treasury any right to dictate our policy for which we, with knowledge of local conditions, must remain responsible. Continuous interference with the wide discretion which you have hitherto allowed us would create an impossible situation.'[33]

One reason for this conflict was that while the duties were imposed for revenue reasons, as the government struggled to meet its commitments, the tariffs did have a protective element. This was deplored by London, especially since it re-opened the controversy over cotton duties, 'which it was hoped had been disposed of by the decision of 1927' as one India Office official put it.[34] Thus while the Indian authorities proposed fresh customs duties, Whitehall officials recommended retrenchment and increased income taxes, even for the low paid.[35] Whitehall would approve only increased customs duties on luxury goods or on the raw materials and machinery of protected industries which they believed could meet the costs from their 'substantial protection'.[36]

Generally, though, in recognition of the need for the Indian authorities to meet their remittances, Whitehall was forced to accept increased Indian custom duties. Beginning in 1929-30 duties were increased on cotton piecegoods, silver, salt, sugar, liquors and spirits, spices, cigarettes, tobacco, fuels, motor vehicles, artificial silks and yarns, cement and boots and shoes.[37] In the 1931 Budget there was also a series of surcharges ranging from 2.5 to 25 per cent. Finally in the 1931 Emergency Budget there was a general surcharge of 25 per cent, even on some articles previously on the free list, such as drugs. The only exemptions were for raw cotton, machinery and dyestuffs.[38] Whitehall disapproved of reliance on customs duties to balance the Indian budget since it was felt the burden was falling more on British producers than the Indian consumer. Thus, Sir Cecil Kisch, Financial Adviser to the India Office, complained late in 1931 that 'purely political considerations have, in my opinion, dominated the requirements of sound finance ... The great mass of the Indian populace is not called upon to take their proper part in rehabilitation.'[39]

Such criticisms of the policy decisions of the Government of India by Whitehall were grossly unfair, since British officials were equally concerned with 'political considerations'. Lancashire mill-owners formed a formidable political lobby, the region accounting for some 60 members of Parliament. Also recently, Capie has argued that far from being the ad hoc response to the crisis that the 1932 Import Duties Act is normally regarded, it was the culmination of a decade of intense political pressure by the British iron and steel manufacturers and associated traders.[40] More crucially, the British Government failed to appreciate the position of the Government of India as a colonial authority or chose to ignore it. If the British authorities imposed duties or increased taxes, it could declare that it had the mandate of the electorate to do so. The

Government of India had no such mandate. At a time of growing nationalist sentiment in India, every policy decision of the government was scrutinised closely and criticised vociferously.

Thus, in deciding upon commercial policy, the Government of India was caught between pressure from Whitehall and pressure from Indian nationalist opinion. Also, it had to contend with the force of Europeans domiciled in India. Placed in the middle of all this, it is easy to understand why government actions should be halting and lacking in co-ordination. In this light, customs duties seemed to be the simpler option. Customs duties increases, it was felt, would provoke no major criticisms from the Indian business community. However, during the depression, the Government of India did not simply manipulate tariff policy to raise revenue. Its tariff policy provoked controversy within India when it became embroiled in the question of imperial preference.

<u>The Role of Imperial Preference in the 1930s</u>

The impact of the depression in reducing world markets, resulted in a resurgence of interest in the idea of imperial preference. From the late nineteenth century, there had been advocates for a greater extension of inter-imperial trade as a solution to growing competition to Britain in world markets. On the other side, there were demands for imperial protection by the Dominions of Canada and Australia which wanted a protected market in Britain. These forces were strengthened in the 1920s with the establishment of the Empire Industries Association and the Empire Economic Union.[41] India remained aloof from this mood; as late as

1930 the representative of the Government of India informed the Imperial Economic Conference that India had little or nothing to gain from imperial preference.[42] Indeed, the Indian authorities insisted on its autonomy to pursue its own tariff policy and to 'reserve complete freedom to deal with each case as it arises'.[43] A change in British tariff policy, however, heralded a change in Indian policy and provoked a new campaign of agitation against Delhi.

By the end of 1931, the pressure of the depression and the consequent financial crisis, had forced Britain to abandon the gold standard and its traditional free trade policy. There had been a measure of informal preference for empire goods entering the British market since 1919. However, in the Imports Duties Act of 1932, Britain sought to formalise inter-imperial relations by demanding trade negotiations with India and the Dominions and by exempting the non-self governing colonies 'unconditionally from all duties under the Act'[44] While the forthcoming Imperial Economic Conference was being forced on Britain by Canada, British authorities hoped that they could take the opportunity to secure agreements guaranteeing their empire markets during the crisis.

Britain's position was relayed to India through the Secretary of State, Sir Samuel Hoare, who stated that 'continuance of exemption of Dominions and India from any or all duties in whole or in part will depend upon the character of benefits which Dominions and India are prepared to offer in return at Ottawa'. Hoare concluded, 'Your Government will at once recognise that this completely revolutionises the position as between India and the UK, and that it is now entirely incorrect to say as has always been said in the past, that India has little to gain from Imperial Preference. After Ottawa the position will be that India will stand to lose heavily if she does not come come into the scheme of imperial preference to be worked out there.'[45] This is, of course, suggestive of Rothermund's argument about the re-assertion of imperial control.

Indian officials became concerned about the implications of this change in British policy. Sir P. Ginwala, a past president of the Indian Tariff Board, explained the possible serious repercussions on India. Should Indian goods be liable to import duties in Britain, they would be replaced by purchases from the non-self government colonies, which 'scattered over all parts of the world and having all kinds of conditions and climates, ... are favourably situated for the production of those very commodities in which the agricultural population of India has a vital interest.'[46] As over-production among primary producers continued pushing down prices further and as world markets contracted more rapidly in the early 1930s, this appeared to be a serious threat.

If the conference at Ottawa was to be used only to provide a short-term answer to the crisis of the depression, such arguments would have been somewhat exaggerated. Had Britain turned to the non-self governing colonies for replacements for Indian goods, it would have added greatly to their price through increased production costs, freight and insurance charges and it would be unlikely to find a single producer on the same scale as India.[47] Such were the criticisms levelled at the scheme by Indian National Chambers of Commerce, particularly those in Bombay and Calcutta.[48] The leader of the Indian Delegation at Ottawa, the Indian Trade Commissioner in of the Indian Delegation at Ottawa, the Indian Trade Commissioner in London, Sir Atul Chatterjee, declared in his opening address that 'the development of Indian foreign trade generally is one of the primary interests.'[49] Indian nationalists, though, believed that this dimension had been forgotten.[50]

However, the Government of India could have been concerned more by the long-term implications of the change in British trade policy. Ad hoc trade agreements could establish principles for long-term trade policy. If Britain was to turn permanently to the non-self governing colonies, import duties on Indian goods would make them progressively less competitive in the British market. As Ginwala, also an Indian delegate at Ottawa, pointed out, there were enough non-self governing colonies producing goods sufficiently similar to those of India eventually to squeeze India out of the British market.[51]

The Conference at Ottawa marked the first occasion on which India was not represented by the Secretary of State, therefore the composition of the delegation was vital to its eventual success. Recently, Chatterji has argued that Hoare originally wished to invite two of India's leading businessmen, G.D. Birla and Sir P. Thakurdas, to join the delegation.[52] According to Markovits, Hoare hoped that this could be an olive branch to the Indian business community and help to wean their support away from Congress, support which had seemed to have been diminishing by the end of the 1930 Civil Disobedience Campaign.[53] However, Hoare was forced to back down by Willingdon who refused to accept Indian businessmen so closely identified with the nationalist cause.[54] Instead Indians regarded as loyal to the Indian authorities were chosen, such as Ginwala, Chatterjee and Chetty as well as government officials such as Schuster and Sir George Rainy, the Commerce Member. Naturally, this was seen as a direct snub to the Indian business community and criticism began before the Conference had been convened. In the first instance, Indian business associations refused to co-operate with fact-finding missions before the conference.[55]

Criticism of government policy was also ensured by the manner in which the Assembly was informed of the Conference. While several more enlightened members of the Indian Executive wished to allow the Assembly the right to vote on attendance and so gain acceptance of any forthcoming agreement, Willingdom argued it was not a good idea to place such a resolution 'at the fag end of the session'. Eventually the Assembly was informed, in reply to a question, that the Executive had agreed both on attendance and on composition of the delegation. The placebo was that any agreement would be 'duly be placed before the Legislature for its approval'.[56] Thus any possible economic gains to be received from imperial preference were drowned in the wave of protest from Indian businessmen and nationalist politicians.

As Birla explained to Sir Walter Layton, a reciprocal agreement between Britain and India could have worked:

> '... but the Ottawa Conference is foredoomed as far as India is concerned. The Government have ignored to take the Indian mercantile community with them. The result is that the latter has created such a tremendous opposition against the Ottawa Conference throughout the country that whatever its conclusion, India is going to consider the same. The mischief is already done ... I write this as an Indian who has got a large stake in the country and who wants to see permanent peace between the two

countries established.'[57]

The Government of India could have made its task easier by explaining that few of the countries represented at the conference expected to make massive gains from imperial preference, nor were they expecting to be bound to inter-empire trade. The delegations were merely looking for some guaranteed markets to tide their countries through the worst of the depression and form a basis for negotiating most-favoured nation agreements with their non-empire partners on more favourable lines. This was made clear by the opening remarks of the various delegations. Thus, Havenga for the Union of South Africa declared:

> 'South Africa does not subscribe to the theory of a self-contained and isolated British Empire. None of its members, least of all the United Kingdom, can exist by trade within the Commonwealth alone.'[58]

Drummond has argued that the negotations with the Indian delegation were very low-key affairs, involving only minor British officials,[59] which he regards as a sign of the diminished importance of India to Britain. However, prior to the conference, a British representative had visited the Dominions gathering information on the various topics for discussion. India had not been included in this itinerary, but an invitation was sent to the Indian delegation to come to London for 'informal discussions' and to travel to Canada with the British delegation.[60] This raised protests from the Board of Trade and the Dominions Office, insisting that this would be seen by Dominion Governments as evidence that Britain and India had concluded an agreement pre-empting the discussions at Ottawa.[61] The protests were duly ignored and the Indian delegation arrived in

London in July 1932, to be joined by the representatives from the India Office. Britain was only too anxious to conclude an agreement with India in the light of its increased tariff levels. The Indian delegation had several meetings with Baldwin, Chamberlain and Runciman and other leading British officials, as well as holding discussions with representatives of several British industries.[62] For instance, members of the Manchester Chamber of Commerce proposed to the delegation that India and Lancashire could divide the piecegood trade in West Africa in an attempt to keep out Japanese competition.[63] The Indian delegation was equally willing to reach an agreement with Britain to guarantee free entry for the majority of Indian exports into the British market. There is no evidence to support Drummond's claims. Indeed, the pre-Conference bargaining reflected how important India still was to Britain. Thus, the real bargaining between India and Britain was concluded in London, leaving the Indian delegation at Ottawa free to meet the representatives of the other Dominions, an opportunity Indian delegates wanted to take to the fullest.

During the Conference, the Indian delegation met representatives from Canada, Australia, New Zealand, the Irish Free State and Southern Rhodesia. Indirect negotiations were also conducted with the Union of South Africa, a member of the New Zealand delegation acting as mediator.[64] Mostly these negotiations took the form of an exchange of schedules and short discussions on a few major commodities. The Indian delegation had been unprepared for the intra-Dominion negotiations which took place but were not slow to take advantage of them to develop Indian trade.[65] At the same time they made it clear that these discussions were in no way binding, they were just establishing a basis for future negotiations.

The agreement which the Indian and British delegations concluded followed the lines discussed in London. India secured free entry into Britain for raw jute, lac, myrabolams, broken rice, mica and hemp and gained preferential treatment for 22 other goods including tea, cotton and jute manufactures, leather, tobacco and groundnuts. Britain also promised to secure for India any preference which might be granted to the non-self governing colonies and Protectorates. Further, an undertaking was made to attempt to promote the use of Indian raw cotton by British manufacturers and hence increase imports. In return, India guaranteed a ten per cent margin of preference on 163 British imports including chemicals, cement, drugs, electrical appliances and certain types of iron and steel.[66]

Although this agreement was ratified subsequently by the Indian legislature, the vote was close enough for the Viceroy to warn the India Office that the motion could be defeated.[67] By then Indian businessmen had joined with nationalist politicians in creating a formidable opposition to the agreement. The Indian Government was forced to appoint a Select Committee to study the agreement.[68] Twelve out of the 15 members of the committee accepted the provisions of the agreement on condition that the Government should monitor any effect on prices, make an annual report on the working of the agreement and prepare a detailed report at the end of the first three years when the Assembly could vote to terminate the agreement.[69] Under these conditions the Assembly ratified the treaty. However, Indian

Nationalists remained firmly opposed to the policy of imperial preference and claimed that the agreement was only ratified by the votes of the government lobby,[70] although as Markovits has demonstrated, the Government won by gaining support of some moderate Bombay businessmen, such as Mody and Jehangir who were already in dispute with the Indian business community outwith Bombay over their support in 1930 for discriminating protection.[71]

Such criticisms were widespread among the Indian business communities. The Committee of the Indian Merchants' Chamber wrote to the Government to complain that, 'the agreement owes its origins not to India's needs and wishes but to those of the British ... it will be forced on an unwilling people and it is not therefore likely to promote any cordial relations between the two countries.'[72] Indian merchants stressed their fears of retaliation by non-Empire trading partners and the effects of British imports on nascent Indian industries.[73] The agreement was regarded as the culmination of British efforts to subvert Indian fiscal autonomy, an attempt to increase British imports when they could not be increased on their own merits, even at a time of lower prices.[74]

As suggested earlier, the composition of the delegation and the way in which the Assembly was informed of the decision, made any agreement unacceptable to nationalist opinion. It was no surprise, therefore, that the agreement was terminated at the earliest possible moment in 1936. Although the annual reports were generally favourable regarding the working of the agreement, Indian opinion remained critical.[75] The vote to terminate the agreement was made ever more likely when the constitutional reforms of 1935 gave Congress the majority in the Assembly. The motion called upon the Government of India to reach bilateral agreements 'wherever and whenever possible to bring about the expansion of the export trade of India in those markets.'[76]

Many historians, most recently Rothermund, have concluded the agreement at Ottawa and the principle of imperial preference were fundamentally detrimental to Indian trade.[77] British officials believed that the agreement with India was 'one of the outstanding features of the Ottawa Conference'.[78] Before the conference even the Indian Commerce Member, Sir George Rainy, believed that Britain would have more to gain from preference than India.[79] Such evidence has led Rothermund to conclude that imperial preference was an instrument of imperial policy designed to subjugate the trade of India for the benefit of Britain. Whether this proved to be true, shall now be considered.

A superficial glance at the Ottawa Agreement might certainly lead to the conclusion that the agreement favoured Britain. On the Indian side there was one page of preferences, while for Britain there were some five pages of detailed preferences on 163 different goods. However, on closer study it is revealed that while over 80 per cent of India's exports to Britain received preference, most of which enjoyed free entry, preferences to Britain covered only 65 per cent of its exports to India, none of which received free entry.[80] Thus, in terms of total trade between the two countries, Ottawa provided more benefit for India. This was implicit in the nature of the trade between Britain and India. India's exports to Britain were predominantly raw materials or semi-manufactures and so the British Government, although it threatened to do so, could not impose customs duties against such imports without incurring criticism from British manufacturers.

By 1932, the Government of India had increased most of the customs duties on British imports for revenue reasons, and in London and Ottawa, the Indian delegation had persuaded the British representatives that these duties could not be lowered. Preferences granted to the United Kingdom came in the form of increased duties on foreign goods, which was why critics feared the retaliation of non-Empire trade partners. Since the main trading nations maintained their share of the Indian import trade, the Government of India received the benefit of existing duties on British goods and increased duties on foreign goods, which generally maintained the level of customs revenue despite falling volume of imports. In the first full year of preferences, 1934, customs revenue increased by 5 lakhs.[81]

British preferred goods rose only slowly in proportion to its total export trade to India, reaching 72 per cent by 1936. As manufactured goods, a rise in general income and investment levels was needed before such imports could have increased. In the first year of the agreement, the rise in British exports receiving preference in India was only 5.74 per cent. Indian goods receiving preferences increased more rapidly than its general trade. As raw materials essential to many British industries, the lowered prices brought about by the depression, allied to free entry, made Indian products more competitive than their foreign rivals. Thus, Indian linseed was able to supplant the Argentinian product from the British market.[82] In the first year, preferred goods from India rose by 15.76 per cent and between 1935 and 1936 increased by 35.2 per cent.[83]

Any hopes of British officials that Ottawa would change the structure of trade with India were not fulfilled. From 1935 Britain's share of Indian imports was declining again, until by 1938 it had declined to only 29.9 per cent or half of its share in 1913.[84] The fundamental reason for this was that the agreements did not include cotton or iron and steel. Both were omitted pending reports by the Indian Tariff Board.

Iron and steel exports were covered by a Supplementary Agreement concluded in 1934. Again this agreement appeared to provide greater benefit to India, thus being much criticised by British manufacturers. To gain concessions, the Indian delegates threatened to establish a new finishing mill in India which would add to world over-production and finally eliminate British iron and steel in the Indian market. This threat appalled British manufacturers and the Board of Trade.[85] Indian critics were amazed by this argument since they were pressing for increased industrial capacity in all sectors.[86] However, the Tatas, India's major iron and steel producers, would have been as appalled as their British counterparts for precisely the same reasons. It is perhaps surprising why Britain was prepared to give so much away to India under the Supplementary Agreement. The small preference for British iron and steel goods did not compare with the guaranteed free entry for Indian pig iron into the British market. Of course, the involvement of preference made the agreement open to criticism by Indian nationalists. India Office personnel were quick to warn Sir Horace Wilson to conclude the agreement before the new constitution changed the complexion of the Assembly.[87] The most probable explanation for British generosity was the hope that India would prove equally generous to British cotton piecegood exports. The Supplementary Agreement brought immediate relief to the Tata Iron and Steel Company and helped to offset the cuts in government purchases particularly of rails. Indian exports of iron and steel doubled between 1934 and 1936 and continued to increase to the end of the decade.[88]

The most prolonged and contentious negotiations concerned British piecegood exports to India. Article 8 of the Ottawa Agreement conferred upon the British Government the duty of promoting the use of Indian raw cotton but no preference for piecegood exports had been secured. Instead British manufacturers had faced steady increases in customs duties on cotton, and while the 75 per cent duty on non-Empire cotton goods afforded Britain a de facto preference under the policy of 'discriminating protection', British piecegoods could still not compete successfully against the markedly cheaper Japanese goods flooding the Indian market. The Economic Advisory Council had warned Lancashire cotton manufacturers of the Japanese threat and that British traders had lost touch with the Indian market.[88] They did not heed such warnings and Blackett, a former Indian Finance Member, commented that, 'While Lancashire has been cut into time and time again by Indian production and by protective duties, Japan has managed all the time to compete successfully in spite of protection in India.'[90]

Although the British Government always promoted the interests of Lancashire, it remained curiously reluctant to negotiate a pact on cotton duties with India. Despite much lobbying by Lancashire before the Conference, cotton piecegoods were omitted. The dismay of Lancashire was summed up by the British Home Secretary, Lord Samuel, who declared that 'the Indian agreement conferred some advantages, but our cotton trade, the greatest British commercial interest in India gained no advantage; Lancashire's troubles are due largely to India's tariffs but their position was not helped at Ottawa.'[91]

The Indian Government was equally as reluctant to become embroiled further in the cotton controversy and preferred to leave negotiations to the industrialists themselves. Consequently, a trade mission from Lancashire, headed by Sir William Clare-Lees, arrived in India in early 1933 for discussions with representatives of the Bombay Millowners' Association, headed by Sir H.P. Mody. Originally the Indian delegation had included representatives of millowners from outwith Bombay but they refused to sign the agreement. An agreement was reached whereby Lancashire admitted the right of the Indian mill industry to protection and that serious efforts would be made to increase the use of Indian cotton in British mills. In return, Bombay millowners recognised that they needed less protection against British imports than Japanese goods and guaranteed not to protest if the Government of India removed the 25 per cent surcharge on British goods, as soon as revenue considerations permitted.[92]

Back in Lancashire an Indian Cotton Committee was formed which succeded to some extent in removing the traditional prejudices against Indian cotton. Imports of Indian cotton did increase, as can be seen from Table 2.1 below:

Table 2.1: Imports of Indian Raw Cotton into Britain (million lb)

1928-29	72	1930-31	98	1932-33	49	1934-35	133
1929-30	73	1931-32	72	1933-34	92	1935-36	150

Source: Annual Reports of the Lancashire Indian Cotton Committee, 1934, 1935, 1936 in IOL, L/E/9/166, Colln. 16-126.

The Committee complained increasingly that India was not keeping its side of the bargain.[93] While Lancashire continued to receive a preference, the surcharge remained in force until 1937. Despite the often virulent protests by the Lancashire lobby, including numerous threats to use its political power to wreck the tentative moves towards Indian constitutional reform,[94] the British Government accepted Indian demands that the surcharge should remain for revenue reasons. As the Secretary of State for India reminded the Cabinet, the Indian Government had raised its tariff levels, including those on cotton goods, 'as a result of pressure from here which we exerted because we took the view that it was of paramount importance to maintain Indian credit by a balanced budget.'[95] Much of the opposition from Lancashire was rooted in its growing frustration of the realisation that its political lobby was losing its force on Whitehall at the moment that Bombay's political power was growing. Before Ottawa, the Manchester Chamber of Commerce had complained, '... the millowners of India have exploited the political situation for their own private ends and that such a tendency is an unhealthy element in the life of any state.[96]

Markovits has argued that this acquiesance of Bombay manufacturers, including the Tatas, to the tariff policy of the Government of India aggravated the split in the ranks of Indian businessmen in the early 1930s. As will be seen later, Bombay manufacturers were affected more seriously by the slump than their counterparts elsewhere in India. Therefore, they were willing to enter into such arrangements as the Supplementary Agreement and the Lees-Mody Pact in an effort to secure short-term gains. Markovits believed that Bombay industrialists, therefore, played into the hands of the Government of India who was only too willing to support a breakaway from the ranks of the Indian business community. Bombay businessmen such as Mody and Jehangir continued to vote on the government side in the Assembly throughout the depression and stopped contributing to the funds of Congress, two major victories for Willingdon. Indeed, the actions of Mody are in marked contrast to Birla who resigned his seat at the Assembly to lead the vehement criticisms of government tariff policy through such bodies as the Federated Indian Chambers of Commerce and Industry.[97]

It is clear from the tone of the trade negotiations between India and Britain from 1936 until the signing of a new treaty in 1939, that Britain was unhappy with the previous agreement worked out at Ottawa. The draft proposals for a new agreement asked for a greatly increased range of goods to be covered by preference.[98] The Indian position proved more equivocal. While the Ottawa Agreement had remained in force with the approval of the Legislature, the

Indian Government had maintained that it was beneficial to Indian trade. Willingdon slammed the termination vote as a purely political measure with no economic basis,[99] yet once new negotiations were under way, the Indian Government declared that it too was dissatisfied with the Ottawa Agreement. It maintained:

> '... we have come to the conclusion that the advantage to India as a result of preferences available has not been as great as was anticipated ... Since the Ottawa Agreement was made, certain arrangements have been entered into by the United Kingdom with foreign countries which directly or indirectly have adversely effected the value of preferences given to India and the effect of such agreements will require the most constant and careful attention of the Government of India in the future.'[100]

In these negotiations the tone adopted by the Government of India proved far more forceful. Two aspects of British policy had angered the Indian Government. Firstly, Britain no longer automatically included India as a colony in any agreement it reached with a non-Empire country. However, this was not made explicit until 1935 by which time the British Government had made several treaties which the Indian authorities believed had damaged Indian trade to Britain.[101] Secondly, while the Supplementary Agreement had accorded the right of British industrialists to put their case before the Indian Tariff Board, the British Government refused to grant India reciprocal rights before the British Import Duties Advisory Council.[102]

The Government of India also had the experience of protracted negotiations with the other Dominions as a result of the Ottawa Conference. In these negotiations, Indian representatives made it very clear that 'we are not prepared to admit specifically to the indirect benefit of preference, Empire countries which themselves do not give preference to India.'[103] This was aimed specifically at Australia and the Union of South Africa, since already in the 1920s India had been granted non-reciprocal peferences by Canada, New Zealand, the Irish Free State and Southern Rhodesia. These one-sided preferences are ignored largely in the literature and throw a different emphasis on India's role in the Empire. All these countries were in deficit to India, so the one-sided nature of the preferences must be regarded as an attempt to find favour with the Government of India. At Ottawa, the Indian delegation believed that the time had come to make these preferences reciprocal. However, just as the Government of India made it clear that it was not prepared to grant preferences without reciprocity, it was equally evident that it was quite prepared to be a beneficiary from such a state of affairs.

The nature of the relations between the Dominion Governments and Delhi can be seen in the negotiations with Canada. The Indian delegation at Ottawa had emphasised specifically the benefits of reciprocal arrangements with Canada, India's largest Dominion trade partner. The Government of India declared itself 'most deeply interested' in reaching agreement with Canada but negotiations proved long and tedious.[104] The excuses offered for delay by the Government of India appeared endless - ratification of the United Kingdom agreement by the Assembly; trade negotiations with Britain and Japan; budget discussions in the Assembly; changing administrations, and so on.[105]

The negotiations with the three other countries giving India preference followed a similar pattern. Having already been given preference, the Government of India negotiated from a position of strength, secure in the knowledge that for the Dominions, gaining entry to the Indian market was more important than for India to be in Dominion markets. The Indian prevarications and delays incensed the Dominion governments. They all threatened to end preference and impose punitive duties on Indian goods, but none did so.[106] These negotiations were carried on mainly by cable, again showing the low priority given to these negotiations by the Government of India. The eagerness of the Dominions to seek new markets in India can be seen clearly in an example from the negotiations with New Zealand. During the negotiations in London in August 1933, the Indian delegate pointed out that the range of New Zealand imports to India was so limited that there was very little scope for preference. However, he did suggest that there was a large market for ghee in India and there was a possibility that New Zealand could profitably turn its surplus butter into ghee for export. Within two days a New Zealand representative had called at the Indian Trade Commission for information on the production of ghee.[107]

From this it can be seen that India, although having adopted a measure of imperial preference, did not consider itself bound to trade within the 'imperial bloc'. Initially between 1933 and 1935 India did trade more with the Dominions, but this never covered more than two or three per cent of its total trade.[108] The negotiations conducted with the Dominions, however, did provide the Government of India with the opportunities to learn skills of negotiation, previously denied. It is then no surprise that in the negotiations with Britain which were prolonged for three years, that the Government of India provided much stronger opposition. There is much truth in Drummond's assertion that it would be difficult to assess from the 1939 Indian British Trade Agreement which party was the colonial underdog.[109]

The Indian nationalists, though, reserved their strongest criticisms of imperial preference for its effects on non-empire trade relations. They argued that Ottawa was followed by a period of more rapid moves towards the restriction of world trade and that while Britain was renewing trade relations with its non-empire partners on bilateral lines, the Indian Government had remained 'indifferent' to restrictions placed on Indian exports.[110] In its 1935 Report, the Committee of the Indian Merchants' Chamber, Bombay, recorded 23 countries which had imposed quota or other licensing restrictions on Indian imports.[111] How far was India's trade relations with non-empire countries damaged by the adoption of preference or were other factors at work?

India's Relations with Non-Empire Countries

After the United Kingdom, Japan was the second most important trade partner of India. Indo-Japanese trade had been increasing since the early twentieth century. For Japan, the depression and the consequent devaluation of the yen provided an increased impetus for imports into India of cheap cotton and artificial silk goods. Prior to the depression, India had exported raw cotton and pig iron to Japan. However, as a result of the continued link with sterling after the 1931 financial crisis, the rupee was not devalued to its true level and so Indian raw cotton exports became less competitive from 1933 when the dollar was devalued. Also, Japanese moves towards the establishment of its own iron and steel industry led to an agreement with Australia for the purchase of iron ore which consequently decreased imports of Indian pig iron.

Thus, the Indian Government was placed in a difficult position regarding negotiations with Japan. It was under pressure from the Bombay Millowners' Association to protect its members' establishments from 'unfair' Japanese competition, claims defended in the recommendations of the 1932 Special Tariff Enquiry.[112] Yet, the government was also aware of the need to protect exports to Japan of raw cotton and so help the Indian cultivator.[113] As a result of the tariff enquiry, the duty on non-empire cotton goods was raised to 75 per cent but Japanese textiles still flooded Indian markets. At this point, the Indian authorities sought advice from Whitehall, after all Lancashire also felt threatened by Japanese competition. Despite opposition from the Foreign Office, other British Government departments advised abrogating the 1904 Indo-Japanese Trade Convention, the most-favoured nation clause of which was preventing effective anti-dumping legislation against Japan. This resulted in a boycott of Indian cotton by the Osaka Spinners which proved so serious for a while that the British Cabinet even considered guaranteeing purchase of Indian cotton during the 1933 season, a move which the Government of India would not sanction.[114] However, the boycott did not prove to be a long-term threat. More serious was the devaluation of the dollar, which reduced the price of American cotton which was of better quality than Indian. Japanese spinners turned to higher counts, and American cotton increasingly displaced Indian imports.

Negotiations with Japan were begun at the same time as the Lees-Mody discussions in early 1933.[115] After much stalling on both sides, agreements were reached in the autumn of 1933. A quota of Japanese piecegoods and Indian raw cotton was fixed on a sliding scale. To some extent the new agreement helped to cushion Indian raw cotton exports against American cotton in the Japanese market. During the depression the Japanese market became increasingly important for India. The percentage of Indian exports to Japan against total exports increased from 10.2 per cent in 1930 to 15.7 per cent in 1937.[116] Japan's share of Indian imports doubled to 17 per cent in the same period. In the long term, these moves resulted in the Indian merchandise surplus with Japan being converted into a deficit, especially after the separation of Burma ended the inclusion of rice exports to Japan. Thus, while the agreement proved advantageous in the short term in aiding India's recovery from the depression, in the longer run it failed to halt the decline of India's exports into Japan. Of course, partly this was for political and not economic motives as Japan turned into its ever increasing empire. If there had been no agreement, however, it is entirely possible that the deficit with Japan would have been even greater since American cotton would probably have forced Indian cotton out of the Japanese market altogether.

With its other non-empire trade partners, the Government of India did not make new treaties. Partly, this is because until the mid-1930s the position of India vis-a-vis British trade treaties with non-empire countries was unclear.[117] The Fiscal Autonomy Convention of 1923 was supposed to give the Government of India control over its tariff structure but it also left the Indian authorities unprotected and unprepared to face the changing international trade conditions. The British Government demanded that fiscal autonomy meant that India would also be responsible for concluding its own trade treaties. No longer would India be included automatically in agreements reached by London on behalf of the colonies. However, since any agreement concluded by India had to be signed in London, thus emphasising its colonial status, the Indian authorities remained confused about the use of British bargaining power and did not join in the wave of trade treaties concluded during the 1920s, believing that India was still covered by British agreements.[118] India was left vulnerable, therefore, to the wave of restrictive trade practices which accompanied the onset of the crisis. For instance, in 1928 the Japanese Government imposed a ban on the import of Indian rice while maintaining imports from Siam under the schedules of the 1924 Japanese-Siamese Trade Convention. The Indian authorities protested, believing that Japan was prevented from the direct prohibition of Indian goods under the most-favoured nation clauses of the 1904 Indian Japanese Convention. However, it discovered that the non-prohibition clauses referred solely to Indian nationals not Indian products.[119]

Although publicly the Government of India maintained the benefits imperial preference was bringing to Indian trade, privately government officials were as worried as Indian Nationalists about possible retaliation. Sir Joseph Bhore, the Commerce Member, wrote:

> '... The most disturbing feature of our differential and preferential arrangements with the United Kingdom is the effect they have had on certain foreign countries, notably Italy, Belgium and Germany, which have very definitely held out the threat that unless the diversion of their trade to the United Kingdom which has resulted from these arrangements is stopped, they will take retaliatory action on our raw materials hitherto imported by them. This is of course going to lead to a great deal of difficulty with public opinion and the Legislature in this country, apart from the actual effect on Indian trade.'[120]

In terms of diverting India's import trade to the United Kingdom, the Ottawa Agreement proved short-lived. Most continental countries recovered and increased their shares of the Indian import trade. Germany's share alone increased from 6.6 per cent in 1929 to 9.7 per cent in 1937. The only country with actual cause for retaliation was the United States which did not recover its share of the Indian market.[121]

More important for India were changes in its export markets. That there were restrictions placed against Indian goods is not disputed. These ranged from prohibitions on manufactured jute goods by Argentina and America to restrictions on imported Indian broken rice by Austria and Italy.[122] However, the impact of such restrictions was very varied and the reasons for their imposition had roots deeper than mere retaliation for Ottawa. India's biggest loss was in foodstuff exports to Continental Europe, particularly to Germany, France and Italy. This can be accounted for by the agricultural self-sufficiency plans of the two Fascist nations. The position of France is more closely linked to the Ottawa agreements.

The French Government viewed imperial preference as a coherent plan to promote imperial trading for the benefit of the metropolis. As such, the French Government introduced the principle in its own imperial trade relations. Imperial preference benefitted France more than Britain in its trading relations with the Dominions and India, since French colonies were far less developed and so in a more strongly marked core-periphery relationship with France.[123]

Indian raw material exports to the Continent fared better than its foodstuff exports. Although the Four Year Plan of 1936 was geared to reduce German dependence upon imported raw materials, it imported more hides and ores from India. Meanwhile, India increased its share of the Belgian and Dutch markets based on exports of ores and oilseeds.[124] While there may have been some scope for bilateral agreements with European countries in the early 1930s, the political uncertainty on the Continent from the mid-1930s increased moves towards self-sufficiency established during the depression, and made bilateral agreements increasingly difficult to negotiate. In this light it is wrong to criticise the Indian Government for concentrating its trade policy towards securing India's two most important markets, Britain and Japan. The Ottawa Agreement and the 1934 Indo-Japanese Convention succeeded in increasing India's share of these markets at a time of a general restriction of world trade.

Trade Policy in the 1930s

If there was justification for the use of tariff policy in terms of imperial preference and treaty negotiations, there is little to justify the halting attempts to use trade policy to protect Indian producers from the worst effects of the depression. Indian trade was left to face the slump with little help from the restrictive or supportive measures applied by other governments. Outwith the limited application of tariff protection to aid certain industries, the Government only reluctantly used customs duties to protect Indian authorities, and intervened only where, as in industry, there was a strong political lobby.

This is clearly illustrated in the contrasting fortunes of Punjab wheat growers and Madras rice cultivators. The wheat producing regions of India were the first to experience the sharp price reductions which marked the onset of the depression. The bulk of Indian wheat was produced in the Punjab, an area traditionally loyal to the Government and, as such, in receipt of many benefits of government expenditure particularly irrigation schemes and railways. Thus, the Punjab wheat traders were in a good position to force the Indian authorities to place duties on the cheap Australian wheat imports which were depressing the local price. Within one year the Government had responded with the required duty.[125] In contrast, the Madras rice growers were facing competition from cheap imports of Burmese rice. For five years the Government of India refused to provide a protective duty arguing that Burma was still administered from Delhi and so a duty would count as an internal tariff. In this, the Indian authorities ignored the internal duties levied by local municipalities and boards. It was only in 1934 when the situation in Madras grew more serious with imports of Siamese rice and as the Government of India became worried by the declining position of the loyalist Justice Party that Madras rice cultivators finally received protection.[126]

In general, the Government of India's trade policies were halting and inadequate. Despite major agitation by both Indian and European businessmen, there were no anti-dumping restrictions to protect the home market. Nor did the Indian authorities use export bounties to promote trade. There was no purchase of export crops or government subsidised schemes for the warehousing of such crops to maintain income levels for Indian cultivators. Despite pleas from nationalists there was no government aid to build up an Indian merchant marine. The Government of India resorted to direct negotiations between Indian shipping owners like Walchand Hirachand and the British companies for small concessions.

Instead of a broad programme for the support of Indian trade, the Indian authorities placed their reliance on improved marketing of Indian produce under the 'Agmark' symbol. However, this was not attempted until 1935 when India was already pulling out of the depression. During the worst years of the slump, apart from the appointment of new Trade Commissioners in Hamburg, Rome, Mombassa and Tokyo, little was done with the Government of India pleading poverty. Credit should be given though to the late efforts to promote more efficient marketing and to deter the adulteration of Indian exports. Unfortunately once more, the Government of India was doing too little, too late. It was not until 1939 that there was a Weights and Measures Act to standardise units of measurement throughout India and on the outbreak of the Second World War, India only had 139 marketing stations throughout its length and breadth.[127]

Conclusion

The impact of the depression must be set against the long-term evolution of Indian trade and governmental tariff policy. Did the depression loosen the imperial bond over Indian trade or was the pretext of the slump used to tighten the imperial control by Britain? Both these trends were at work in the early 1930s. Imperial preference as such might have been regarded as an instrument for regaining control over Indian trade for the benefit of Britain, a method of circumventing India's fiscal autonomy. However, it proved to be a weak instrument. Preferential arrangements only temporarily altered the pattern of Indian trade. The impact of the depression itself proved more long-lasting than preference. India shared in the pattern of primary producing countries, which experienced worsening terms of trade against those for advanced economies. Its trade with the nations of Continental Europe suffered less from retaliation for Ottawa than from the self-sufficiency solutions which these economies followed to escape from the depression.

The most crucial omission was in terms of negotiations with other nations. The Government of India maintained the attitude that it alone could not help Indian trade to recover from the depression. The depression was a factor outwith its control and only international co-operation would provide a solution to the problems created by the slump.[128] Nationalist opinion believed that the Indian Government could have negotiated bilateral trade treaties to maintain its share of world markets. The Indian authorities were unused to such negotiations. They did not realise that fiscal autonomy gave them the responsibility for securing trade treaties. It was not until the depression that this question of responsibility was faced. Possibly the refusal of the British Government in the 1930s to use its bargaining power on behalf of India was the final attempt to bring Indian trade back into inter-imperial lines. Did the British authorities gamble on the naivety of the Government of India to force it to renounce fiscal autonomy and so return to the shelter of the metropolis? Instead the Government of India stumbled forward and concentrated on maintaining its links with the two major Indian export markets, Britain and Japan. The Government of India retained its fiscal autonomy and continued to allow the development of Indian trade beyond imperial limitations. Indian trade was too developed for the British authorities to retain control over it, although they tried to do so by demanding the right to veto any Indian trade agreements and insisting that agreements should be signed in London. Ultimately, of course, Whitehall was able to preserve the rupee-sterling link which exposed Indian exports to a greater impact of the depression. However, Indian trade could not be controlled from Whitehall. In the long-term, by 1939 India had progressed away from a simple core-periphery relationship and the depression helped in the evolution of this new relationship.

Notes

1. C.H. Lee 'The Effects of the Depression on Primary Producing Countries', Journal of Contemporary History, 4.4. (1969), pp 139-155; J.F. Munro, Africa and the International Economy, 1800-1960, (London, 1976), C. Furtado, The Economic Growth of Brazil (Berkeley, 1963), C. Diaz Alejandro, Essays on the Economic History of the Argentine Republic (Yale 1970).

2. Sir J.C. Coyajee, Indian Currency Policy, (Bombay, 1926); B.N. Adarkar, The History of the Indian Tariff, 1924-39, (New Delhi, 1940); H.L. Dey, Policy of Protection in India: A Retrospect, (Poona, 1950); V. Anstey, The Economic Development of India, (London, 1936); B. Madan, India and Imperial Preference: A Study in Commercial Policy, (Oxford, 1939). For a British view see R.S. Russell, Imperial Preference. Its Development and Effects, (London, 1947).

3. C.N. Vakil, Tariff Policy in India, (Bombay, 1937); D.R. Gadgil, Imperial Preference for India, (Poona, 1932); C.N. Vakil and N.C. Munshi, Industrial Policy of India with Special Reference to Customs Tariff, (Calcutta, 1934).

4. P. Ray, Indian's Foreign Trade since 1870, (London, 1934).

5. Contrast his opinions in favour of government trade policy and his criticisms of its refusal to adopt a public works programme to alleviate distress, contained in P.J. Thomas, 'India and the Great Depression', Economic Journal, 46, 1, 1936,, pp. 1-36.

6. B.R. Tomlinson, Political Economy of the Raj, 1913-1947. The Economics of Decolonisation, (London, 1979); C.J. Dewey, 'The End of the Imperialism of Free Trade. The Eclipse of the Lancashire Lobby and the Concession of Fiscal Autonomy to India' in C.J. Dewey and A.G. Hopkins, (eds.), The Imperial Impact, (London, 1978), pp.35-67; N.R.F. Charlesworth, 'Themes and Problems in Indian Economic History, 1914-1939', South Asian Research, 2, 1, (1982), pp.23-53.

7. I.M. Drummond, Imperial Economic Policy, 1917-1939, (London, 1974) and his British Economic Policy and the Empire, 1919-1939, (London, 1972).

8. D. Rothermund, 'British Foreign Trade Policy in India during the Great Depression', Indian Economic and Social History Review, [hereafter IESHR], 18, 3 & 4, 1981, pp.349-376; B. Chatterji, 'The Political Economy of Discriminating Protection: the case of Textiles in the 1920s', IESHR, 20, 2, 1983, pp.239-175 and his 'Business and Politics in the 1930s: Lancashire and the making of the Indo-British Trade Agreement, 1939', Modern Asian Studies, [hereafter MAS], 15, 3, 1981, pp.527-573.

9. For list of Canadian trade treaties concluded in the inter-war period and negotiations conducted see Index to British Parliamentary Papers.

10. Calculated from Statistical Abstract for British India, in the years 1929-30 to 1938-39, Cmd 6333 of 1942.

11. Whitehall was constantly pressurising the Government of India in the early 1930s to balance the budget of the Railway Department. See Budget Telegrams, India Office Library and Records Office, London [hereafter IOL], L/F/5/89.

12. Schuster was willing to sanction salary cuts but not large increases in income tax which he felt would be dangerous in India's uncertain political climate. See his correspondence with Hoare in IOL L/F/5/89.

13. This, of course, was precisely the position which Whitehall wished to avoid. Hence its demands for income tax increases, higher railway and postal rates and increased excise duties. See Budget Telegrams, IOL, L/F/5/89.

14. See account in V.P. Timoshenko and B. Sterling, The World Sugar Situation, (Standford, 1951) and the annual Reports of the World Sugar Council (Geneva).

15. A history of the cotton duties controversy is included in the Report of the Indian Fiscal Commission, 1922, Cmd 1764 of 1922. See also Dewey ibid.; P. Harnetty, 'The Indian Cotton Duties Controversy, 1894-96', English Historical Review, 77, 4, 1962, pp.684-702.

16. Report on the Moral and Material Progress and Condition of India in the year 1913-14.

17. Calculated from the statistics in the Annual Review of the Trade of India 1914-15 to 1918-19.

18. Report on the Conditions and Prospects of British Trade in India at the Close of the War, BPP, Cmd 442 of 1919, p.51.

19. Report of the Indian Industrial Commission, 1916-1918, BPP, Cmd 51 of 1919.

20. Report on Indian Constitutional Reform, BPP, Cd 9109 of 1919.

21. For example, memo by Manchester Chamber of Commerce, January 1932 in Public Records Office, London [hereafter PRO], CAB 24/237, CP 8 (33).

22. Memo to Cabinet, Indian Budget and Cotton Tariff, 6th February 1930, PRO CAB 24/209, CP 39 (30).

23. B.N. Adarkar, The History of the Indian Tariff 1924-39, (New Delhi, 1940), p.3.

24. This is severely criticised by H.L. Dey, Policy of Protection in India, (Poona, 1950), p.6, providing a contrast to Adarkar.

25. Adarkar, ibid., p.5. Note by T. Ainscough on Revision of Ottawa, para 4 in PRO T160/857, F14644/3.

26. D.M. Wagle, 'Imperial Preference and the Indian Steel Industry, 1924-39', Economic History Review, 34, 1, 1981, pp.120-131.

27. Indian Merchants' Chamber, Bombay [herafter IMC], Annual Report, 1930. Resolution condemning 'discriminating' element of protection.

28. C Markovits, Businessmen and Indian Nationalist Policies, 1931-1939 (Cambridge 1985) Chapter 3.

29. Letter, Government of India Commerce Department [herafter GoI CD], to IMC, Bombay, 6th April 1932, Letter 752 (T-4). Contained Appendix 22, p.176, Annual Report IMC, 1932.

30. IMC, Representations by Wire Industry for Protection.

31. For budget telegrams see IOL L/F/5/89.

32. See Hoare to Government of India, Finance Department [hereafter GoI,FD], 20 August 1931, Telegram 2441 in IOL L/F/5/89 above.

33. GoI,FD to Hoare, 14 July 1931, Telegram 1754-5 in IOL L/F/5/89 above.

34. C. Kisch, India Budget Proposals for 1929-30, 12 January 1929 in IOL L/F/5/89 above.

35. Hoare to GoI,FD, 31 July 1931, Telegram 2244, in IOL L/F/5/89 above.

36. Hoare to GoI,FD, 20 August 1931, Telegram 2441, in IOL L/F/5/89 above.

37. Adarkar, Indian Tariff.

38. Adarkar, Indian Tariff.

39. Memo by Kisch, 16 September 1931, on Supplementary Budget, in PRO T 160/400/F 12471/Annexe 7.

40. F. Capie, 'Pressure for Tariff Protection in Britain, 1917-1931', Journal of European Economic History, 9, 1980, pp.431-447; also his book Depression and Protectionism: Britain between the Wars, (London, 1983), p.7.

41. See Capie, 'Pressure for Tariff Protection', p.432.

42. Speech by Sir G. Corbett, Proceedings of the Imperial Economic Conference, Cmd 3176 of 1930.

43. Quoted by Sir P. Ginwala during his lecture 'India and the Ottawa Conference' contained in Journal of the Royal Society for Arts [herafter JRSA], 1932, 4, 185, p.42.

44. Import Duties Act, 1932, quoted in Ginwala 'India and the Ottawa Conference' above, p.42.

45. Telegram Hoare to Viceroy, 7/2/32 in PRO CAB 24/232, CP 69/32.

46. Ginwala, 'Ottawa', p.43.

47. See views of Deputy Trade Commissioner in London, H.S. Malik, to GoI, 26/2/32 and 12 February 1932; contained in National Archives of India, New Delhi, [hereafter NAI] GoI, CD 752 - T(3) 1-4, January 1933. Effect of Import Duties Act of 1932 on India exports.

48. See NAI Gol,CD, File 752-T(5) 1933, September, A - 1-45. Views on Trade Agreement with United Kingdom.

49. Proceedings of the Imperial Economic Conference at Ottawa, 1932, Cmd 4175 of 1032, p.97.

50. IMC, Bombay, Annual Report, 1932, p.18. See also memo by H.A.F. Lindsay, Indian Trade Commissioner in London, 12/2/32 in NAI GoI, CD, 752-T(3) 1-4 January 1932, above.

51. Ginwala, above, p.43.

52. Chatteji, 'Business and Politics in the 1930s', p.548.

53. Markovits, Indian Businessmen, p.98.

54. Chatteji, 'Business and Politics in the 1930s', p.548

55. Memo by J. Drake, Secretary to the GoI, 25/5/32 in NAI GoI,CD 752-T(5) 1933 above.

56. Memo by Drake, 25/2/32 and Telegram, Viceroy to SSI, No. 887-58 of March 25th, 1932 in NAI, GoI CD 42-C(11) /33, 1-8, March 1932.

57. Nehru Memorial Library, New Delhi, [herefter NML], Thakurdas Papers, No. 107. Letter, Birla to Layton, 20 May 1932.

58. Proceedings of Imperial Economic Conference, 1932, p.87.

59. Drummond, Imperial Economic Policy 1917-39, p.247.

60. Invitation by Turner to Indian Delegation to meet British Delegation in London, March 2nd, 1932. Contained in IOL L/E/9/235.

61. Runciman, President of Board of Trade, complained that he had not been told of the invitation until after decision had been taken. Runciman to Hoare, March 10th, 1932. For correspondence see PRO B.T. 11/68, CRT 1484.

62. For negotiations in London see IOL L/E/9/235 above.

63. Ideas first mooted in memo on meeting with MCC, Croft to SSI, February 11th, 1932 in IOL L/E/9/235 above.

64. Telegram to Cabinet, Appreciation of Conference So far, 3 August 1932 in PRO CAB 24/232, CP 277(32).

65. 'Appreciation', CP 277 (32) above.

66. Schedule of Agreements, Proceedings of the Imperial Economic Conference, 1932, Appendix A.

67. Telegram 2420, GoI,CD to SSI, 10th November 1932 in PRO T160/609/F13274, Application of Ottawa to India.

68. Telegram 2420, CP 277 (32) above.

69. Telegram 720-T, GoI,CD to SSI, 27th November 1932 in PRO T160/609 above.

70. See Annual Reports of IMC, Bombay and Federation of Indian Chamber of Commerce and India [hereafter FICCI], 1932.

71. Markovits, Indian Businessmen, pp.98 ff,

72. Report IMC, Bombay, 1932. Appendix 2.

73. Report IMC, Bombay, 1932, p.19.

74. Report IMC, Bombay, 1932, p.21.

75. Annual Reports, 1933 and 1934, contained in PRO T160/857/F14644/3, Revision of Ottawa. For British Reports see Annual Reports on Prospects and Conditions for British Trade in India. Also, Lindsay-Watterson Survey on Indo-British Trade, September 1934 in IOL L/E/9/1148, Economic and Overseas Department [hereafter E & O], Collection 154-5.

76. Telegram Viceroy to SSI, March 1935, in PRO T160/857/F14644/3 above.

77. Rothermund, 'British Foreign Trade Policy'.

78. Memo by Runciman, 23/9/32 in PRO CAB 24/233, CP 315(32).

79. Memo in PRO T160/609 above.

80. Calculated from trade tables in Statistical Abstract, Cmd 6333 of 1942.

81. Statistical Abstract, Cmd 5804 of 1936, Table 110.

82. Lindsay-Watkinson Survey, above.

83. Calculated from trade tables in Statistical Abstract above.

84. Prospects and Conditions Reports 1937 and 1938.

85. Memo on Supplementary Agreement by President, Board of Trade, PRO CAB 24/38 CP 340(33).

86. See Report, IMC Bombay, 1933.

87. Memo by Turner on meeting with Wilson, 13/7/34 in IOL L/E/9/1147.

88. Statistical Abstract, Cmd 6333 of 1942.

89. The Report concluded '... we are satisfied from evidence laid before us, that the British cotton industry has failed to adapt its organisation and method to changed conditions and so has failed and is failing to secure that cheapness of production and efficiency in marketing which alone sells staple goods in the East today.' Para 25, Report of Economic Advisory Council on the Cotton Industry, contained in PRO CAB 24/213, CP 208(30).

90. Blackett during discussion on paper by A.R. Burnett-Hurst, 'Lancashire and the Indian Market', JRSA, 3, 1932, p.441.

91. Report of Cabinet Meeting, 28th September 1932, in PRO CAB 47/32, p.6.

92. Mody-Lees negotiations in IOL L/E/9/1144.

93. Annual Report of the Lancashire Indian Cotton Committee, 1935, p.20, in IOL L/E/9/166.

94. S.C. Ghosh, 'Pressure and Privileges: The Manchester Chamber of Commerce and the Indian Problem 1930-34', Parliamentary Papers, 18,2,1964-5, pp.201-215.

95. Memo by SSI, Indian Protective Duties, January 1935, PRO CAB 24/253, CP 4(35).

96. Memo by MCC, 'The Ottawa Policy and the Lancashire Cotton Goods Export Trade to India', 9/5/32 in PRO CAB 27/367.

97. Markovits, Indian Businessmen, Chapter IV.

98. Note by T. Ainscough on British draft proposals, December 1936 in PRO T160/857/F14644/3.

99. Willingdon-Zetland Correspondence in IOL, Eur. Mss. F.118.

100. Letter GoI,CD to Under Secretary of State for India, 16 November 1936, para 9 in PRO T160/857/F14644/1.

101. Memo by Dibdin, Use of United Kingdom Bargaining Power on behalf of India, 4/10/35 in IOL L/E/9/1149, E & O Collection 154-6.

102. Letter SSI to GoI,CD, No. 374, 5/2/35 in IOL L/E/9/240, E & O Collection, 30-25.

103. Telegram GoI,CD to SSI, No. 2412, 30th October 1932 in PRO T160/609/F13274.

104. Indo-Canadian Trade Discussions in IOL L/E/9/1136, E & O Collection 153-11.

105. For example, Telegram, 9th February 1935, Secretary of Commerce Department to Secretary, Government of Canada: trade negotiations interrupted by constitutional changes. Concludes, 'We are deeply sensible of courtesy and patience shown by Canadian Government in this matter and we very much regret that it should be necessary to ask for their further indulgence', in IOL, L/E/9/1136.

106. Indo-Australian negotiations in IOL, L/E/9/1135, E & O Colln., 153-10; Indo-Southern Rhodesian Negotiations, IOL, L/E/9/1140, Colln., 153-14; with South Africa, IOL, L/E/9/1141, Colln., 153-15.

107. Indo-New Zealand Negotiations in IOL, L/E/9/1139, Colln., 153-13.

108. Madan, Imperial Preference, p.103.

109. I.Drummond, Imperial Economic Policy.

110. Address to Viceroy by Southern Indian Chamber of Commerce, January 1938, contained in Telegram 27.S.C., 4th January 1938, Private Secretary to Viceroy to Commerce Department, in NAI, GoI,CD, File 138(1)Tr/38.B.

111. Report IMC, Bombay, 1935, Appendix 43, pp.318-22.

112. Report of Special Inquiry of India Tariff Board on Cotton Textiles in view of Japanese currency depreciation, 1932, pp.14-15.

113. The Government of India was under pressure from the Indian Central Cotton Committee to act on behalf of the cotton cultivators. See, for example, memo from ICCC to Noyce, July 1930 in NAI, GoI,F.D., File 17(97)F of 1936.

114. For correspondence, see, IOL, L/E/9/170. Cabinet meetings on Indian Cotton Situation, 28/11/33 and 1/12/33 in PRO, CAB 27/556.

115. Indo-Japanese Negotiations in IOL, L/E/9/1244, E & O Colln., 157-8L.

116. Madan, Imperial Preference, p.106.

117. In fact it was not until 1938 that the Government of India finally admitted that fiscal autonomy excluded India from British trade treaties. Telegram Secretary, Commerce Department to Viceroy, 5th January 1938 in NAI, GoI,CD, File 138(1)Tr/38 Commerce B.

118. Memo A. Dibdin 'UK Bargaining Rights on Behalf of India' March 1935 in IOL, L/E/9/1141. E & O Colln 153/15.

119. Correspondence contained in IOL, L/E/9/839.

120. Letter Sir J. Bhore to Sir Findlater Stewart, 31 October 1934, in IOL, L/E.9/1148, E & O Colln., 154-5.

121. Madan, Imperial Preference, pp.103-106.

122. For complaints of discrimination against Indian imports, see, IOL, L/E/91149, E & O Colln., 154-6.

123. A. Sauvy, Histoire Economique de la France entre les deux guerres, Vol. II, (Paris, 1967), gives a description of the French imperial preference scheme.

124. Madan, Imperial Preference, pp.100-103.

125. Report on the Administration of the Punjab in 1931-32 (Lahore, 1932) p.10

126. See correspondence between Erskine and Willingdon in IOL Mss Eur D 596/8.

127. Report on the Marketing of Agricultural Produce in India, 1938-39. (Delhi, 1940) p.3.

128. See correspondence in NAI, GoI, CD, File 138(1)Tr/38-B.

CHAPTER THREE

Public Finance and Currency Issues

For the Government of India, the most pressing consequence of the slump was the deepening financial crisis which it faced. The origins of the problem pre-dated the depression of 1929, with the first half of the 1920s having been spent searching for an effective financial and currency policy. These efforts culminated in the Report of the Royal Commission on Indian Currency and Finance in 1926 which recommended a 1s 6d rupee exchange rate against sterling. However, as the agricultural prices upon which India depended so heavily began to decline, this exchange rate proved difficult to maintain and from 1927-28 the Government of India was forced to adopt a policy of contracting the note issue, which had a deflationary effect on the Indian economy.

Such was the situation when the events of the international crisis further impinged on the Indian economy. Between 1929 and 1931, the budgetary position of the Government of India worsened, as trade problems reduced customs revenue and railway receipts slumped and the strain of maintaining a 1s 6d rupee exchange rate became ever more acute.

The Government of India had several policy options open to it to tackle the crisis and ease its burden. Customs revenue could be bolstered by higher import duties which, if carefully imposed, could have protective effects for domestic production. This would allow the emergence of import substituting industries and a growing domestic market for agricultural produce. Alternatively, currency devaluation could make Indian exports cheaper and more competitive in foreign markets, at least in the short-term, which would allow the same volume of imports to be maintained and hence the existing level of customs revenue from pre-depression duties. More radically, the Indian authorities could have abandoned the tenets of orthodox finance and used its budgetary powers to boost the economy through deficit financing of public works paid by increased borrowing. The latter two policies, for example, were followed by the Japanese Government under its Finance Minister, Takahashi, enabling Japan to make a full economic recovery by 1936. Takahashi's increased borrowing raised the internal national debt of Japan from 4,480 million yen in March 1931 to 8,520 million yen in March 1936.[1] This compares with India, as can be seen in Table 3.1 below.

Table 3.1

Indian State Debt (Rs million)

1918-19	6837.8	1931-32	10510.5
1926-27	9409.2	1932-33	10274.2
1927-28	8873.4	1933-34	10216.1
1928-29	9214.2	1934-35	10203.5
1929-30	9715.2	1935-36	9667.3
1930-31	10120.4	1936-37	9515.5

Source: N.R.F. Charlesworth, 'Government Finance in British India', Modern Asian Studies 19, 3, 1985, p 531, Table 3.

While the Government of India did increase its borrowing levels until 1931-32, this was only to meet the shortfall in ordinary revenues and was used to maintain the rupee exchange rate. Thereafter, as the Government's budgetary position improved, borrowing was reduced once again. Therefore, throughout the 1930s, the Indian authorities adhered to strict financial orthodoxy and so lost the opportunity to reflate the economy.

This policy decision has been declared conservative both by contemporary and modern historians. The Indian economist, P.J. Thomas, constantly attacked the central authorities for failing to implement broad public work schemes to raise purchasing power and, hence, internal demand.[2] Kumar has argued that it was the inelasticity of sources of public finance which restricted the Government of India's policy options.[3] Most commentators, however, focus upon the role of the British Government in influencing the policy decisions of the Indian authorities. Rothermund argued that Whitehall forced an unnecessarily high exchange rate upon India for British needs which pushed the Government of India into a deflationary policy which exacerbated the effects of the depression.[4] Both Drummond and Tomlinson accept the aggressiveness of the imposition of the rupee-sterling link on India in 1931 and that fiscal autonomy had not deprived Britain of the ultimate control over the Government of India's policies. However, they stress the role of India within the imperial economy, and British fears that India and other colonial authorities might default on their obligations, leaving the British taxpayer to bear the burden.[5] What is clear is that the exchange rate was a focal point for the relationship between

India and Britain and that, therefore, the rupee crisis of 1931 was a pivotal point in the development of official policy in response to the depression.

This chapter will discuss the reasons why the policy options of the Government of India during the slump were limited to orthodox measures. To what extent was India prevented from following the Japanese response of competitive devaluation and deficit finance, through its continuing relations with, and governance by, the United Kingdom? The key to this relationship was the issue of the sterling-rupee exchange rate, the main focus in the first part of the chapter. The constraints which the defence of the sterling-rupee exchange imposed on Central Government policy during the 1930s will then be discussed. Finally, the limitations placed on Provincial Governments to respond to the depression will also be assessed.

The issue of the sterling-rupee exchange rate, particularly during the 1931 crisis, aroused considerable debate in the late 1970s. Unfortunately, since then many of the original papers in India which provided the evidence for the protaginists in the debate, have been destroyed.[6] Therefore, this discussion on the exchange rate controversy does not pretend to provide a full analysis of earlier theories. It is, however, important to re-iterate briefly the main arguments to illustrate the nature of the contemporary political controversy aroused by Whitehall's intervention in Indian currency policy.

Central Public Finance and Currency Issues

The financial pressures upon the Government of India pre-dated the 1929 slump, as had the rupee ratio controversy. In 1927, the 1s 6d exchange rate was accepted as a statutory obligation by the Government of India. The majority report of the Hilton-Young Commission had recommended this rate as the one the exchange had stabilised at, thus minimalising the necessity of government interference. However, a Minority Report by the eminent Indian businessman, Sir P. Thakurdas, had favoured a lower exchange rate of 1s 4d, echoing the demands of his fellow business associates.[7] It was argued that a devaluation of the rupee would increase the competitiveness of Indian exports and that the anticipated increase in trade related earnings would raise demand in the internal economy. The 1s 6d exchange rate was regarded as favouring the interests of Britain, making British imports cheaper in the Indian market and giving a premium to remittances to London by European managing agencies. Thus, the rupee exchange rate was the focus for political controversy between the Government of India and Indian businessmen, a controversy which had not disappeared by 1929 and the first impact of the slump.

Between 1927 and 1929 it seemed that the 1s 6d exchange rate could be maintained but there were many signs of stress. The exchange had been fixed on the assumption of a continued balance of payments surplus, but by 1929 this was dwindling and the Government of India was finding it difficult to purchase sufficient sterling to meet the current expenditure of the Secretary of State for India in

London. In 1930-31, these obligations amounted to £22 million, but the Indian Government was able to purchase only £5.4 million to meet remittances.[8] The other options open to the Government, then, were to ship gold or silver from its reserves in India for sale in London, remit through the currency reserves or raise short-term loans in India through the sale of government stocks. The latter course meant that the Government of India was competing in the Indian money market against the business community, thus limiting investment opportunities in other sectors of the economy. To remit through the currency reserves also had a deflationary effect since the Government either had to draw on its balances in the Imperial Bank which cut the credit available for other concerns or through the sale of Treasury Bills which tended to increase the interest rates. The Government of India was certain only that it did not want to ship gold, although it did send some silver for sale in London.[9]

It was clear by 1931 that the continued decline in India's export values was becoming a serious constraint upon its ability to meet its international obligations. In 1931 the Government of India had to find £32 million to meet the current expenses of the Secretary of State for India. There was also the burden of sterling loans due to mature in 1932, one of £15 million and one of £7 million. In the early part of 1931 the Government of India further reduced the currency in circulation and tried to secure a sterling loan on the London market. The loan failed, further damaging Indian credit and increasing the withdrawal of capital from India. The Government of India was forced, therefore, back to using its reserves to make sterling remittances to London. It had two currency reserves - the

Paper Currency Reserve (PCR) which held coin and bullion to back paper money in India and the Gold Standard Reserve (GSR), the function of which was to hold gold or sterling securities to support the ratio. The GSR consisted of £2 million in gold and £38 million in sterling securities held in London. Before 1931, the PCR also held some sterling securities in London. When sufficient foreign exchange could not be purchased on the open market to make sterling remittances, currency would be contracted in India to allow sterling in the PCR to be transferred to the Treasury. However, in early 1931 the London securities of the PCR were exhausted so the GSR was used, the level of the reserve being maintained by transferring gold from the PCR to the GSR in India. By September 1931, £23 million of gold had been transferred so that the total gold reserves in India amounted to £31 million, while in London, the GSR contained £2 million in gold and £9 million in sterling securities.[10]

The key areas of debate concerning the currency policy of the Government of India in the 1930s are the level of the exchange rate itself and the reasons for the manipulation of the Indian exchange rate: whether or not Whitehall authorities were aware that such intervention would result in the gold exports which followed. In 1930, the controversy over the rate of the rupee-sterling exchange which had been continuing since 1926 was renewed with the conjunction of the economic crisis of the slump and the political crisis of India's constitutional future. Indian businessmen united with the Congress Party to call for the devaluation of the rupee to 1s 4d.[11] In this they were now joined by many expatriate businessmen and the Governors of the Imperial Bank including Osborne Smith.[12]

By 1930 there was also a ground swell of official support for devaluation to reduce Indian export prices and make exports more competitive in world markets. Official pressure was led by the Finance Member himself, Sir George Schuster. Schuster had been appointed in September 1928 after a career as Financial Secretary to the Government of Sudan, between 1922 and 1927, and financial advisor to the Colonial Office. He had also acted as Chairman of the Advisory Committee on East African Loans in 1926. Thus, Schuster came to India with an impressive financial background and was a fresh face on the Indian scene, coming neither from the ranks of the Indian Civil Service nor the British Treasury, as had his predecessor, Sir Basil Blackett. Schuster's willingness to seek new solutions to India's economic problems gained him many friends and enormous respect among the Indian business community.[13] Apart from these links with the Indian community, there was another potential source of conflict between Schuster and Whitehall. The territory of the Sudan was under the control of the Foreign Office which had been content to give Schuster comparative freedom of action as Financial Secretary.[14] Therefore, Sir George must have felt seriously constrained by the tedious process of government in India, with the ever-present need to have policies vetted by the India Office. In September 1930, for instance, Schuster had written to London that, while he recognised that maintenance of the exchange rate was important, "our responsibilities as Government of India are not confined to this one end and we must keep our sense of proportion, India must come first and the Treasury last".[15] Schuster's relationship with Sir Samuel Hoare, Secretary of State for India in the National Government of 1931, was particularly strained. On more than one occasion, Hoare felt the need to remind Sir George, "It is HMG...who are responsible to Parliament for the government of India" and that he, Schuster, was "responsible to HMG".[16]

Schuster first proposed the devaluation of the rupee during the Round Table Conference in November, 1930. In this he had the support of Sir Malcolm Hailey, the Governor of the United Provinces, and Denning, a leading official of the Office of the Controller of Currency.[17] Such an idea, however, was unthinkable for the financial experts of the India Office and the British Treasury, who believed that it would be impossible to hold a devalued rupee at 1s 4d and that it would fall to its bullion value of 8d. This would be a disastrous blow not only to Indian credit but also to Britain, which was held responsible in international eyes for India's finances. Thus, it was believed, the fall of the rupee would bring sterling down also.[18] The financial experts sternly warned Schuster that "the only expedient course is to use every means in our power to maintain the existing ratio, that is, we should use the resources to the extent required, borrow in London as needed to strengthen the position and apply in India a vigorous policy of currency control."[19] No one in London was willing to allow India to stray from the path of financial orthodoxy.

The fear in Whitehall that a devaluation of the rupee would bring down sterling was the key to its intervention in the currency policy of the Government of India in September 1931. For two years as the Indian exchange position weakened and private capital was remitted from India, Whitehall attempted to influence the Indian authorities to pursue rigidly orthodox financial solutions of balancing the budget, raising taxes, reducing expenditure, contracting currency and raising the bank rate.[20]

However, the Government of India's currency policy, in operation since 1927, had reached its limits by the summer of 1931. The maintenance of the rupee exchange at 1s 6d necessitated heavy contractions of currency amounting to some Rs 10 crores by the end of 1928. To contract the currency, the Government of India had increased heavily its short term borrowing through the issue of Treasury Bills, which in turn had raised interest rates in India to a high level. The interest rate of the Imperial Bank had risen from 5.67 at the beginning of 1928 to 8 per cent by mid-1931 in contrast to the Bank of England rate of $4^1/_2$ per cent.[21] The Government of India was also forced to reduce its balance with the Imperial Bank which, allied to the high interest rates, caused further deflationary pressures during the depth of the depression. In addition, the lowered prices of the depression years meant that larger sums of surplus gold were coming on to the market. Despite withdrawing Rs 40 crores in 1929-30, notes in circulation only fell by Rs 6 crores. Similarly, between March 1930 and August 1931 a further Rs 58 crores were withdrawn, but circulation declined by only Rs 17 crores. In effect, during the period 1929-1931 the reduction of currency in circulation by the Government of India was only a holding operation - not a vigorous policy to improve the remittance position. The sale of Treasury Bills also raised the interest rates at which the Government of India could borrow. The public debt of the government rose from Rs 9,214.2 million in 1928-29 to Rs 10,510.5 million in 1931-32, mostly through short-term borrowing at high rates.[22] On the positive side, the Government of India hoped a higher basic rate might attract short term foreign capital and stem its remittance. Taylor, the Controller of Currency estimated that high rates had attracted between Rs 10 to 15 crores of short term foreign investment in Treasury Bills since 1927 but the rate of investment fluctuated and such capital was quickly repatriated if rates fell.[23] Such short term investment, therefore, could not provide a long-term basis for meeting remittances to London.

As the financial position of the Government of India weakened further in 1931, Schuster embarked on an even more radical proposal. If Whitehall insisted upon the maintenance of a 1s 6d exchange it should be prepared to provide credit of £50 million or even £100 million for the Government of India.[24] In this proposal, Schuster was aware of the political repercussions in India if the Government of India was seen to exhaust its reserves propping up an unpopular exchange rate. Instead of the drawing credit, India received a vague promise that the British Government was prepared to help the Government of India meet its financial obligations during the period of uncertainty over India's constitutional future.[25] This pleased no one, creating political storms in both Britain and India. Lancashire led the protests in Britain.[26] The statement did not renew the confidence of businessmen and investors in the ability of the Government of India to control its finances and it did not silence the rumours about imminent devaluation. Far from alleviating the situation the statement was regarded as fresh evidence of the weakness of the Indian authorities. In British eyes this economic weakness further compounded what had been regarded as the political weakness of the Gandhi-Irwin pact of the spring.[27]

The fears that a devaluation of the rupee could endanger sterling were not groundless since sterling itself was decidedly weak in September 1931, despite several credits from the United States and France. Suspicion of international investors of the abilities of a Labour Administration to balance its budget were fuelled by the forecast of the May Committee in early August of a deficit of some £120 million.[28] Not even the vigorous retrenchment of the first budget of the new National Government allayed fears of British investors. Thus, there was a rush to remit investment back to France after reports in the French press on the Invergordon unrest over pay cuts.[29]

It was against this background of instability of sterling that Whitehall ensured that there could be no competitive devaluation of the rupee. The fear that an uncontrolled devaluation of the rupee would lead to an equally precipate decline in sterling provides the only explanation for the abrupt and heavy-handed intervention by Whitehall in Indian currency policy in September 1931. Thus, while the decision to abandon the gold standard had been made on the 18th September, no prior warning was given to the Indian authorities.[30] Instead, it was through Reuters rather than the India Office that the Government of India were made aware of the decision on the morning of the 21st September.[31] This led to a very public difference of opinion on currency policy between Delhi and Whitehall, raising protests in India against a re-imposition of imperial control on

India's policy. While Schuster ended the Government's obligations to convert rupees into gold or sterling, thereby devaluing the rupee, Hoare was announcing in London that the rupee would remain linked to sterling at the former rate of 1s 6d.[32] Despite three days of acrimonious debate, including a second threat of resignation by the Viceroy and the Executive Council (the first on the 12th September had been on the issue of army pay cuts), Schuster was unable to persuade Whitehall to sever the rupee-sterling link and initiate a bold new era of Indian finance and currency policy by devaluing the rupee.[33] It was only a secret assurance that the British Government would not allow the Indian reserves to be exhausted in the maintenance of the 1s 6d rupee exchange, that allowed Schuster to accept Whitehall policy.[34]

The devaluation controversy was still acute when a second political storm arose in India over the massive export of gold which followed. Between 1932 and 1937 gold worth some Rs 3,000 million was exported. Shenoy argued at the time that the British Government had engineered the situation to produce the gold exports which it then used to meet its external obligations.[35] This claim was repeated in the late 1970s, by Bridge, while Rothermund modified it to argue that, while the British authorities did not deliberately engineer the gold exports, it gladly accepted the benefits and failed to end the exports of gold which should have remained in India for productive investment.[36]

There is no evidence for the nationalist view that the British Government deliberately engineered the gold exports. From mid-1931, the India Office had been exerting pressure on the Government of India to ship some £4 or £5 million worth of gold to bolster the gold standard reserve in London, but this was vigorously resisted.[37] The rupee was linked to sterling to prevent a precipitous devaluation which might have affected sterling. Both Indian and British officials were surprised at the amount of gold coming on to the market after September 1931 and few believed that it could continue at such a rate for long. In November 1931, Schuster reported that the rupee-sterling exchange had strengthened and enough sterling had been purchased to meet current remittances. However this was 'based almost entirely on exceptionally large gold exports, and it is too early yet to say the position is firmly restored with assured prospects of regular remittances'.[38] Treasury officials remained concerned about India's financial position until the end of the year. With the prospect of meeting the loans which matured in 1932, they felt no confidence in Schuster's ability to maintain remittances. Even if there were new surplus balances created by the gold exports, the Treasury feared that Schuster, unless carefully controlled, might be tempted to expand the currency or devalue the rupee further.[39]

The gold exports did help to solve the problem of maintaining the rupee at 1s 6d. By restoring the balance of trade surpluses, the gold exports allowed the Government of India to resume sterling purchases and so meet remittances in the traditional manner. The Government of India was able to replenish its reserves; £13.7 million was added to the Gold Standard Reserve in London.[40] The credit of India was restored in the city and the Government of India was able to convert its loans to lower interest rates. One sign of the improvement was that the value of Government of India 3.5 per cent sterling stock which had fallen to 48.5 in September 1931 had risen again to 89 by March 1933.[41]

However, while the sterling-rupee link put a premium on Indian gold it over-valued the rupee in world terms, thus delaying the recovery of Indian exports. While the rupee was devalued, it was only to the level of sterling. The needs of Britain as an industrial economy, though, were different to primary-producing India which required a greater level of depreciation to raise agricultural prices and so the income level of the bulk of its population. Initially, Indian exports received a short-term boost in economies remaining on the gold standard, but as market forces pushed more and more countries off gold, Indian exports became less competitive in price. The most obvious comparison is with Japan whose currency was devalued three months after the rupee. The most serious blow, however, was the devaluation of the American dollar in 1933. Prices of the better quality American cotton fell, pushing Indian cotton from its major market, Japan, despite a new trade convention. India had been prevented from devaluing its currency because of its colonial relationship. The rupee remained linked to sterling at the old rate of 1s 6d, firstly to ease the devaluation of sterling and secondly, to allow continued sterling remittances to London.

The Central Budget, 1929-36: The Maintenance of Financial Orthodoxy

Embedded in the rupee crisis was the issue of the maintenance of the balanced budget. Orthodox finance demanded that cuts in revenue had to be balanced by cuts in expenditure. However, this would reduce the ability of a government to respond to the crisis. Having given way over the rupee-sterling link, to what extent did the Government of India follow orthodox financing, as pushed by Whitehall, in its budget?

From Table 3.2 (over) it is clear that the budgetary position of the Government of India was under stress from the mid-1920s, even before the depression struck. As revenue decreased, expenditure was increasing until 1930-31. One cause of the reduction in revenue came in 1927 when Sir Basil Blackett abolished the payments by the provincial governments to the central authorities. This payment had been imposed under the Meston Award to compensate the Government of India for some of its revenue now 'transferred' to the local authorities, notably land revenue receipts. However, by 1927, Blackett believed that the revenue position of the central authorities was sufficiently strong to help its provincial counterparts by abolishing the payments. At a time of falling world prices for agricultural prices, though, the anticipated long-term security of central authority finances did not materialise and the blow to trade during the depression further weakened the financial position of the Government of India. In both 1930-31 and 1931-32, the budget was running at a deficit of some Rs 11 crores, and Schuster had to persuade the Whitehall authorities to consider the Indian budgets as a single unit until 1933, when he predicted the budget would be balanced again.[42] This did occur and the position gradually strengthened until the end of the decade, but the massive surpluses of the pre-war years were over.

Table 3.2

Central Government Revenue and Expenditure (Rs 000)

	Total Revenue	Total Expenditure Charged Against Revenue	Surplus or Deficit
1925-26	1,33,17,30	1,29,86,12	+3,31,18
1926-27	1,31,65,45	1,31,65,47	-2
1927-28	1,27,22,78	1,27,22,78	-
1928-29	1,28,97,02	1,29,28,56	-31,54
1929-30	1,32,68,55	1,32,41,71	+26,84
1930-31	1,24,59,58	1,36,18,01	-11,58,43
1931-32	1,21,64,66	1,33,39,39	-11,74,73
1932-33	1,25,43,70	1,23,58,51	+1,85,19
1933-34	1,19,37,30	1,19,37,31	-1
1934-35	1,22,12,40	1,21,76,40	+36,00
1935-36	1,21,07,26	1,21,07,26	-

Source: Statistical Abstract, 1919-20 to 1928-29, BPP, Cmd 3882 of 1931, Table 62, pp.139-150.

Statistical Abstract, 1929-30 to 1938-39, BPP, Cmd 6333 of 1942, Table 113, pp.296-311.

A breakdown of the principal sources of revenue can be found in Table 3.3 (over) with a proportional breakdown in Table 3.4 (over). Between 1929-30 and 1935-36, the total revenue of the Government of India declined by Rs 11.61 crores or just over 10 per cent. Customs revenue fell in the short-term by Rs 5 crores in the 1930-31 season alone, but rose once more from 1932-33, after the Emergency Budget of September 1931 imposed a surcharge of 25 per cent on all customs duties. Specific duties were also raised: duties on artificial silk

Table 3.3: Principal Sources of Government Revenue (Rs 000)

Principal Heads of Revenue	1927-28	1928-29	1929-30	1930-31	1931-32	1932-33	1933-34	1934-35	1935-36
Customs	48,21,42	49,28,01	51,27,66	46,80,76	46,43,66	51,95,17	47,16,41	52,67,42	54,11,49
Taxes on Income	15,06,39	16,70,34	16,70,61	16,00,33	17,48,73	17,97,40	17,12,85	17,54,52	17,07,39
Salt	6,63,18	7,59,93	6,76,46	6,83,22	8,57,92	10,07,34	8,85,64	8,00,01	8,42,80
Opium	3,94,52	3,26,59	3,04,10	2,55,27	2,07,41	89,86	1,58,97	71,94	61,10
Land Revenue	40,92	38,32	38,17	33,94	33,94	17,86	17,60	20,92	26,25
Excise	52,15	52,72	54,74	46,50	51,17	41,81	40,02	40,69	38,83
Stamps	26,80	30,82	27,50	28,01	23,63	32,75	31,42	42,53	39,24
Forests	24,59	25,97	31,29	29,81	24,09	18,03	15,25	12,41	16,43
Registration	1,56	1,62	1,67	1,50	1,52	1,12	1,01	1,07	1,02
Tributes from Indian States	83,97	74,41	72,43	63,45	54,89	73,57	74,85	73,97	72,34
Total	76,15,50	79,08,72	80,04,43	74,20,82	76,76,98	82,74,64	76,54,33	80,85,48	82,16,92
Railway Revenue	38,76,58	37,40,76	37,16,43	39,13,71	33,61,56	33,37,17	33,03,87	32,36,84	31,97,90
Total Revenue	1,27,22,78	1,28,97,02	1,32,68,55	1,24,59,56	1,21,64,66	1,25,43,70	1,19,37,30	1,22,12,40	1,21,07,26

Source: Statistical Abstract for British India from 1919-20 to 1928-29, BPP, Cmd 3882 of 1931, Table 61, pp.131-135.
Statistical Abstract for British India from 1929-30 to 1938-39, BPP, Cmd 6333 of 1942, Table 112, pp.284-287.

imports rose from 20 per cent to 40 per cent; on silk yarn from 10 to 15 per cent and on sugar from Rs 6-12-0 per cwt to Rs 7-4-0. Increased duties were imposed on boots and shoes, camphor and electric bulbs. At the same time, the earlier government policy of free entry for goods required by industry was altered to include duties of 10 per cent on machinery and chemical dyes and of 5 annas per lb on raw cotton. These measures ensured the rise in importance of customs duties.[43] By 1932-33 customs duties accounted for over 40 per cent of total revenues, compared to 29 per cent in 1921-22.

The increase in customs duties, however, was offset by a decline in railway receipts of Rs 7 crores between 1930-31 and 1935-36. The inelasticity of sources of revenue open to the Government of India is illustrated by the relatively moderate increase in revenue from income tax of only Rs 2 crores between 1927-28 and 1935-36, brought about by reducing the threshold for payment from Rs 2,000 per annum to Rs 1,000.[44] In an agrarian economy with such a low national income as India, the scope for the levy of income tax was limited. Even in those sections of the Indian community who might have been called upon to face increased taxes, the Government of India proceeded only cautiously in the early 1930s, not wishing to provide any further grievance which might push the propertied classes into the arms of Congress.[45] Meanwhile, for middle income groups, increased taxes simply reduced their purchasing power. This affected government officials,particularly on top of their salary reductions. In Bihar, Captain Hall, Superintendent Engineer at Ranchi, believed: 'we did not believe even in our most depressed moments that the Government of India would not be able to pay their permanent servants their contracted salaries, and their announcement of a 10 per cent cut concurrently with increased income tax was a severe and unexpected blow. We were still expected to maintain our normal standard of living and with no say in the matter of accommodation, we had no means of economising and no alternative but to run further into debt.'[46]

The most interesting aspect illustrated in Table 3.4 is that the major change in the structure of Government of India revenue came in the pre-depression period. In 1921-22 customs and excise, railway receipts and income tax provided 59.8 per cent of total revenue, a proportion which had risen to 80.4 per cent in 1928-29. The changes in revenue levels during the depression are set against a period of long-term structural change in which the revenue base of the Government of India was becoming increasingly restricted. During the slump, there were few new opportunities for the raising of revenue so that by 1935-36 customs and excise, railway receipts and income tax provided 85.5 per cent of total revenue. Thus, the crisis of the depression intensified the difficulties of the Government of India of finding new sources of revenue in a predominantly agrarian economy.

Thus, the depression occurred against a background of long-term financial weakness in the revenues of the Government of India. The battle to balance the Indian budget placed enormous strains on relations between Delhi and Whitehall. Unlike its Labour predecessor, the National Government of 1931 never felt constrained by the fiscal autonomy convention. The new Secretary of State for India, Sir Samuel Hoare, believed that the nature of the crisis invested final control of the Indian budget in Whitehall. As such, he felt justified in criticising almost every budgetary proposal between 1931 and 1934, when Schuster was replaced by Sir James Grigg whose orthodox view found favour in London.[47]

Table 3.4

Proportional Breakdown of Government of India Revenue

	1921-22	1925-26	1928-29	1929-30	1930-31
Customs	29.86	35.87	38.21	38.64	37.56
Excise	0.46	0.31	0.23	0.41	0.37
Customs/Excise	30.33	36.18	38.44	39.05	31.91
Railways	13.19	25.83	29.06	28.00	31.41
Income Tax	16.26	11.90	12.95	12.59	12.84
Land Revenue	0.28	0.28	0.29	0.28	0.27

	1931-32	1932-33	1933-34	1934-35	1935-36
Customs	38.17	41.41	39.50	43.13	44.69
Excise	0.42	0.33	0.33	0.33	0.32
Customs/Excise	38.59	41.74	39.83	43.46	45.01
Railways	27.63	26.60	27.67	26.50	26.41
Income Tax	14.37	14.32	14.34	14.36	14.10
Land Revenue	0.27	0.14	0.14	0.17	0.21

Source: Calculated from
Statistical Abstract 1919-20 to 1928-29, BPP, Cmd 3882 of 1931, Table 61, pp.131-135.
Statistical Abstract 1929-30 to 1938-39, BPP, Cmd 6333 of 1942, Table 112, pp.284-287.

One of Schuster's principal financial headaches, apart from the ever-constant strain of meeting the home charges, was the cost of 'nation-building' projects begun in the early 1920s such as the Sind Barrage irrigation scheme, new railway construction and the new capital at Dehli. He summarised the position clearly in 1930:

> '...a great many irrigation and other projects were started and carried out at a capital expenditure based on high post war prices and on the strength of calculations as regards profits and taxable capacity also based on high post war prices. The economic foundation of many of those projects may be knocked away.'[48]

In this he was proved correct; with irrigation and railway receipts declining in the 1930s, many projects were classed as 'unproductive'.[49]

Administration costs continued to rise despite the slump, partly the consequence of the series of enquiries instigated by the Labour Administration in London. Therefore, the Government of India had to finance the Royal Commission on Labour, the Central Banking Inquiry Commission and the endless committees considering India's constitutional future. In addition, there was the cost of the Tariff Board inquiries and new commitments such as the Indian Central Cotton Committee and the Indian Council for Agricultural Research. Measures to aid the Indian economy needed finance, which could not be met under the rigid tenets of orthodox budgeting. Financial pressures were exacerbated by the need to combat the civil disobedience movements, although the greatest costs here were borne by Provincial Governments.

The principal items of central expenditure are contained in

Table 3.5 (below). In the first two years of the slump total expenditure rose by some Rs 3 crores, mostly accounted for by the

Table 3.5

Principal Items of Expenditure (Rs crores)

	Defence	Police	Law & Justice	General Admin.	Educ.	Public Health	Civil Works	Agric.	Debt Charges
1926	56.0	12.4	8.3	12.8	12.1	7.1	13.8	2.4	19.7
1927	54.8	12.2	8.5	12.9	12.7	6.3	14.1	2.6	18.5
1928	55.1	12.7	8.6	13.1	13.2	6.7	13.4	2.8	18.5
1929	55.1	13.1	8.8	13.9	13.6	7.2	13.0	3.1	19.4
1930	54.3	13.6	9.0	14.1	13.8	6.7	12.9	3.1	20.2
1931	51.8	13.4	8.1	13.7	12.8	6.3	8.7	2.7	23.0
1932	46.7	12.9	7.6	12.6	11.8	5.4	7.6	2.4	22.3
1933	44.2	12.9	7.8	12.0	12.0	5.5	7.7	2.5	16.1
1934	44.3	12.7	7.7	12.1	12.1	5.6	10.0	2.6	16.4
1935	45.0	12.9	7.9	12.5	12.3	5.7	10.4	2.8	17.1
1936	45.5	13.0	8.0	13.1	12.6	6.2	8.8	3.1	15.5

Source: P.J. Thomas, The Growth of Federal Finance, (Madras, 1939), Table 6, p.502.

increase in general administration, police and justice and rising debt charges. Thereafter, at Whitehall's insistence, the Government of India pruned its expenditure drastically; some Rs 27 crores were cut between 1931 and 1933 as a result of recommendations of Retrenchment Committees. The major costs came in defence expenditure, primarily through salary cuts, and the reduction in interest rates helped to reduce the burden of debt charges. A further reduction of Rs 5 crores came in cuts in civil works expenditure, with increases in 1934 and 1935 the response to the natural disasters of the earthquakes in Bihar. Other retrenchment measures included I.C.S. salary cuts, from the Viceroy downwards, the shelving of development projects, reduction of railway expenditure to basic maintenance of existing stock, staff cuts and a reduction in government contracts. Since the government was the largest single employer of labour and many firms, including the Tata Iron and Steel Company, had depended upon Government orders, these cuts had serious depressing effects on the domestic economy.

Thus the Government of India pursued orthodox responses to the financial crisis. Even when the crisis eased with the massive gold exports after devaluation, there was little change in policy. The merchandise balance surplus created by the gold flows was used to reduce the public debt through loan conversions to lower rates of interest. By 1936, the Government of India had only one loan above 4.5 per cent compared to 4 in 1930 and servicing of the debt had been reduced by Rs 7.5 crores in the same period.[50] The continued gold flows from 1931 were criticised regularly by Indian nationalists who argued that the gold should be purchased by the Government of India to provide reserves enabling the creation of a central bank. The Government only briefly considered banning gold exports in October 1931 when it was feared that exports were deflecting investment from Treasury Bills, another sign that no-one realised the extent to which the gold exports would ease the remittance situation. However, despite impassioned pleas by such prominent elder statesmen of Congress as M.M. Malaviya, bullion dealers continued to export gold refusing to miss the opportunity of quick profits. Such were the double standards that while FICCI did not fail to pass a resolution condemning the Indian authorities for allowing gold exports, the Committee would not permit a resolution to be tabled at its general meeting condemning Indian bullion traders who participated in the trade.[52] In short, the gold exports became yet one more weapon in the propaganda war between nationalists and government, but while the trade was legal, who could refuse the profit even for the good of Swaraj. It is interesting to speculate how many of such bullion dealers still contributed funds to Congress during the second Civil Disobedience Campaign.

The Government of India, then, did not spend its way out of the crisis, unlike, for example, the Governments of Brazil or Japan. There was no investment in large scale public works or even widespread small local schemes for agricultural improvement such as tube-well construction, as suggested by Thomas.[53] Interest rates were cut from November 1931 until they reached 3.5 per cent in 1933, despite protests from Whitehall which feared Schuster was courting inflation.[54] This certainly helped to encourage investment in India but even here there was criticism of government action, that cheap money was encouraging speculation.[55] The Government of India pursued such orthodox financial policies partly as a result of pressure from Whitehall, but also because it had no alternative policy. Certainly it is difficult to imagine Whitehall allowing a colonial underling to pursue deficit financing, but even Sir George Schuster failed to provide a coherent alternative to orthodoxy. From his experiences in northern Africa he knew only too well of the dangers of restriction schemes and he was too good a financier to want to fritter away government resources on unsound schemes. Above all, he was vitally aware of India's background of underdevelopment. Hence his desire to initiate an economic survey which would recommend a coherent development strategy at an All-India level. Faced with the indifference of his ministerial colleagues and outright suspicion by provincial officials, Schuster's plans came to naught.[56] He was forced to respond in an ad hoc way to the most pressing problems as they emerged. However, by voicing unorthodox proposals, no matter how tentatively, he aroused a violent distrust in Whitehall. Drummond has suggested that Schuster's views helped to crystalise Treasury belief that not even British officials could be entrusted to control Indian finance and, thus, strengthened the demand for financial safeguards in the new constitution: 'Sir George had embraced all the heresies - unbalanced budgets, floating exchange rates, deliberate depreciation, management of the price level and the money supply. He had been willing to gamble Indian credit and to risk a sterling default by unbalancing the budget and floating the rupee.'[57]

London officials were determined that Schuster's replacement should be someone they could trust. Hoare originally suggested Sir Cecil Kisch, Financial Advisor to the India Office, one of Schuster's sternest critics.[58] Willingdon declared such an appointment would be a 'colossal mistake' and insisted on retaining Schuster at least long enough to guide the Reserve Bank Bill through the Assembly. Willingdon told Hoare, 'whatever may be the opinion of him at home, [Schuster] has the confidence of the Indian people to a very marked degree'.[59] This was probably the most damming recommendation that could have been made to Whitehall about the abilities of an Indian Finance Member. In his last budget, armed now with a small surplus, Schuster made a small beginning in renewing development expenditure. Half of the revenue from jute export duties was awarded to the jute producing provinces and small sums were granted for a rural development fund and the development of broadcasting and civil aviation.[60]

While London failed to gain the appointment of Kisch as successor to Schuster, no fault could be found with the orthodoxy of Sir James Grigg. Under Grigg the Indian authorities continued to prune the budget and while he did continue to fund development projects, the sums involved were meagre: Rs 1,00 lakh for agricultural development in 1935-36 and Rs 2,81 lakhs in the following year. Members of the government found it difficult to persuade Grigg to finance development projects: Fazl-i-Hussain declared him to be 'terribly stingy and miserly... he absolutely refuses to increase any capital expenditure'.[61] Instead, Grigg's main policy objective was to replenish the Indian reserves in London and to reduce the public debt. With Grigg in control of Indian finances, tension, in this area at least, was relieved between India and Whitehall at a critical stage in the progress of the constitutional reforms. Suddenly the acrimonious debates over financial safeguards were at an end: remittance policy and British investments in India were in safe hands.[62]

Provincial Finance During The Crisis

The financial problems facing the Provincial Governments during the depression have attracted relatively little attention in the literature. Apart from two major contemporary works by Thomas, in recent years there have been studies of the United Provinces by Mishra and two general surveys by Kumar and Charlesworth.[63] Yet it was the Provincial Governments which were entrusted with the responsibility for the development of the economy. Probably studies into provincial finance have been curtailed by difficulties in obtaining access to official papers.[64] So once again research is thrown back on an over-reliance of official publications of individual local governments. It is vital, though, to survey their financial difficulties. For the bulk of the population of India, it would be remission or suspension of land revenue and water rates by the local authorities which would provide the most immediate relief.

When the depression struck, the provincial governments of India were still in their infancy - having been created only in 1920. Under the principle of dyarchy, the responsibilities for local agricultural, industrial and infrastructural development were 'transferred' to the provincial authorities. The reasons for the adoption of dyarchy have been much debated, but the general conclusion seems to be that it was a format designed to control the level of power devolved to Indians.[65] In this, Charlesworth has highlighted the control of central authorities over the ability of provincial government to contract loans.[66] The finances of the new provincial governments were based on the awards of the Meston Committee, which basically allocated to them the proceeds of land and water revenue, forest revenue, local excise and stamp duties. Thus, the burden of providing revenue for local government fell upon the rural population rather than the urban dwellers, as reflected in Table 3.6 over.

The Meston awards, therefore, left the Provincial Governments dependent upon agricultural incomes. The effect of the Permanent Settlement is clear on the revenues of Bengal and Bihar and Orissa. The former depended heavily on stamp duty and the latter on liquor licenses to replace their inelastic land revenue receipts. The Government of the Punjab gained over a third of its revenue from water duties, reflecting the provinces premier role in irrigation development. The Government of the United Provinces was most dependent solely upon land revenue, over 50 per cent in this case. It would seem, then, that the revenue needs of the Provincial Governments were based on sources most likely to be reduced in a depression.

Table 3.6

Relative Importance of Principal Heads of Revenue to Total Revenue

	Total Revenue Av.1925-35 (Rs 000)	Percentage Land Revenue to Total Revenue	Irrigation	Excise	Stamps	Registration	Forest
Madras	16,81,57.8	34.9	10.2	29.3	13.7	2.1	3.1
Bombay	14,77,01.7	31.6	3.38	25.1	11.0	0.9	4.4
Bengal	10,32,74.9	28.3	-	17.2	30.9	2.7	2.3
United Provinces	12,00,76.8	52.8	8.85	10.6	14.4	1.1	4.6
Central Provinces	4,89,32.9	46.1	0.15	20.1	12.6	1.2	17.5
Assam	2,50,75.3	45.8	-	22.6	8.1	0.8	9.9
Punjab	10,98,85.0	25.2	35.89	10.0	10.3	0.8	2.6
Bihar & Orissa	5,49,34.6	31.9	3.93	21.3	19.8	3.0	1.5

Source: B.K. Misra, Indian Provincial Finance, 1919-39, (Mysore, 1942), Table VII, p.104.

Table 3.7 (below) shows the budgetary position of the Provincial Governments in the first half of the 1930s.

It is clear that for most of the depression, the Provincial Governments were trying to function with budgetary deficits, a position which would not be regarded with much favour by London. It is very interesting to note the position of the Central Provinces. Within India, the Governor of the Central Provinces, Butler, was one of Schuster's fiercest critics, arguing that he was not retrenching

Table 3.7

Provincial Government Budgets, 1930-31 to 1935-36 (Rs lakhs)

	1930-31	1931-32	1932-33	1933-34	1934-35	1935-36 Budget
Madras	-1,06	+5	+77	+6	-19	+5
Bombay	-1,81	-47	+26	+17	-17	-2
Bengal	-1,75	-1,99	-1,30	-1,76	-27	-68
United Provinces	-91	-62	+15	-3	-9	-30
Punjab	-43	-42	+18	+63	+43	+9
Bihar and Orissa	-79	-23	+5	+8	+6	-17
Central Provinces	-44	-38	-	-39	-11	-
Assam	-35	-8	-17	-25	-42	-56
Northwest Frontier Prov.	-	-	+2	+5	-6	-12
Aggregate Surpluses	-	+5	+1,43	+91	+49	+14
Aggregate Deficits	-7,54	-4,19	-1,47	-2,61	-1,31	-1,85

Source: Memorandum by G.H. Baxter, 'The Financial Outlook in India', 6 January, 1936, in IOL, L/F/5/90.

expenditure enough. Butler declared that the Central Provinces were in the forefront for tackling the depression along orthodox lines, retrenching expenditure, even continuing land revenue assessments to raise land revenue levels. Yet, even this government had difficulty balancing its budget.[67] The Government of Bengal faced the most severe budgetary problems, as was to be expected of the province most badly hit by the fall in prices and its policing problems during the very violent civil disobedience campaigns of the early 1930s.

Given the reliance upon land revenue, it is helpful to consider the level of collections during the slump. Few remittances were granted in the Province of Bihar and Orissa which reported to the Neimeyer Committee that 'recovery (of revenue) has been practically complete'.[68] However, between 1930 and 1935 the Governments of the Central Provinces and the Punjab granted remissions of Rs 44.34 lakhs and Rs 62.2 lakhs respectively, while on a much larger scale, remissions in Madras and the United Provinces amounted to Rs 205.2 lakhs and Rs 490.57 lakhs respectively.[69] These figures are reflected in Table 3.8 (over).

Madras, Bombay and the Punjab appear to have been most affected by falls in land revenue, amounting to one-third in the worst years. Bengal and Bihar and Orissa suffered least from a decline in land revenue, which is not surprising since in these permanently settled areas the burden of land revenue had been becoming progressively lighter, although the real burden would have increased during the depression. This was the position in other provinces where land settlement revisions had been conducted during the 1920s at a time of high agricultural prices and so slightly inflating the assessments.

This helped to explain the heavy falls in land revenue collections in these provinces. The table does not give a true reflection of the problems of the Punjab since it does not include remissions of water duties. One interesting feature from the table is that the poorest year for collections in the United Provinces came in 1933-34, not at

Table 3.8

Land Revenue Collections (Rs Lakhs)

	1921-22	Maximum Amount	Year	Slump Minimum Amount	Year	Budget 1935-36
Madras	608	640	1925-26	489	1931-32	483
Bombay & Sind	547	559	1922-23	378	1934-35	382
Bengal	302	335	1934-35	300	1932-33	326
United Provinces	681	692	1923-24	558	1933-34	581
Punjab	246	364	1923-24	223	1931-32	272
Bihar & Orissa	164	181	1932-33	176	1931-32	178
Central Provinces	265	265	1921-22	205	1929-30	259
N.W.F.P.	16	24	1926-27	18	1930-31	20
Assam	96	121	1931-32	111	1933-34	114

Source: Provincial Memoranda for Neimeyer Committee, Table 1, p.1, in NAI, Government of India, FD, F 17(60)F, 1935.

the peak of the non-payment campaigns of Congress in 1931-32. By 1935 few provinces were forecasting collections at pre-depression rates and the Neimeyer Committee predicted that full recovery of provincial finances would not be possible until 1942-43 because of the cancellation of settlement operations.[70]

Problems in collection of land revenue were only one part of the growing financial difficulties of the provincial governments. Other sources of revenue were affected as well, especially liquor excise, stamp duties and registration fees. However, as with the central authorities there was little attempt to find new sources of taxable revenue. Indeed, this was even more of a restriction on provincial governments since at least the Government of India could increase customs and excise duties. There were few attempts made to transfer the burden of taxation from the agricultural classes to the large landholders or business communities within the provinces.[71] Instead the emphasis was on retrenchment.

Again, as with the central authorities, the budgetary position of the provinces was shaky, already before 1929, even after the ending of provisional contributions to the Government of India in 1927. Most of the provincial governments had heavy capital expenditure in the 1920s from the cost of new government buildings to the grand schemes of the Bombay Government such as the Back Bay Scheme in Bombay and the Sind Barrage. In addition the provincial governments had become responsible for meeting much of the cost of irrigation schemes established within their boundaries. The Governments of Madras and the Punjab had invested in hydro-electric schemes to compensate for the deficiency of their coal reserves, investing Rs 3.6 crores and Rs 7.0 crores respectively.[72]

London urged the Provincial Governments to pursue rigorous retrenchment policies including the suspension of public works.[73] The Bombay Government appointed a Finance Committee under Sir F. Gauntlett to recommend means of rationalising the general administration of the province. Two new taxes were embraced which proved very unpopular: a tax on electric current for domestic purposes and a tax on tobacco entering the city of Bombay. Mostly, however, the province relied upon retrenchment and salary cuts.[74]

In the United Provinces the government was faced with the cost of policing the civil disobedience campaigns, much of which was financed from the Loan Fund which should have been spent on development projects.[75] The incidence of land revenue per acre was highest in the United Provinces which seems to have been the basis for the concentration of Congress efforts in this province. The government was forced into temporary remissions in 1930, but to meet the Congress disturbances, the whole land revenue system in the province was re-assessed on the basis of pre-war prices which was the extent to which prices had fallen during the slump.[76] However, to some extent these operations were mitigated by the maintenance of the existing water rates in the canal colonies to the extent that the provincial Irrigation Department continued to produce a surplus throughout the depression. To gain additional revenue the government raised registration and court fees, stamp duties and an annual motor vehicle license. However, the main thrust of provincial financial policy was retrenchment; the budget of development departments falling from Rs2,99 lakhs in 1929-30 to Rs 2,12 lakhs in 1932-33, the largest cuts coming from the Public Health Department.[78] Even the Police Department expenditure was cut from 1932 once the disobedience campaign had reached its peak. One retrenchment measure which may have proved beneficial was the grant of taquavi loans in kind instead of in cash so certain areas benefited from an injection of new improved seeds, bullocks and agricultural implements. Between 1930-31 and 1933-34 the overall reduction in expenditure was Rs 1.6 crores.[79] From 1934-35 the position began to improve once more and the government established a small loan fund for improved marketing facilities and the development of tube-well irrigation.[80] There was, however, no recovery in the amount set aside for industrial loans, due to the failure during the depression of every venture for which the Government of the United Provinces had provided financial backing.[81] The developments in the revenue structure of the United Provinces was summed up by one of its officials:

> 'The attempts made at new taxation were spasmodic and sometimes abortive, though it must be admitted that the poor economic conditions of the people hardly warranted further burdens. The efforts at retrenchment were more forceful and more successful, but even so, the net result has been that there was little or no margin for expansion in the beneficient departments or in the various social services.'[82]

In the Punjab, the government had also appointed a Retrenchment Committee which had recommended the merging of the Department of Public Health and Medical Department and the downgrading of the Public Works Department to an inspectorate. These proposals were rejected by the Punjab Government which sought its retrenchment in a blanket cut of 13 per cent in the expenditure of each department.[83] It also resorted to increased borrowing from the Provincial Loans Fund to the extent of Rs 1 crore by the end of 1933.[84] These loans offset the reduction in land revenue and water rates income. The

Government of the Punjab believed that 'the effects of the disaster were confined within comparatively narrow limits due, not only to the exercise of every practical form of economy and the ruthless excision of all superfluities, but also to the curtailment of expenditure on essential services such as the maintenance and repair of canals, buildings and communications, on which the ultimate prosperity of the province largely depends, to the barest minimum compatible with safety'.[85]

Appendices 1-4 contain the principal heads of revenue and expenditure of the Governments of Bihar and Orissa, Bengal, the Central Provinces and Madras. These have been chosen to represent two provinces of restricted means (Bihar and Central Provinces) and two large provinces (Madras and Bengal) with different financial problems, to study the extent to which the local authorities approved differing solutions, including the level of provincial borrowing, taxation measures and the pursuit of retrenchment.

The province of Bihar and Orissa suffered from having the lowest per capita local government revenue in India. It had an annual revenue of only Rs 5 to 6 crores because of the relatively inelastic land revenue assessment under the Permanent Settlement. In comparision, for instance, with Bombay Presidency, the population of Bihar was 75 per cent greater yet government revenue was over 50 per cent less. Prior to the depression the Government of Bihar had depended upon excise revenue to offset the limited land revenue resources. The Government prided itself on its ability to survive on its meagre budget:

'it can fairly be claimed that Bihar and Orissa has made the most of its resources...the province has managed its finances on the utmost conservative lines and has refrained from incurring debt. It has preferred to forego much of the development possible in richer provinces rather than place itself in an unsound financial position.'[86]

Against this background of financial stringency the depression affected Bihar and Orissa severely. Provincial revenues fell by Rs 90 lakhs between 1929-30 and 1933-34. The Provincial Government's difficulties were exacerbated by the cost of subduing the Civil Disobedience campaigns and its offshoot the Kisan Sabha or peasant movement. Thus expenditure on police and jails had to remain at a high level. While land revenue collection in Bihar was maintained, excise revenue declined sharply. In line with its traditional policy, the Bihari authorities slashed expenditure, by Rs 1.29 crores between 1929-30 and 1932-33. The Public Works Department bore the brunt of the cuts, losing half its budget. This halted many civil works including the half completed trunk road to Orissa, and repair and maintenance of roads, railways and irrigation canals was reduced. Part-time government employees were made redundant and salaries cut for those that remained. The post of Chief Inspector of Factories was abolished. In his budget speech of 1933, the Finance Member mused on the retrenchment measures:

'The sacrifices which we have made to attain a balanced budget are great indeed - we have not made as much fuss as some other Governments over retrenchment: we are a poor province and chronic poverty has left very little margin to sacrifice in a time of crisis. A reduction of Rs 1 crore - one sixth of the expenditure - is no mean result.'[88]

The result of such drastic pruning was to increase the problems of underdevelopment in Bihar. Canals became clogged with silt, roads washed away in floods. A curtailment of the vaccination programme resulted in an increase in infant mortality.[89] Despite the fall in revenue, however, the local authorities clung to their decision not to borrow until the natural disaster of the 1934 earthquake forced them to turn to the Central Government for aid. There were no bold policy experiments in Bihar and it remained the most backward region in India led by a singularly conservative government. Even the Congress ministry from 1937 lacked the dynamism of its counterparts elsewhere in India, reflecting the strong links between Congress and Zamindari class in Bihar. Thus Bihar was the only province which had failed to appoint a Marketing Officer by 1939. Instead, the Director of Agriculture found marketing added to his already burdensome list of duties.[90]

The Government of the Central Provinces and Berar also had a reputation for financial orthodoxy. Its Governor, Butler, was one of Sir George Schuster's fiercest critics. Butler, though, argued that increased taxation was politically unacceptable as a response to financial stringency in a colonial setting since it would arouse nationalist opposition.[91] However, Butler's definition of taxation was limited to income tax and excise. For the bulk of the population of Central Provinces taxation was represented by land revenue and its payment was enforced rigidly during the depression in comparision to other provinces. Possibly this reflects the relative weakness in rural areas of the local Congress Party. In Central Provinces Congress was basically an urban movement and the local authorities did not face a prolonged anti-revenue movement during the Civil

Disobedience campaign. Government revenue in the Central Provinces was usually around Rs 6 crores for a population less than half that of Bihar. Revenue fell by Rs 1 crore during the slump. Butler refused to allow increased income tax or excise duty. Instead he attempted 'to prune mercilessly', through staff cuts, heavy reductions in departmental budgets - particularly Public Works, education and health - and a cut in the number and size of official economic reports.[92] However, Butler did not get all his own way: Council Members frequently restored reduction in expenditure and resorted to borrowing from the Provincial Loan Fund to cover its deficits.[93] This reached a peak of Rs 1 crore in 1930-31. Such borrowing was not used to reflate the local economy through public works schemes or price support schemes, but was used to cover the shortfall in excise and stamp revenue. Thus, despite Butler's criticism of central government financial policy, the policy of his own government was equally suspect. Again, as in Bihar, the financial stringency helped to prolong the effects of the depression in the province.

The Government finances in Madras are in marked contrast to those of Bihar. In a predominantly ryotwari province, annual revenue prior to the slump amounted to some Rs 20 crores. With larger financial resources the Government of Madras had been able to launch several development initiatives including the combined irrigation and hydro-electric power scheme at Mettur. During the slump, annual revenue declined by Rs 4 crores between 1929-30 and 1933-34. However, it is difficult to disentangle the impact of the depression affecting revenues from the political events in Madras.

During the depression the Government of Madras faced an increasingly strong Congress Party led by Rajagopalachari at a time when splits in the loyalist Justice Party were widening.[94] While the Civil Disobedience campaigns affected land revenue collections in some areas, the most immediate impact was an excise duty reduction with Rajaji's Gandhian inspired attack on liquor stores, rather than on cloth shops. Excise revenue above declined by over Rs 1.5 crores. Land revenue declined again during the Second Civil Disobedience campaign for 1932 but this time it was due partly to a deliberate policy of remission and suspension by the Government of Madras to provide support for the faltering Justice Party.[95] In other words, the political difficulties of the period had just as much impact on government revenue in Madras as the economic consequence of the slump. The Madras authorities also responded with 'drastic economies' including staff redundancies and pay cuts, co-operative societies being charged registration fees for the first time, and cuts in departmental budgets[96] In Madras, though, there was not such a drastic reduction in the Public Works Department budget since the local Government borrowed from the Provincial Loans Fund to meet the capital expenditure on the new projects such as Mettur. These loans averaged Rs 1 crore per annum between 1928 and 1933 and ended when the Mettur project came into operation. Thus, the Madras Government preferred to run budgetary deficits to maintain what it regarded as important development projects in marked contrast to the attitude of the Government of Bihar and Orissa.

In Bengal, too, it is difficult to differentiate between the impact of the depression and the political crisis of the period. In

Bengal, which had the largest population in India at some 50 million in 1931, the government's annual budget amounted to only Rs 12 crores, so that the Bengal authorities relied heavily upon loans from the central government. The major source of revenue for the Government of Bengal was stamp duty, which was reduced by Rs 1 crore during the slump. Since Bengal was predominantly a permanently settled area, the heavy fall in prices in the province did not affect land revenue collection. However, during the depression the local government was faced with an almost continuous rise in expenditure on police and prisons to control the political situation. In Bengal the split in the local Congress Party led to a wave of terrorism so that any retrenchment in other departments was offset by the increased expenditure on police. From 1930-31 the province depended upon large loans from the Central Government to keep its deficits within reason. In 1931-32 alone over Rs 2 crores was borrowed, while repayments of such loans amounted to only an average of Rs 6 lakhs between 1929-30 and 1933-34. The problems of the depression were alleviated only by the award of half of the proceeds of the jute export duty in 1934, a measure which the Governor, Sir John Anderson, had demanded strenuously from the beginning of his term in office in 1931.[97]

Conclusion

As we have seen from these brief case studies, the depression highlighted the defects of the system of dyarchy. The provincial governments had been allocated the responsibilities of the economic development of their areas without the necessary finance to pursue such development. During the depression the squeeze on agricultural incomes hit the provincial revenues. The major source of relief, remissions and suspensions of land revenue, reduced further the abilities of provincial governments to provide any long term relief in the form of public works. Nor did they borrow to finance such works outwith Madras. Technically the provincial governments could arrange loans on the open market, but most lacked the creditworthy status required, so borrowed through the central authorities.[98] During the slump the central revenues were also in great difficulty restricting its ability to grant loans to provincial governments. Whitehall also made it clear that provincial governments should cut their expenditure by abandoning public works projects already begun.[99] However, the Government of India did accept the responsibility of allowing local governments to borrow enough to keep their budgetary deficits within reason, otherwise the deflationary effects of the depression and the political problems of the period would have been far worse.

During the depression, public finance at both central and provincial levels came under severe strain. Revenue sources were squeezed and borrowing capacity limited. The central government had no clear plan for pulling India out of the depression. The Finance Member, Sir George Schuster, had become dissatisfied with the tenets of orthodox finance, but had no coherent alternative. He corresponded with Keynes and this, added to his experience of the depression, convinced him of the need for government planning of the economy and the use of deficit budgeting to alleviate the crisis.[100] However, to pursue either course, Schuster would have required the support both of his colleagues and Whitehall. While his executive colleagues were willing to support his stand on the exchange rate of the rupee, few believed in Government intervention in other areas of the economy.[101] At a provincial level even fewer were willing to gamble with their weak finances or to allow any invasion of central authority control over their responsibilities. Thus, in 1934, Schuster tentatively proposed at an inter-provincial conference that the central government should grant interest-free loans to the provincial authorities to enable them to establish broad based co-operative projects in marketing, local sanitation, road building, and so on. However, not only was this rejected by his executive colleagues, it was also rejected by the provincial governments themselves.[102] Schuster could not even get provincial co-operation for an economic survey of India upon which future plans could be based.

Schuster was even less likely to get support from Whitehall and in the end his persistent arguing helped to strain relations between London and Delhi throughout the years of the depression. Ultimately, this insured that his successor would be a rigorous orthodox financier who would have none of Schuster's 'irresponsible' flights of fancy. Grigg was scathing about most of Schuster's policies such as protection and argued that the theories of government planning were 'over-rated'.[103] Thus, no one in government was prepared to challenge orthodox economic policies for India for the rest of the decade.

Schuster's main consolation for his years in office was the creation of the Reserve Bank of India in 1934. Willingdon had insisted on Schuster remaining in office until the Bill was ratified as being the only government official in India who could get the Bill through the Assembly. The Executive Council feared that the Bill would be voted out and the bank would have to be established through certification by the Viceroy.[104] This was because the government was proposing a shareholders bank, half of whose directors and chairman would be appointed by the government, and that the 1s 6d rupee-sterling exchange would become a statutory obligation once more. Nor was criticism confined to India. Officials of both the India Office and the Treasury criticised Schuster for pressing for a Reserve Bank before a full economic recovery and before constitutional reforms which would ensure the safeguarding of British financial interests in India.[105] It was argued that before a Reserve Bank could be established, Indian reserves would have to be above £100 million, higher than its pre-depression reserves, there must be internal tranquility and prosperity and that the Government of India must ensure the bank would be free from political control 'and run by men irrespective of their nationality (that is, for a long time to come, men other than Indians)'.[106] In Whitehall minds all Indians were to be suspect as 'political' or easily swayed by the Legislative Assembly.[107] When it came into being the Reserve Bank was given control of currency and credit policy, managing the internal and external debt and supplying remittances to the Secretary of State. Ultimate control, however, remained with the Secretary of State through the Viceroy. Clearly, Whitehall only accepted the Reserve Bank to prevent any future native Finance Member influencing future monetary policy.

In general, then, the years of the depression represented an opportunity lost to the Government of India, largely in Schuster's period as Finance Member, through the rigid control of Whitehall. There were no new initiatives on financial or currency policy; no deficit budgeting or expansion of borrowing to reflate the economy. The Government of India did not react to the crisis in the way in which other independent governments could, such as Brazil or Japan (although it must be remembered that before Takahashi came into office there had been a period of severe deflation which, some have argued, laid the foundation for Japan's rapid recovery from 1932).[108] However, the comparison is still valid, since the Government of India did not change its policies once finances showed signs of improvement. Nor did the Government of India react as other Dominions' governments did. Australia, for instance, abandoned the gold standard in 1930 allowing its pound to devalue and helping to boost its exports.[109] However, this is a reflection on the colonial relationship between India and Whitehall. London never allowed the Indian Government to pursue bold new initiatives.

The policies of the Government of India helped to prolong the effects of the depression in India through their impact on domestic credit. While both the number of banks and their branches and the level of savings within India grew from 1931-32, as shown in Table 3.9 (over) the growth was at best steady. This would have benefited larger industrial ventures which had come to rely increasingly upon the westernized bank sector for investment capital. However, most of the credit structures of India lay outwith the westernized sector. Even in the 1930s most investment for medium to small scale industrial ventures was met by indigenous bankers, as was the bulk of the cost of transporting and marketing agricultural produce.[110] In the early 1930s the Government of India was competing in the market for loans thus reducing the amount available to the westernized banks through the Imperial Bank and through them to the indigenous bankers. At the other end of the credit network, by insisting on as full payment of land revenue as possible and by raising local taxes, provincial governments were helping to reduce agricultural incomes further. This meant that cultivators could not

Table 3.9

Growth of Savings in India, 1928-1938 (Deposits Rs Lakhs)

	Imperial Bank of India (a)	Indian Joint Stock Banks	Indian Co-op. Banks	Post Office Savings Banks
1928	71,30,44	62,85,36	9,01,49	27,21,69
1929	71,64,31	62,72,03	10,90,16	27,27,88
1930	76,60,06	63,25,51	12,57,38	25,40,86
1931	63,85,64	62,26,44	15,01,60	28,47,19
1932	68,36,35	72,34,00	18,09,77	32,11,95
1933	74,12,77	71,67,43	17,11,99	38,15,72
1934	74,27,95	76,77,26	17,93,94	40,01,06
1935	79,09,17	84,44,61	19,89,56	47,83,19
1936	78,79,50	98,14,26	20,56,71	44,97,53
1937	81,08,07	1.00,26,50	19,79,05	44,72,14
1938	81,50,95	98,08,27	22,92,48	46,01,79

(a) Private deposits only.

Source: Statistical Abstract, 1919-20 to 1928-29, BPP, Cmd 3682 of 1931, Table 130, pp.310-11 and Table 280, p.642. Statistical Abstract, 1929-30 to 1938-39, BPP, Cmd 6333 of 1941, Table 165, pp.453-44 and Table 237, p.670.

meet interest on their loans thus reducing the amount available to the local money lenders for new loans. One result of this was that large landowners and money lenders switched their investments from rural to urban areas.[111] While this may have helped the small Indian industrial sector, it contributed in the long term stagnation of the rural economy.

In 1931 Whitehall was able to force a currency and financial policy upon India aided by conservative demands within the Indian Government itself. It seems clear that this was a final attempt by the British Government to impose its will upon India. The British Government were concerned about the maintenance of remittance from India to London and the future of the financial status of Britons in India. Tomlinson and Drummond are correct to assert that the British authorities had not anticipated the size of the gold outflows from India. However, the gold exports did ease the British financial position as well and the British Government did nothing to stem the flow. In 1934 it stopped Schuster from putting an export duty on gold in case the exports should dry up.[112] In the long run, the financial policies imposed by Whitehall upon the Government of India proved detrimental. Moreover, the policies hardened the feeling of Indian nationalists against both London and Delhi. This further impeded recovery by ruling out any joint action by Government and Indian business. The extent to which recovery was impeded by the over-cautious financial and currency policies of the Government of India will be made more clear in the sectoral discussions of the Indian economy which follow.

Notes

1. G.C. Allen, A Short Economic History of Modern Japan, (London, 1981), p.136.

2. Letter, P.J. Thomas to Sir A. Parsons, 17 February 1934 in National Archives of India, New Delhi [hereafter NAI], Government of India, Finance Department, [hereafter GOI, FD], 15(3)F of 1934. Also his book The Growth of Federal Finance in India, (Madras, 1939).

3. D. Kumar, 'The Fiscal System', in D. Kumar (ed.), The Cambridge Economic History of India, Vol.II [hereafter CEHI, II], (1983), p.905.

4. D. Rothermund, 'The Great Depression and British Financial Policy in India, 1929-34', Indian Economic and Social History Review, [hereafter IESHR], 1, 18, 1979, pp.1-17.

5. I.M. Drummond, The Floating Pound and the Sterling Area, 1931-39, (London, 1981), pp.46-52. B.R. Tomlinson, 'Britain and the Indian Currency Crisis, 1930-2', Economic History Review, 2nd series, i, 32, 1979, pp.88-99.

6. In 1983 due to the continued delay in building the new National Archives in Delhi, it was decided to destroy all C grade papers, 70 per cent of B grade papers and 30 per cent of A grade proceedings relating to the economic departments of the pre-independence Government of India, in order that the bulk of the Home and Political Department Papers could be preserved. (Conversation with Mr. Malik, Head of Research Room, National Archives of India, New Delhi, February, 1984.)

7. Report of the Royal Commission on Indian Currency and Finance, British Parliamentary Papers [hereafter BPP], Cmd 2687 of 1926.

8. Report of the Controller of Currency for 1930-31 (Calcutta, 1931), p.13.

9. Letter from Kelly, Controller of Currency, to Finance Department, 11 July 1931 in NAI, GOI, FD, 1(8)F of 1931.

10. Exchange and Remittance Policy, July-December 1931, NAI, GOI, FD 1(8)F of 1931. Memorandum by Hoare, 'Situation in India, 1931-32', 3rd February 1934, PRO CAB 24/247, CP 28(34).

11. See, for instance, the resolutions passed at the annual meetings of the Indian Merchants' Chamber, Bombay and the Indian Chamber of Commerce, Calcutta, as well as by FICCI.

12. See correspondence in Nehru Memorial Library, Delhi [hereafter NML], Thakurdas Papers. File 145, and criticism of Osborne Smith in correspondence in India Office Records and Library, London, [hereafter IOL] L/PO/2/10.

13. See, for instance, assessment of Schuster as Finance member in H. Venkatasubbiah. Enterprise and Economic Change. 50 Years of FICCI (N. Delhi, 1977) and Schuster's foreword in G. Birla, The Path to Prosperity (Calcutta, 1955).

14. Sir G.E. Schuster, Private Work and Public Causes: A Personal Record, 1881-1978 (Cambridge, 1979) p.40.

15. Letter to Secretary of State, No. 29590, 1st September 1930 in NAI, GOI, FD, 1(2)F of 1930.

16. See Hoare to Willingdon, 14th September 1931, Telegram 8-V, in IOL Mss Eur. E. 240. 13 (a)

17. Schuster, Private Work, p.109: both Schuster and Hailey continued to believe in the need to devalue the rupee after the crisis. See, for instance, Hailey to Sir V. Lovett, June 20, 1932 in IOL, MSS Eur. D. 714/25.

18. Findlater Stewart to Lord Chancellor, 21st August 1931 in IOL L/F/5/189.

19. Telegram, 23rd January 1931 in IOL, L/F/5/189.

20. See correspondence on budget in IOL L/F/7/1133.

21. Letters of Controller of Currency to Finance Department, in NAI, GOI, FD 1(8)F of 1931.

22. Taylor, Controller of Currency, 17 November 1929 in NAI, GOI, FD, 5(2)F of 1929. Kelly, Controller of Currency, July 1931 in NAI, GOI, FD 1(8)F of 1931.

23. Report of Controller of Currency for 1931-32, (Calcutta, 1932), p.6, para.11.

24. Cabinet meeting notes contained in IOL L/F/5/189: 28. Drummond, The Sterling Area, p.10.

25. Hansard, [254], p.426, 26 June 1931.

26. Daily Mail, 5/9/31.

27. See correspondence to Brown, IOL Eur. Mss. E. 253.3.

28. Sir Henry Clay, Lord Norman, (London, 1957), p.359.

29. Meeting of Cabinet Finance Sub-Committee, September, 1931 in Public Records Office, London, [hereafter PRO], CAB 27/462.

30. Telegram from Secretary of State, 2726, 17 September 1931 in NAI, GOI, FD 1(8) 1931.

31. Schuster, Private Works, p.112. Letter Mieville, Private Secretary to Viceroy, to Brown, 30/9/31 in IOL Eur. Mss. E.253.3.

32. Telegram from Secretary of State, 2765, 21 September 1931 in NAI, GOI, FD 1(10)F of 1931.

33. See correspondence in PRO T160/474, File 1247/06/1.

34. Prime Minister and Baldwin to Viceroy, 13-V, 24 September 1931, in IOL, Mss. Eur. E.240.13(a).

35. B.R. Shenoy, 'The Rupee-Sterling Link and the Exports of Gold' in R. Mukerjee and H.L. Dey, Economic Problems of Modern India, (London, 1941), Vol. II, p.251.

36. D. Rothermund, 'British Financial Policy in India'. C. Bridge, 'Britain and the Indian Currency Crisis: A Comment', Economic History Review, 33, 3, 1980, pp.301-4.

37. Telegram from Secretary of State, 2061, 9 July 1931; telegram from Secretary of State, 2726, 17 September 1931; letter from Kelly, Controller of Currency 154-C.B, 11 July 1931; letter from Kelly, 206/C, 19 September 1931, in NAI, GOI, FD, 1(8)F of 1931.

38. Telegram to Secretary of State, 10 November 1931, 2445-S, in IOL L/F/7/561.

39. Sir E. Leith Ross to Strakosch, 18 November 1931 in PRO, T160/400/F.12471/04.

40. File 193 of 1934, 3427 in IOL, L/F/6/1162.

41. Thomas, Federal Finance, p.360 and p.364.

42. The Financial Advisers in the India Office were very suspicious of this move, fearing that it masked inflationary tendencies. See Budget Telegrams, in IOL, L/F/7/1133.

43. See Budget Telegrams, IOL L/F/7/1133.

44. Budget Telegrams

45. See Willingdon to Reading, 21 June 1931 in IOL, Mss Eur. F.118.106

46. 'All in a Day's Work', Memoirs of Captain G.F. Hall, Superintending Engineer, Ranchi, p.227, IOL Mss Eur. D.569.

47. See the increasingly acrimonious correspondence in Budget Telegrams, IOL, L/F/7/1133.

48. Schuster Memorandum, 28/7/30 in NAI, GOI, FD, 16-IV-F of 1930.

49. Triennial Report on Irrigation Works, 1932-35, (Calcutta, 1938).

50. Thomas, 'Indian Currency', p.239.

51. Kelly to Denning, 3rd October 1931, D.O. 213/C in NAI, F-1(10) F of 1931.

52. 'Don't Export Gold', plea by M.M. Malaviya, in All India Trade Union Congress Papers, No. 7 of 1933 in NML: Report, FICCI, AGM, 1933, p.44 - rejection of amendment motion called by Mr. K. Santaram (Indian Life Assurance Offices Association).

53. Thomas to Parsons, op. cit.

54. See telegrams in NAI, GOI, FD, 1(8)F of 1931.

55. Address by M. Subedar, President Indian Merchants' Chamber, to Grigg, August 1935 in NAI, 17(65)F of 1935.

56. See 'Scheme for an Economic Survey of India' in IOL L/E/9/262, E & O Colln 36-4, L/E/9/263. E & O Colln 36-5: NAI 7-C(1) 1934, 15(14)F of 1936. See also rejection of Schuster's plans to make Thakurdas and Birla unofficial economic advisers to the GoI., in NAI, 15-I-F (1930).

57. Drummond, <u>The Floating Pound</u>, p.48.

58. Hoare to Willingdon, May 1933, V, in IOL, Eur. Mss. E.240.13(a).

59. Willingdon to Hoare, 16 May 1933, 3-V, in IOL, Eur. Mss. E.240.13(b).

60. Schuster to Hoare, 26 January 1933, 179, in IOL, L/F/5/90: Memo by Mr. G.H. Baxter, Financial Secretary, India Office, 6 January 1936, in above.

61. Thomas, <u>Federal Finance</u>, p.369; Fazl-i-Hussain to Willingdon, 16 July 1934 in IOL, Eur. Mss. E.352.10/11.

62. For correspondence, see IOL, L/F/5/90.

63. Thomas, Federal Finance; B.R. Misra, Indian Provincial Finance, 1919-39, (Mysore, 1942); A.K. Mishra, 'Provincial Finances in the United Provinces of Agra and Oudh under Sir William Malcolm Hailey', Calcutta Historical Journal, 3, 2, 1978, pp.66-84; A.K. Misra, 'A Note on Sir William Malcolm Hailey and the Land Revenue System in the United Provinces of Agra and Auadh (1928-34)', Indian Journal of Economics, 58, 222, 1977-75, pp.127-33; Kumar, 'The Fiscal System'; Charlesworth, 'Government Finance'.

64. Several major files on provincial finance in the India Office have been recorded as 'missing since 1958'.

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66. Charlesworth, 'Government Finance', p.583.

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68. Provincial Memoranda for Neimeyer Committee, para 7, in NAI, GOI, FD, 17(60) of 1935.

69. 'Neimeyer Committee', para 8.

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73. Hoare to Schuster, 9 July 1931, 2061 in NAI, GoI, FD F1(8)T of 1931.

74. Thomas, Federal Finance, p.370.

75. Misra, 'Provincial Finances', p.72.

76. Letter, Hailey to Crerar, 8 May 1931 in IOL, Eur. Mss. D.890/9; A.A. Waugh, Rent and Revenue Policy in the United Provinces, (Lucknow, 1931), p.22.

77. Government of the United Provinces, Historical Account of Provincial Finances, 1921-22 to 1936-37 (Allahabad, 1938), p.4. para.12.

78. Historical Account, p.3, para.9.

79. Historical Account, p.22, para.68.

80. Misra, 'Provincial Finances', p.82; Misra, 'A Note', p.130.

81. Report of the United Provinces Industrial Finance Committee, 1935, Appendix IV.

82. Historical Account, p.32, para.92.

83. Report of the Administration of the Punjab [hereafter Punjab Admin] 1931-32, p.13.

84. Punjab Admin. (annual), calculated from Appendices.

85. Punjab Admin., 1932-33, pp.4-5.

86. P.T. Mansfield, Bihar and Orissa in 1930-31, p.20.

87. Hall Memoirs, IOL, Mss Eur.D.569.

88. R.L. Gupta, Bihar and Orissa in 1932-33, p.21.

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90. Report on the Marketing of Agricultural Produce in India in 1939, p.3.

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92. Report of the Administration of the Central Provinces and Berar [hereafter C.P. Admin.] 1931-32, p.28.

93. C.P. Admin. 1932-33, p.6.

94. Report of the Administration of Madras (annual) [hereafter Madras Admin.]

95. Madras Admin., 1932-33, p.XIII.

96. Madras Admin., 1930-31, P.XXIV.

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101. See Memorandum by Sir F. Noyce, member for Agriculture, Health and Lands, on government marketing scheme for cotton, July 1930, NAI, GOI, FD, 17(97)F of 1930.

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103. For Grigg's views see NAI, GOI, FD, 17(65)F of 1933.

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CHAPTER FOUR

Agriculture and the Depression: A Case Study of Bihar and Orissa

Within India, the role of agriculture cannot be over-estimated. In 1931, over 70 per cent of the population depended upon the agricultural sector for its livelihood. As we have seen in the previous chapter, the health of government revenues also depended largely upon the health of the agricultural sector. For provincial governments, land revenue provided the largest source of finance and even Central Government through its dependence upon customs revenue, felt the impact of changing agricultural fortunes. In the depression, as imports declined, the Government of India began to seek new or enhanced excise duties on agricultural exports, for instance the Rs 5 crores from jute export duties. A decline in agricultural incomes would also place a limitation on the demand for Indian industrial products. Thus, the impact of the slump on the agricultural sector would have had far-reaching implications for the Indian economy in general.

Over the years, several major studies have concluded that by 1921, Indian agriculture was facing an impending crisis with output failing to keep pace with population increases. Before considering the specific impact of the depression, we need to assess these studies of the long-term sector trends in Indian agriculture.

Population Pressure and Trends in Productivity

Arguably, the most significant influence on the agricultural sector in India was the pattern of population growth. In the nineteenth century overall population density was low, and population growth was small in comparison with other Asian countries due to periodic mortality crises.[1] During the inter-war period, however, there were no major famines or epidemics, although these continued to occur regularly in localised areas. Death rates correspondingly began to decline, particularly for infant mortality, and population growth increased dramatically.[2] Between 1921 and 1931 and 1931 to 1941, population in India grew by 10.6 per cent and 15 per cent respectively.[3] This was a phenomenal increase in absolute terms: 34 million between 1921-31 alone.[4] With over 70 per cent of the Indian population dependent upon agriculture this rapid upsurge in population placed a fundamental strain upon agricultural resources.

Before the outbreak of the First World War, at the all-India level, both acreages and output seem to have at least kept pace with population growth, although doubts have been cast about the performance of agriculture in Bombay and Bengal from 1900.[5] Since there was little development of new techniques or technology before 1914 outwith a few areas such as Northern Punjab, it seems likely that any increase in agricultural productivity was through the extension of acreage rather than the intensification of cultivation. American agricultural economists have argued recently that, outwith areas in which improvements in irrigation were made during the early twentieth century, the optimum geographical limit to the extension of Indian agriculture had been reached by the turn of the century. Land that was coming into use in the inter-war period was marginal land or the cultivation of former grazing areas, a sign of growing population pressure.[6]

Most commentators have argued that, in the inter-war period, this rapid population growth was not matched by increased productivity. Indeed, it is argued, that pressure on land resources was resulting in declining productivity. Thus, in the early 1960s, Sivasubramonian estimated that per capita agricultural productivity in India was declining by 0.5 per cent per annum between 1900 and 1945. Meanwhile Blyn calculated that the turning point was 1911, after which per capita agricultural productivity began to decline by 0.72 per cent per annum down to 1946-47.[7]

Discussion on levels of agricultural productivity are fraught with difficulties. For the last three decades much research into Indian agriculture has been bogged down in the debate over the accuracy of calculations based on official statistics.[8] In particular, serious doubts have been raised about the accuracy and reliability of output figures. Firstly, the final outturn figure of any one year for any one crop was based primarily on the estimated deviation from an estimated standard crop for each province. This was usually the outcome of at least four interim reports on the condition of the crop during the season. The results were calculated in percentages of annas. 16 annas generally being regarded as the 'normal' or standard yield. Thus, a fifty per cent yield would be described as an '8 annas crop'. Such a system was obviously open to inaccuracy due to the rounding up or down of figures to percentages of annas. The accuracy of the 'Standard yield' is also open to question. Even if it was measured by a crop-cutting experiment, it would be conducted on a government experimental farm or research stations under conditions far removed from those in the village. Even more fundamentally, yield figures were used as a basis for calculation of land revenue and thus offered much scope for deliberate inaccuracies both for the increase or evasion of tax. Another doubt concerns the ability of the village and lesser district officials to actually carry out the duties of estimating the crops accurately.

Thus discussion of productivity in Indian agriculture is problematical and rich in controversy. Blyn's seminal work, for instance, was criticised for its reliance upon official yield statistics, for the reasons above. Mishra recently attempted to rehabilitate Blyn's calculations by arguing that in a long-term analysis the standard deviation would be balanced over time. Islam also has concluded this in his work on the Punjab and on Bengal. Both Heston and Carl Pray, however, have re-iterated the arguments about the inaccuracy of government statistics. Both argue that official figures were under-estimates of actual growth, but they reach different conclusions. Heston argues for a stability between population increase and agricultural output, but Pray concludes that there was a small annual per capita rise in output.[9] Pray is alone in such a conclusion. Both contemporary estimates by Thomas and Mukerjee, and modern calculations concur in a trend of declining per capita agricultural productivity during the inter-war period.[10]

Of course, discussion of changes over time in the level of productivity of Indian agriculture remains generalised. For instance, productivity, it is argued, was declining because of the decreased size and fragmentation of agricultural holdings created by a rapidly rising population. It is difficult, however, to assess accurately important variables such as man-land ratios or number of man-hours spent on agricultural pursuits in a country for which there are neither accurate statistics of land-holding, nor of the number of agricultural labourers.[11] In Bihar, for instance, District Officers insisted that not even the managers of the largest zamindars such as the Maharaja of Darbhanga knew exactly how much land and which land was owned by their estates. Equally when conducting census operations in India, British standards were applied. Thus, normally only males were registered as agricultural labourers or cultivators of the soil despite numerous reports of District Officers on the importance of female and child labour as part of the family unit.[12] Nor have we any accurate assessment of the levels of under-employment in rural districts. Both contemporary officials and historians have concurred that the level of under-employment must have been substantial without quantifying such levels.

Thus, we are left with the general conclusion that given the stability of total cultivated acreage in India from the early twentieth century and the rapid rise in population from 1921, increased agricultural productivity could only have occurred through substantial investment in new technology and new techniques of production to increase yields. There is no evidence that substantial amounts were invested in Indian agriculture prior to the depression. It is generally agreed that the landlord class of India failed to invest substantially in their lands. Such development as took place, for instance the supply of irrigation to tenants in Bihar and Bengal or the distribution of seed, was geared towards strengthening the position of the landlord vis-a-vis his tenants, emphasising the economic weakness of the peasantry.[13] Thus it fell to the government to invest in new techniques to improve agriculture in India. The Government of India invested heavily in large scale irrigation projects which in the 1920s reclaimed some 2.5 million acres of former desert in the Punjab and in the United Provinces.[14] However, such schemes as the Sutlej Valley and Sardar Canal Systems and the later Sukkur Barrage in Sind, were constructed during the period of high prices in the early 1920s, draining the resources of both local and central government. Many local officials felt that it would have been more cost-effective to concentrate on the supply of tube-wells and the maintenance of inundation canals, which still provided over half the total supply of irrigated water in 1931.[15]

Equally, government investment in agricultural research was not always adaptable to Indian conditions. While there were some successes with new seed varieties, in general much of the research remained inapplicable. Experiments remained rooted in the research station, apart from some pioneering village demonstrations by Harold Mann in Gujarat, so even the improved varieties of seed failed to produce the desired results under normal village conditions.[16] The improved seeds drained nitrogen from the soil more quickly and so yields declined after the first two years of use.[17] Often new techniques were promoted where indigenous techniques were better adapted to local conditions, such as the use of iron ploughs which proved too heavy for the ill-fed oxen to plough and which had too deep a draught for the thin Indian soils. Too often, Indian agricultural officials had been trained in Britain with no previous experience of Indian conditions while Indian officials found the path to promotion blocked by these incomers, as happened even in the Punjab, supposedly the most enlightened Provincial Agricultural Department.[18] When a new irrigation scheme was opened, there was little effective demonstration of new techniques for the cultivators. Islam has argued that the failure to follow up the settlement of the canal colonies in the Punjab with effective propaganda led to a poor crop-mix, for instance the continued use of indigenous cotton seed which did not require heavy watering.[19] As with the general discussion of productivity, estimates of investment in Indian agriculture cannot be precise. We can only talk of the relationship between population, output and investment. It seems clear, though, that government investment was not as effective as it should have been due to the basic failure to understand Indian conditions.

The Onset of the Depression

The depression of 1929, therefore occurred during a period of long-term decline in the Indian agricultural sector. Acreage, output and investment levels were now lagging behind population growth. The slump, then, would have been expected to exacerbate the long-term decline with investment opportunities being reduced at a time of even more rapid population growth. To assess the trend in productivity in Indian agriculture during the depression, acreage figures will be utilised to overcome the major difficulties in using output figures.

The problems of under-estimation of crops mentioned earlier were exacerbated during the depression since it occurred during a period of major political disturbance. Some have argued, for instance, that under pressure from Congress, many district officials deliberately under-estimated crop yield, to force down revenue demands.[20] It is acknowledged that the acreage figures also are open to inaccuracy, but it is believed that acreage figures were less open to manipulation for political purposes than the statistics of crop yields.

The initial impact of the depression was the rapid fall in prices of agricultural produce in western India in 1929, although prices had been declining slowly since 1925, in common with most primary producers. From 1929, however, the slump in prices became catastrophic, reducing income levels by 50 per cent and raising the real burden of fixed charges. Wheat prices were the first to experience major declines in 1929 and this affected other prices in the Western districts. In the Punjab, for instance, wheat prices fell by one rupee per maund, cotton and oilseeds by two rupees per maund in 1929-30.[21] From late 1929 prices began to fall also in Bombay. Meanwhile price levels in the east and south did not fall sharply until late 1930 and early 1931. Rice prices in Bihar and Madras and jute prices in Bengal fell from late 1930.[22] In Bengal, for instance, the average harvest price of jute fell by Rs 4-8 per maund in 1930-31, a fifty per cent reduction in a single season.[23] There was some recovery in prices from 1934-35, but it was fitful and only sugar and tea prices had reached 1914 levels by 1939.

In most primary producing economies, the cultivators' response to the pressure of falling prices was to increase productivity in an attempt to maintain income levels.[24] In India, however, during the peak years of the slump, between 1930 and 1935, the all-India net cropped area decreased by 0.93 per cent, the figures for which are contained in Table 4.1 (over). The quinquennial trend in acreages of both foodgrains and commercial crops was downwards, by 1.02 per cent and 1.08 per cent respectively. However, these figures have been distorted by the poorness of the 1934-35 season. Throughout Northern India the rains were poor: the Punjab Chief Agricultural Officer reported that there was insufficient water for irrigation even in the canal zones. Poor monsoon rain and early frosts restricted winter sowings. The figures are also distorted through the impact of the earthquake and floods in Bihar during this season.[25] Until this season, the general trend in foodgrain acreage was upwards, by about 3.5 per cent. The all-India commercial crop acreage declined between 1929-30 and 1932-33 because of reduced sowing of jute and cotton. Thus cultivators appeared to be switching from commercial crops to foodgrain production during the slump.

This switch in crop-mix is borne out if provincial data is studied. In Bengal, the very sharp price reduction in 1930-31 was followed immediately by a halving of land under jute. In its place there were increased sowings of autumn rice, grain, wheat, barley and jowar. In this Islam is correct to challenge Goswami's assertion that there was no change in crop-mix in Bengal during the slump. By concentrating only on alternative cash crops, Goswami under-estimated the ability of cultivators to switch to other foodgrains when jute prices were low.[26] While it is true that the acreage of winter rice remained stable, the increased acreage of other foodgrains shows price

Table 4.1: All India Acreages, 1914-1939

	Net Cropped Area	Fallow	Total Foodgrains	Total Cash Crops
1914-15			204,504,550	51,702,722
1917-18			207,436,586	63,143,807
1920-21	212,259,506	61,346,523	186,890,043	50,143,807
1924-25	226,980,248	47,178,964	200,827,618	57,268,563
1925-26	225,849,051	49,305,848	196,069,074	58,773,700
1928-29	228,166,096	48,432,503	200,268,668	59,942,180
1929-30	228,160,853	49,113,921	200,018,488	58,407,674
1930-31	229,115,236	49,617,618	202,735,765	57,257,911
1931-32	228,835,924	49,041,627	205,013,960	56,087,629
1932-33	228,057,963	50,692,794	201,462,887	57,096,445
1933-34	232,245,900	47,639,276	206,223,158	59,272,015
1934-35	226,981,194	52,297,242	200,664,931	56,653,270
1935-36[a]	209,708,385	47,130,560	185,595,449	39,515,985
1938-39[a]	209,399,977	48,301,652	186,257,482	60,185,460

Quinquennial percentage change in area

	Net cropped Area	Fallow	Total Foodgrains	Total Cash Crops
1914-15/1917-18b			1.43	2.78
1920-21/1924-25	6.93	-23.09	7.13	14.16
1925-26/1929-30	1.02	0.82	2.01	-0.62
1930-31/1934-35	-0.93	5.40	-1.02	-1.08
1935-36/1938-39	0.02	2.38	0.48	1.12

Notes: a: excludes Burma
b: Season 1918-19 not included because of distorting effects of influenza outbreak and monsoon failure coinciding.

Sources: Statistical Abstract, 1918-19 to 1927-28, GBPP, Cmd 3610 of 1929-30, Table 180.
Statistical Abstract, 1929-30 to 1938-39, GBPP, CMd 6333 of 1941-42, Table 187, pp.498-9.

responsiveness since wheat and barley prices did not fall as far as rice prices and recovered more swiftly. Prices for raw jute began to rise again after 1933 and cultivators switched back to jute. It was this response that led the Indian Jute Mills Association to bring pressure upon the Government of Bengal to promote restriction of the jute crop and a switch to rice cultivation.[27]

Similar trends are observable in the Punjab. As wheat prices declined cultivators switched to lesser foodgrains like jowar and bajra and pulses. However, a slight improvement in the price of wheat in 1932-33 after the imposition of an import duty on Australian wheat, encouraged larger sowings in the following season. Acreage levels were maintained as the effect of the import duty stabilised the price of Indian wheat. The province's other major cash crop was cotton. Acreages declined steadily until 1932-33 when they were halved, despite a slight increase in the domestic price of cotton. The larger decrease in acreage was in the new American varieties in the canal zones which required heavier irrigation than the indigenous desai variety. While the price for American cotton was double that of indigenous varieties, the rate of water duties offset the price differential. Some cultivators switched to desai cotton, but most switched to maize or grain. It was only after a reduction in water rates, recommended by the Punjab Abiana Committee in 1933, that cultivation of American varieties increased once more.[28]

In Bombay Presidency cotton acreage declined steadily from 1929 to 1931. Initially, it seemed that cultivators were changing to foodgrains, especially jowar, bajra, gram and pulses.[29] However, in certain areas cultivators also had alternative cash crops. In Gujarat and the Deccan, cultivators switched between cotton and groundnuts. Groundnut acreage was increased until 1934, when cotton prices showed signs of revival. However two years later when cotton prices began to falter, groundnuts again replaced cotton.[30] Meanwhile around the Ahmnedagar sugar factories, sugar cane acreage expanded and in Karia cultivators turned to tobacco.[31]

In the latter half of the 1930s, the all-Indian net cropped area recovered only slightly from 226.3 million acres in 1935-36 to 226.7 million acres in 1938-39.[32] The acreage left fallow also increased but this is probably a reflection of growing patterns of land revenue collection in the late 1930s. There seems to have been a feeling prevalent that the new provincial Congress ministries would not tax agrarian areas heavily and there seems to have been an increase in under-reporting by officials.[33] Within this, foodgrain acreage increased slightly but did not recover to 1929 levels. Wheat acreage continued to expand as protection was re-imposed, as did rice acreage whenever climate permitted. The acreages of jowar and bajra, however remained depressed.

Cash crop production did recover to 1929 levels. Despite the problems of the jute industry, the acreage of jute crops recovered to new record levels and the new oilseed crops continued to expand. Cotton acreages grew with the opening of new lands under the Lloyd Barrage Scheme which allowed more regular irrigation, thus decreasing the likelihood of crop failures. As tobacco prices rose sharply, so did acreage especially in Bombay presidency. In general, the increased acreage of cash crops reflects the more rapid return to pre-depression prices for commercial produce than foodgrain prices which remained unstable generally.

The general stability of acreage figures during the depression cannot be explained in terms of changes in the pattern of double cropping. Although these figures are not given on an all-India level, those for four provinces studied, Punjab, Bihar and Orissa, Bombay, and Bengal, do not show any marked difference. In each of these provinces, the area double-cropped remained about one-sixth of the total cropped area throughout the period. By and large any changes are balanced out within the same season and are caused by climatic factors, such as low rainfall at time of sowing or transplanting, reducing the total acreage sown.

Acreage levels during the early 1930s were clearly failing to keep pace with population growth. Much of the increase was provided by new irrigation schemes in the Punjab, Sind and Madras. Outwith these areas, however, it is likely that marginal land brought into cultivation in the early 1920s, during the period of high prices, was now being left fallow. In the Punjab, for instance, although the acreage of total matured crops rose between 1928 and 1934, the acreage of failed crops increased also because of a prolonged drought in the largely unirrigated Rhotak region.[34] In Rhotak, the actual cultivated acreage was also decreasing since cultivators did not have the technology or techniques to maintain crops on marginal lands at a time of drought and the fall in prices made any effort to do so futile. Again, the stability of acreage of fodder crops hints at marginal lands going out of cultivation. With the increase of livestock it seems clear that marginal lands were reverting to grazing areas.

Thus, it seems that the conclusions of Sivasubramonian amd Blyn are borne out. To have met the needs of the growing population without a corresponding increase in acreage, agricultural productivity would have had to be raised substantially, which would have necessitated investment in the means of production. This did not occur. Thus the long-term structural trends apparent during the 1920s of declining per capita agricultural productivity continued into the 1930s, altered little by the short-term down-turn of the slump. When the price falls were most marked there was a short-term switch from the cultivation of commercial crops back to foodgrains, which was the traditional response under such conditions. These changes, however, remained part of the long-term structural pattern of agriculture decline in India with overall stability of total cultivated acreage despite the rapid increase in population. The depression did not provide an opportunity to break this long-term pattern since the reduction in income brought about by falling prices mitigated against sufficient fresh investment in agricultural technology and techniques of production needed to decisively increase productivity of Indian agriculture. Indeed the difficulties faced by cultivators in paying their rent and revenue demands led to the alienation of land and an increase in share-cropping which further reduced incentives for the investment in new techniques.[35]

However, while the depression did not mark a watershed in terms of the structural development of Indian agriculture, it had a pronounced impact on agrarian society. There is a new stress in several recent studies on the depression acting as a catalyst ending traditional relationships in rural areas and even paving the way for decolonisation. Thus, Baker, in his study of Madras, declared, 'the depression of the 1930s was not simply a dramatic drop of price and demand. Rather it signalled on the one hand the beginning of the end for the colonial economy, and on the other the collapse of the rural pillars supporting the colonial state.'[36]

In such studies the depression is said to have acted as a catalyst in two key ways. Firstly, increased land alienation weakened the position of tenants vis-a-vis their landlords and thus contributed to a rise in rural agitation during the 1930s, not least rural support for the Congress Party. Secondly, and inter-related with the causes of land alienation, there was a contraction of cash credit in rural areas as the traditional agencies for the transmission of money from urban to rural areas broke down. Conclusions such as these have been reached in work on Bengal, the Punjab, Madras and Bombay.[37] As such, the conclusions have emerged from studies of those provinces most tightly integrated into the international economy through trade in agricultural cash crops such as jute, cotton and wheat, and therefore those most at the mercy of external dislocations such as the slump of 1929. In the next section, therefore it is proposed to test these conclusions in a study of Bihar and Orissa, one of the poorest areas in India and not so highly integrated into the export sector. The discussion of Bihar and Orissa relies heavily on the model of the agrarian economy and society adopted by Bose in his major study of Bengal. Firstly, this reflects the length of time Bihar and Orissa had been incorporated into the Bengal Presidency and the extent to which they shared common features such as the Permanent Settlement and rural legislation. More importantly, Bose's study of Bengal provides one of the best expositions of the agrarian economy and the process of rural commercialisation. It does not rely simply on a typology of crop production but includes ecological, social and demographic factors to analyse the regional variations within the Bengal Presidency. Thus, for instance, Bose differentiates between two main systems of tenancy-holding within the jute-growing districts which were affected by the depression in different ways. Of course, the following discussion does not purport to be as in-depth an analysis of Bihar and Orissa as that of Bose. Nor will it attempt an analysis of the 'dynamics of small-peasant production' as Shahid Amin has supplied for the sugarcane districts of Eastern United Provinces.[38] The study, instead, focusses on three key areas of the agrarian economy of Bihar and Orissa, the landlord-tenant relationship, the market structure and mechanisms for credit transmission and discusses the process of commercialisation in the province and the impact of the depression on these factors.

Bihar and Orissa: The Land and People

The province of Bihar and Orissa was created in 1923 when it was separated from Bengal, and existed for a mere 13 years before Orissa itself was separated in 1936. In 1931, Bihar and Orissa contained the second largest provincial population in India, amounting to just under 38 million, of whom over 80 per cent were dependent upon agriculture.[39] The figures for the urban and rural populations are given in Table 4.2 (over).

Bihar and Orissa was split into three distinct geographical, cultural and linguistic areas. In the north of the province, Bihar proper consisted of the rich alluvial soils of the Indo-Ganjetic Plain. Less than 250 feet above sea level, many parts of Bihar proper were

Table 4.2: Population of Bihar and Orissa in 1931

	Urban	Rural
Bihar	1,152,117	24,575,383
Orissa	191,429	5,114,713
Chota Nagpur	310,291	6,333,643
Total	1,653,831	36,023,739

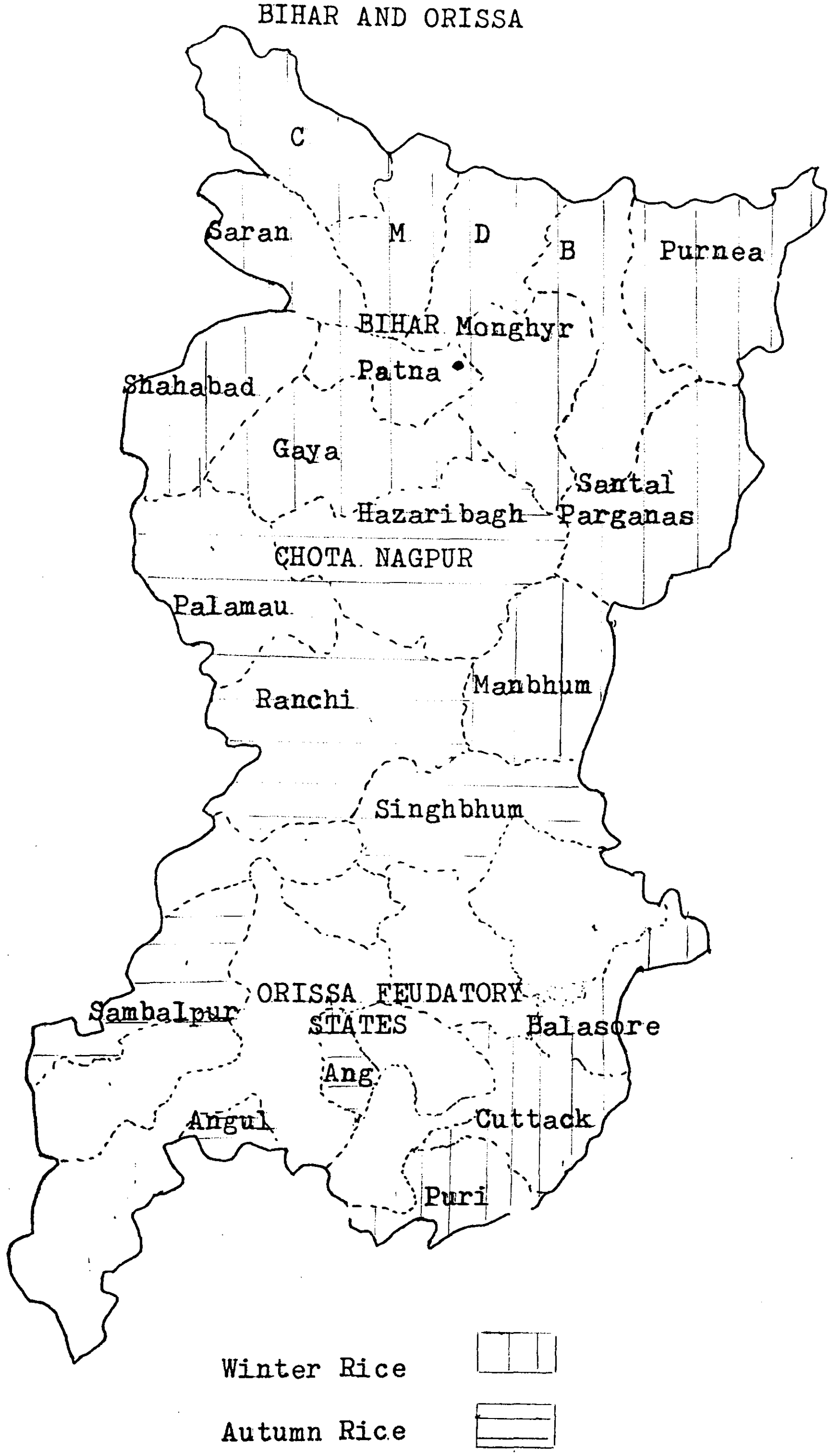
Source: Census of India, 1931, Volume VII, Part I, Chapter 1.

prone to flooding particularly the Northern districts dominated by the Kosi River which changed its course annually. The population was largely Hindu, apart from Purnea district which contained a large Muslim minority. Four upper castes dominated the Bihari community: the Maithil Brahmins, Bhumihar Brahmins, Rajputs and Kayastnas. To the south the Chota Nagpur Plateau was a region of hills and jungles and valley enclaves populated largely by tribal groups. The region had poor communications and yet was also the area of greatest mineral wealth, including coal, iron ore, wolfram and mica. The isolation of these natural resources helps to explain why their exploitation brought little benefit to the province as a whole, as suggested by Rothermund in his study of the Jharia coalfield.[40] The districts of Orissa were separated from the rest of the province by the Feudatory States. British control was limited predominantly to three districts along the coast, Balasore, Cuttack and Puri. The Oriya speaking population had little in common with the Biharis and felt that their needs were subordinated to those of the densely populated northern territories. Orissan political leaders continually petitioned for a separate province to be created, which resulted in the weakening of the non-official representation in the Bihar Legislative Council.[41]

The agricultural season in Bihar and Orissa was divided into three harvests. The bhadai harvest, principally autumn rice and maize was sown in May-June and harvested in August to September. In Chota Nagpur and the Sambalpur and Angul Divisions of Orissa autumn rice was the principal crop. The aghani, the major winter rice crop of the rest of the province, was sown in mid-June and harvested in December. This crop depended on a good monsoon to prepare the ground and sufficient rain in August to allow transplanting. The third harvest was the spring or rabi crop of wheat, oilseeds, summer rice, barley and grain. These crops needed good rain in January, but could be damaged if rain continued into February or March.

Rice was the dominant crop grown on 80 per cent of cultivated land. As can be seen from the map (over), the districts were divided only by the importance of the winter or autumn rice crop. While the Orissan districts were predominantly monocultural, in Bihar proper wheat, barley and maize were also cultivated widely as marketable foodgrains. Acreage devoted to cash crops was only a small proportion of total acreage. In the nineteenth century indigo cultivated on European managed plantations had been the major cash crop. However the rise of synthetic substitutes killed the indigo trade and plantation owners in Champaran and Saran turned to sugarcane for gur

BIHAR AND ORISSA



C - Champaran
M - Muzaffarpur
D - Darbhanga
B - Bhagalpur

production. Jute was cultivated chiefly in Purnea, in North East Bihar. In the Chota Nagpur districts of Ranchi, Palamau and Singhbhum, autumn rice was the dominant crop with shellac as the major cash commodity or sabai grass for export to the Bengal paper mills.[42]

Three quarters of the population was concentrated on the Gangetic Plains of North and South Bihar. Here a well-developed system of inundation canals supported a high population density. In most districts of North Bihar, population density per square mile was over 900 in 1931, for instance 970 in Muzzafarpur District. Population density decreased to under 100 per square mile in Chota Nagpur as a whole but population was more dense in the valley areas. By 1931 the rising population of Bihar had placed a heavy strain on agricultural resources. It had been estimated that an economic holding in Bihar would be five acres, but statistics in the Census Report of 1931 showed the average to be only 3.1 acres per family.[43]

Bihari agriculture was dominated by the Permanent Settlement. Only the government estates (or khas mahal) in North Bihar and the Santal Parganas were temporarily settled, which amounted to just one-sixth of the cultivated area of Bihar and Chota Nagpur. Since the Permanent Settlement in Bihar had been at a more realistic level than the earlier settlement in Bengal, there had not been the large alienation of land from large zamindars that had occurred in Bengal.[44] Thus Bihari agriculture and politics were dominated by large zamindars such as the Maharaja of Darbhanga and the Hutwa Raj in Saran and Champaran. Under these was the important stratum of smaller landlords, of whom MacDonald has argued, it was difficult to differentiate between the smaller zamindar and the large tenant, and often were both owners of their own small plot of land while renting land from the estates of the larger zamindars. The Congress Party in Bihar was dominated by these petty zamindars and larger tenants.[45]

Batai (rent based on the division of the actual crop) had been the traditional rental system in Bihar, but increasingly since the turn of the century this had been replaced by danabandi or rent based on the estimated crop. In the 1920s danabandi rentals in kind in the Tirhut and Bhagalpur Divisions of North Bihar had begun to be commuted to cash rents, based on the market value of the estimated crop, therefore at the maximum price of the crop. Tenancy legislation in Bihar set maximum limits to the enhancement of rent, but with prices generally at a high level in the 1920s, the commuted rents were significantly higher than the produce rentals previously paid. During the 1920s, however, tenants were anxious to commute their produce rents to reserve as much as their crop as possible for sale at the high prevailing prices.[46]

As in parts of Bengal, Bihari zamindars retained part of their lands as demesne (zirat land).[47] However, under Bihari tenancy legislation, if a tenant cultivated zirat land for three years continuously, the cultivator became entitled to an hereditary tenancy on the land and the land then became assessed as bakasht. This differentiated the tenancy system in Bihar from that prevailing in most of Bengal where the tenant had no customary rights.[48] This was a major source of grievance to Bihari zamindars who tabled annual motions to the Bihar legislative Council to change the law.[49]

Traditionally in Chota Nagpur, the zirat or demesne land had been cultivated by attached or bonded labour (kamiya). Kamiya was the dominant system in tribal areas where for a payment of between Rs 50 to Rs 100 the labourer became 'attached' to the landlord until he had worked off his debt. The demesne then had priority over the labourer's own land at the time of sowing, transplanting and harvesting.[50] Usually the reason for accepting kamiya was to gain money to repay other debts.[51] There is some debate over the extent to which Kamiya broke down during the inter-war period. Binay Chaudhuri suggested that the kamiya began to be transformed into a casual labour force but Daniel Thorner argued that the system continued until the independence period. Certainly reports of District Officers continued to mention the prevalence of kamiya labour in the depression, fearing its extension.[52]

The British districts of Orissa were the most densely populated of the Oriyan-speaking districts. Here the land was dominated by small landowners both in the small permanently and larger temporarily settled areas. Over 90 per cent of these landlords paid land revenue of less than Rs 500 per annum and, as one Orissan politician admitted, 'call themselves landlords only to have some moral control over the surrounding labour force. But, in fact, they are all so many peasant proprietors'.[53] The growing similarity between small zamindar and large tenant was because, as in Bihar proper, tenants who cultivated nijchas land (zamindar's land) for three years, obtained hereditary occupancy rights. In British Orissa the average size of holdings was only 2.5 acres per family. This resulted in a system similar to Kamiya developing in Orissa. However, unlike their counterparts in Bihar, there was a tradition of Kamiya emigration to the Assam tea gardens or to Calcutta. The system of recruitment to the Assam tea gardens was a variation on kamiya: the cultivator accepting an advance which he would repay by labouring in Assam. Generally, the smallness of holdings in Orissa made it difficult to pay rent and it has been suggested that the advances paid to the plantation labourers was used to pay rent.[54] The agrarian system in Orissa, as in Bihar itself, was therefore vulnerable to price and credit dislocations as was to happen in the depression.

Markets and Credit Structures

In 1931 communications throughout the province of Bihar and Orissa were poor. In eastern India railway lines radiated from Calcutta and to travel from Patna in Bihar or Ranchi in Chota Nagpur (the winter and summer capitals of the province) to Cuttack in Orissa meant a journey via Calcutta. A trunk road linking Bihar and Orissa was begun during the 1920s but was halted in the middle of the Chota Nagpur jungles, a victim of the retrenchment measures of 1932.[55] In Bihar itself, the northern districts were cut off from the south by the River Ganges over which there were few bridges. Thus, until the late 1920s the communications network was poor and markets remained isolated.

It was only in the latter half of the 1920s that the extension of the local road network began to link some of the principal markets. The majority of roads were unmetalled and only usuable during the dry season but were sufficient to promote the expansion of road transport, both for passengers and produce. Between 1925 and 1930 the number of motor cars and buses registered in the province doubled and the number of bicycles sold nearly tripled.[56] Such was the increase in road transportation that there were complaints about the slump in sales of elephants for transport at the annual fair in Saran.[57] In 1930

Mansfield wrote of "the remarkable development in road traffic in recent years on account of the coming of the motor bus, which is found penetrating in the dry months the most out-of-the-way places, on tracks which are hardly recognisable as roads."[58]

There was a major market in every district specialising in the produce of the area. Thus the Manufganj market in the Sadr sub-division of Patna District, dealt in maize, Dinapore also in Patna in barley, Nawada in Gaya in wheat and all dealt in rice. The principal markets in Orissa such as Chandbali in Balasore District and Khurda in Puri specialised solely in rice, a sign of the lack of alternate cash crops in Orissa. In local districts there were rice markets every 6 miles and a larger market with warehouse facilities run by the Arthaiya (wholesale) merchant every 15 miles wherever there was a connection to a metalled road or railway branch line. Most of the rice trade was carried on by arthaiyas operating in these secondary markets and there does not appear to have been such a complicated network of intermediaries as in the jute trade in Bengal or in the wheat trade of Punjab. There was, of course, more dealers involved between secondary and terminal markets but since it was estimated that only 30 per cent of the Bihar rice crop passed through extra-provincial dealers, the commissions paid to such dealers had less impact on the internal price of rice within the province.[59]

In the jute and sugar regions, prior to the depression, trade was conducted by intermediaries to a greater extent. The larger European sugar factories tended to use large zamindars or the European plantation agents in Champaran as intermediaries with local tenants through which the Banking Commission estimated cultivators received a fair price. The Saran factories also purchased the sugar crops through intermediaries, purchasing the crop either directly from the cultivator or through the arthaiya at the secondary local market. As an increased number of Indian entrepreneurs entered the sugar industry, however, they purchased directly from the cultivators through dadani or advances which managers declared secured both cultivation and delivery of the crop to the factory.[60] In the jute trade also the crop was purchased by intermediaries using dadani, usually local managers acting for beparis (travelling salesmen) who were acting for Bengali merchants. Thus, by its nature, the jute trade involved the most complex marketing and credit structures of all the crops in the province. In Champaran a co-operative jute sale society was established in the late 1920s to act between cultivators and traders giving cultivators a guaranteed rate of Rs 7 per maund.[61] However the jute trade of Champaran was only a small fragment of a trade whose main centre was in Purnea.

Throughout Bihar and Orissa, reliant as it was on essentially mono-culture, indebtedness was chronic. The 1930 Banking Enquiry estimated the average debt per family in Bihar and Orissa was Rs 282 against Rs 160 in Bengal.[62] Most of the credit in Bihar was given by landlords to tenants, with the Mahajans generally providing the credit for the zamindars. The landlords, particularly the strong, large zamindars of North Bihar, attempted to keep the links between professional moneylenders and their tenants at a minimum, fearing the mahajan would gain occupancy rights through alienation and thus reduce the hold of the landlord over his tenant.[63]

The Depression in Bihar and Orissa

The first impact of the slump in Bihar and Orissa came with the fall in rice prices in late 1930. In Bihar and Chota Nagpur the average price of winter rice fell by Rs 2 to Re 1 per maund while in Orissa the average price slumped to Rs 2-5 per maund. There was a similar reduction in the price of autumn rice. In the following season prices slumped even lower, winter rice averaging only Rs 1-13 in Orissa.[64] The impact of the depression in Bihar and Orissa will be discussed first in terms of output and prices and then in its effects on the agrarian relationships in the province.

Table 4.3 (over) shows the trends in acreage during the inter-war period. In the 1920s, despite the rising population, total net cultivated acreage increased by only 1.3 per cent, while it fell by 2.4 per cent in the 1930s. Any discussion of changing trends in agricultural production in Bihar and Orissa is even more problematical than described earlier in relation to all-Indian statistics. As early as 1937, after the separation with Orissa, Bihari officials were admitted that there was some under-estimation of acreage (0.2 per cent) but over-estimation of yield figures.[65] In 1949, the Indian Council for Agricutural Research estimated that between 1944 and 1949 acreages of rice and wheat were under-estimated by 30 and 20 per cent respectively.[66] Blyn has suggested that this reflected the higher incidence of permanently settled areas in Bihar where officials would rely on Chaukidars (village policemen/watchmen) rather than Patwaris (land recorders) to provide crop estimates.[67] The large under-estimation recorded by the ICAR, however, covers a period of major breakdown in official collaboration in Bihar in the wake of the Quit India Movement and the post-war political problems. Therefore the distortion estimated by local District Officers of only 2 per cent

Table 4.3: Bihar and Orissa - Crop Acreages

	Net Area Sown	Current Fallow	Total Foodgrains	Total Cash Crops
1920-21	24,794,700	5,887,936	26,511,400	4,426,800
1924-25	24,897,000	6,010,559	25,943,400	4,543,400
1925-26	24,745,300	5,941,810	25,726,200	4,484,900
1929-30	24,958,400	5,837,547	25,930,600	4,455,700
1930-31	24,470,900	6,339,268	25,066,900	4,716,600
1934-35	24,131,800	6,931,605	24,932,760	4,614,500
1935-36	23,180,700	8,052,765	23,593,800	4,479,700
1939-40	24,439,255	8,515,564	25,391,254	4,482,987

Percentage Change in Acreage

	Net Area Sown	Current Fallow	Total Foodgrains	Total Cash Crops
1920-21/ 1924-25	0.36	2.08	-2.14	2.63
1925-26/ 1929-30	0.86	-1.75	0.79	-0.65
1930-31/ 1934/35	-1.38	9.34	-0.53	-2.16
1935-36/ 1939-40	-1.05	5.74	7.62	0.07

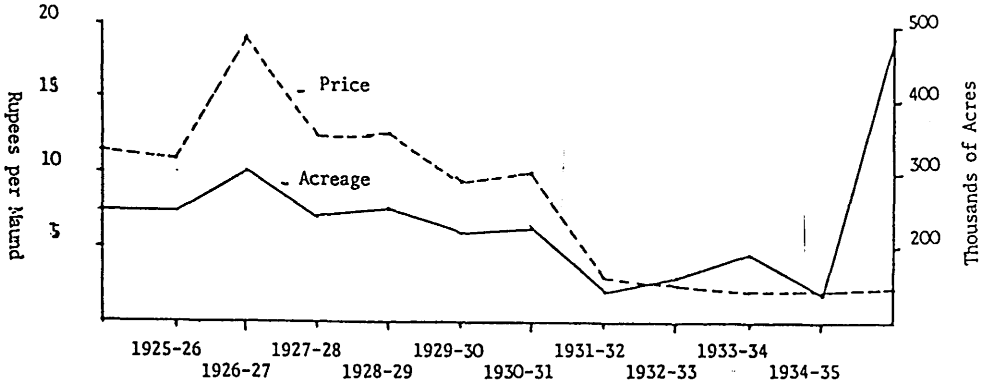
Source: Calculated from Statistics in The Crop and Season Reports of Bihar and Orissa (Patna, annual).

in acreages is probably a more accurate reflection of the situation in the 1930s and, thus, these figures have been accepted as showing genuine trends in acreage in the period.

Immediately noticeable in Table 4.3 is the decrease in net cropped area and the rise in fallow. Since the agrarian system in Bihar was already under stress in the pre-depression period, the rise in fallow probably reflects the reduction of cultivation on marginal lands, now no longer profitable to cultivate. This is also suggested by the decline in acreage given over to fodder crops. Some of this rise in fallow was possibly grazing land reverting to its original purpose. In Bihar in the depression quinquennium there does not seem to be a switch from cash crop production to foodgrain production. Total cash crop acreage declined due to the fall in jute acreage which was greater than the rise in sugar acreage. In the post-depression years, however, there is a definite rise in acreage given over to foodgrains of nearly 8 per cent. Some of this was marginal lands once more being cultivated under the stimulus of a rising population. In north Bihar for instance population density rose from 900 per square acre in 1931 to between 1,000 and 1,500 in 1941.[68]

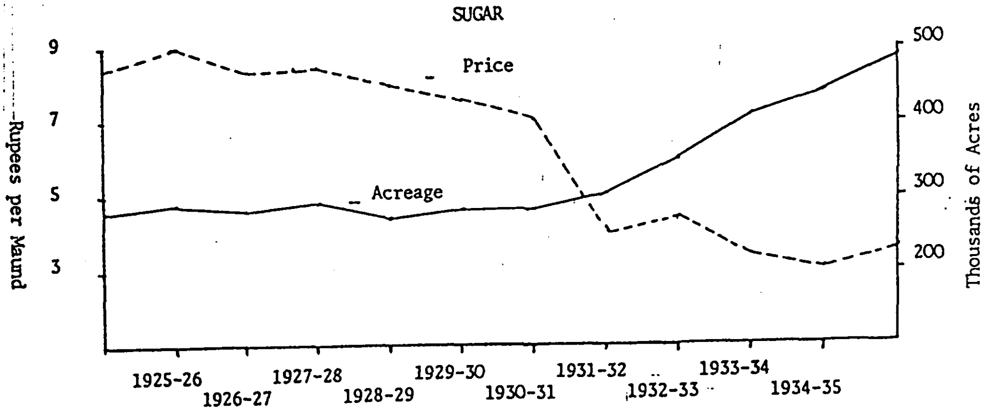
The relationship between acreage and prices can be seen in graphs 1-4 (over). Here the acreage has been plotted against the average harvest price in the local principal markets with a one year time lag (ie 1931-32 average is plotted against 1930-31 prices). This is obviously a crude measurement of price responsiveness but it does reveal some interesting trends. There is a close relationship between the price and acreage of winter rice. However, acreage of both gram and sugar continued to rise despite falling prices from 1929-30. Meanwhile for jute, acreage and price both decline well below pre-depression levels. This seems to bear out Narain's conclusions on the nature of price responsiveness of the Indian peasantry that the cultivator responds to the relative profitability between crops.[69] Thus, while sugar prices were declining they were still higher than

JUTE

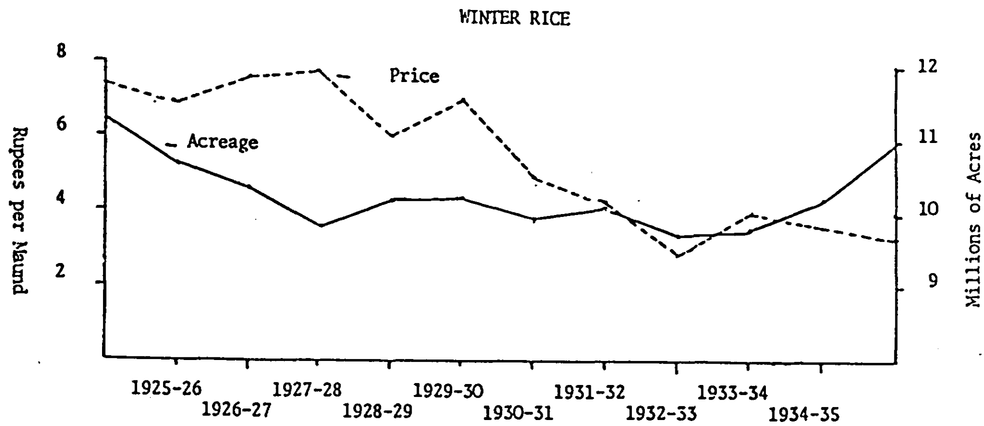


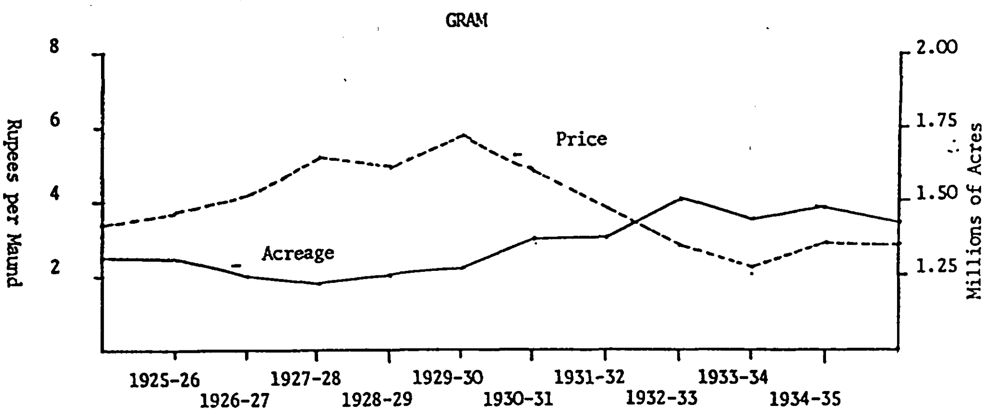
20
15
10
5
Rupees per Maund
Price
Acreage
500
400
300
200
Thousands of Acres
1925-26
1926-27
1927-28
1928-29
1929-30
1930-31
1931-32
1932-33
1933-34
1934-35

SUGAR



9
7
5
3
Rupees per Maund
Price
Acreage
500
400
300
200
Thousands of Acres
1925-26
1926-27
1927-28
1928-29
1929-30
1930-31
1931-32
1932-33
1933-34
1934-35


WINTER RICE
Price
Acreage
Rupees per Maund
Millions of Acres
8
6
4
2
12
11
10
9
1925-26
1926-27
1927-28
1928-29
1929-30
1930-31
1931-32
1932-33
1933-34
1934-35


GRAM
Price
Acreage
Rupees per Maund
Millions of Acres
8
6
4
2
2.00
1.75
1.50
1.25
1925-26
1926-27
1927-28
1928-29
1929-30
1930-31
1931-32
1932-33
1933-34
1934-35

those for jute, leading to a switch from jute cultivation in Champaran to more extensive sugar cultivation. Even in Purnea, the major jute growing area of Bihar, there was some switch to sugar. Of course price is not the only consideration. Jute needed heavier irrigation than sugarcane and the years between 1930 and 1934 produced a string of below average monsoons. Also jute was a more labour intensive crop normally necessitating the hiring of additional labour.[70] During the depression, as will be discussed later, many cultivators attempted to turn back to family resources of labour.

Narain has suggested that variations in rainfall were important for foodgrains rather than cash crop production which responded to profit incentives.[71] In Bihar and Orissa, though, not only jute cultivation depended upon favourable climatic conditions, moist and humid, but winter rice, grown both as a foodgrain and a cash crop, depended heavily upon good rains for both sowing and transplanting. This also contradicts Blyn's assertion that in Bihar from 1930 there was little correlation between rainfall and the pattern of cropping. Blyn correlated the Patna rainfall index with the All-Bihar acreage and output.[72] However between 1930 and 1935 the monsoon in Bihar was very variable even between districts. The Patna district experienced either 'average' or 'above average' rainfall during this period while to the north there was a prolonged drought from 1930, as occurred in parts of Orissa too. In Chota Nagpur also, the acreage of winter rice in Ranchi, the principal growing area, also declined markedly in the early 1930s due to insufficient rain (284,700 acres in 1932-33 compared to 621,000 in 1935-36).[73] Therefore, in Bihar and Orissa price incentives were important only when climatic conditions allowed, due to the dependence of agriculture on inundation canals as a source of irrigation through most of the province.

Recently, Rothermund has highlighted another interesting aspect of the price relationship during the depression. He suggests that during the depression, price differentials re-emerged not only between provinces but at district levels also. These price differentials, common in the nineteenth century, had been assumed to have evened out with the spread of commercialisation, particularly in relation to the development of the railway network and the creation of a national market. Rothermund suggested that the traditional pattern re-asserted itself due to the sudden withdrawal of credit and the breakdown of marketing systems which 'led to panic sales of all stocks, so that even the slightest variations in the local market would be immediately reflected in the current price'. However, this was 'typical only for the time when the immediate impact of the depression was felt, and the local traders and moneylenders were completely flabbergasted and did not know how to manage the market any longer'. After the first few years of the depression the variations were reduced, presumably as traders adjusted to the new conditions[74].

Within Bihar and Orissa, however, the pattern was different. Due to the poor communications in the province and the disjointed linkages of the credit mechanism, there were wide fluctuations of prices of basic produce within the same district throughout the 1920s. It was only the extension of the road network that began to break down the rural isolation of Bihar and Orissa. There was only a slow growth of urbanisation in the province so that there was little stimulus to traders to build up extensive credit networks linking town and countryside. Thus, for instance, the population of the four major towns of the region was small: Patna had a population of 159,690, Bhagalpur (the silk weaving centre) had 83,847, Darbhanga 60,676 and Cuttack, the principal town of Orissa, only 65,263.[75] Mostly they remained largely artisan/small workshop based with little connection to their hinterlands. For instance, out of 1443 retail outlets detailed in the 1931 Census, only 9 were wholesale traders.[76] Similarly in Singhbhum, the centre of modern industrial development in Bihar, there was little connection with the hinterland.[77]

Thus, during the depression, Bihar and Orissa was still going through the process of creating an integrated provincial market. Indeed, even by 1936 with the separation of Orissa there was little linkage between the two halves of Bihar. At a district level, however, the coming of the roads did help to reduce the marked variations in price. For instance, the maximum and minimum harvest price of grain in Patna in 1927-28 was Rs 5-6 per maund and Rs 4-12 respectively, yet by 1933 there was only one anna of a difference in price.[78] In Tirhut the stabilisation in grain prices was even more marked. There the minimum and maximum price per maund in 1928-29 was Rs 5-0 and Rs 6-13: by 1932-33 it was Rs 2-14 and Rs 3-0 respectively. There was a similar pattern in all the major crops of a reduction in provincial variation, although in some crops the gap was never closed as much as in gram. Thus, for instance, the minimum and maximum prices of winter rice in Bhagalpur Division in 1928-29 were Rs 5-6 and Rs 8-0 respectively which had been reduced to Rs 2-12 to Rs 3-8 per maund in 1933-34. As early as mid-1932, R. Williams, a senior ICS official in Bihar, wrote:

> 'The revolution in methods of transport and the improved roads have broken down the isolation of rural districts: trade circulates more freely and prices as between one district and another are slowly being levelled although there is still a big difference between the price of rice in the dearest and cheapest districts. The cultivator is now much more sensitive than he used to be to the fluctuations of distant markets.'[79]

Thus, in Bihar and Orissa despite the depression the process of commercialisation of the region continued, if at a somewhat slower pace in the more backward regions of Chota Nagpur and Orissa. From 1934 the pace of commercialisation increased as money began to be spent once more on road construction. In 1931 Bihar and Orissa had 28,076 miles of road, by 1935-36 it had 32,533 miles.[80] During the slump, then, in Bihar and Orissa, the pace of commercialisation slackened slightly but the market network continued to increase despite falling incomes and a curtailment of credit. Partly this was through the impact of new cash crops such as sugarcane or old cash crops sold more extensively such as sesame oil. In fact, by 1935 Bihar was beginning to create price disequilibrium in neighbouring districts of the United Provinces. By then it became clear that North Bihar was producing more sugarcane than needed by local mills, therefore Bihari sugarcane was sold cheaply in the eastern United Provinces helping to depress the price there further, and creating an increase in price disequilibrium in there districts.[81]

It seems that productivity of agriculture in Bihar and Orissa was failing to keep pace with population. Blyn argues that the decline in yields per acre was greater in Bihar and Orissa between 1930 and 1935 than in Bengal. He explains this partly through the use of sugarcane cultivation on the better lands used previously for rice cultivation, but since this involved only 4 per cent of the total rice production, he admitted that 'we need another explanation'.[82] Although Blyn discounts the effect of climatic changes in the 1930s in Bihar, they were important. In the first two years of the depression rice yields were increasing, as they had been doing in the 1920s, with a bumper harvest in 1929-30. Blyn's downturn in rice yields coincides with the beginning of a series of natural calamities in Bihar. The monsoons from 1931 were patchy with many areas facing drought, the earthquake of 1934 caused devastation to the areas of Muzzaffapur, Darbhanga and Purnea the chief rice growing areas of Bihar proper, while Blyn's year of lowest yield, 1935-36, marked a year when the pre-monsoon, monsoon and the hathia (winter) rains all failed in succession causing a decline in both acreage sown and yields eventually produced.[83] In an area, then, of high population density dependent largely upon inundation canals for irrigation and with the lowest government spending per head of population (Rs 1-8 in Bihar and Orissa, compared to Rs 5-4 in Punjab and Rs 8-3 in Bombay), the agricultural system was dependent to a very high degree on the nature of the season.[84] It was the combination of climatic problems resulting in poor harvest and the depression in prices which proved disastrous for Bihar and Orissa. In a period of harvest failure prices would normally rise. However the slump depressed prices, and the combination halved the incomes of local cultivators.[85] It comes as no surprise, then, that the only crop to significantly increase its yield was sugarcane. While cane prices also declined, up to 1935-36 at least the price reduction was not as great as that for jute or tobacco. Sugarcane needed less irrigation since Biharis used indigenous varieties of seed and cane required less labour to cultivate than jute or tobacco. Thus, despite its longer growing season which necessitated giving up either a portion of the bhadai or rabi harvest, there were still incentives to grow sugarcane, in particular, as we shall see, in light of the credit mechanism.

Overall, then, although it is difficult to discuss more than trends and the relationship between population, prices and output/acreage, agriculture in Bihar and Orissa was passing though a crisis in the early 1930s due to the combination of a failure of the monsson and the disaster of the earthquake and the impact of the depression in reducing prices and incomes of cultivators. As a poor province, Bihar and Orissa was dependent upon good climatic conditions and the monsoon failures of the early 1930s exacerbated the crisis of the slump. The impact of this dual crisis on agrarian relationships will now be assessed.

Zamindars, Mahajans and the Cultivator

After the fall in prices in late 1930, the second major impact of the slump was the collapse of credit within Bihar and Orissa, both from mahajans and from zamindars. The Administration Report of 1930-31 was already describing the wariness of mahajans to lend even to large landowners, though it was believed that the slump would prove to be only a temporary phenomena.[86] Until mid-1932, however, the restriction of credit was alleviated by the use of savings in the form of gold to meet rentals and debt payments as reported by C. Philip, the Commissioner of Orissa Division and Scott, Commissioner of Tirhut Division in North Bihar.[87] The Government of Bihar and Orissa was aware of the gold sales but failed to realise their significance. In the absence of the large scale agitation that was occurring in the

United Provinces or the terrorist attacks in Bengal, J. Hubback from the Executive Council reported back to the Government of India in August 1932:

> 'The rural population has stood up well on the whole, to the changed circumstances up to the present, It is, for instance, significant that the Ranchi cultivator has paid without any pressure at all practically the whole costs of the settlement operation in that district, though there is some evidence that small hoards of rupees, which had accrued during the boom in tea prices, were drawn upon for this purpose.'[88]

The district collectors, however, were aware that such hoards represented the last resource of the cultivators. Many reported that these hoards were small and exhausted by 1932 after only two seasons.[89] There is no evidence in Bihar of bullion dealers setting up mofussil branch offices to collect gold as occurred in the United Provinces and parts of Bengal.[90] In Bihar, cultivators were depleting their savings to meet their rent and debt burdens and to pay for necessities, not to make a profit through the higher value of gold.

Such distress was exacerbated in 1932 with the first impact of the monsoon failures. In North Bihar in particular, the rabi had failed and there was insufficient rain for sowing and planting the bhadai and next aghani crops. In these regions of greatest population density, holdings had been sub-divided into small plots and many depended on agricultural labour to supplement their incomes. Now at the busiest time of the year, there was little work for agricultural labourers. Nor was there the recourse to migration traditionally pursued in bad years to Calcutta or to the Bengali jute districts. Indeed, with the slump in the Bengali jute trade, cultivators there were turning to family resources and there was an exodus of Bihari labourers back to their villages from the Bengali districts such as Mymemsingh and Dacca.[91] Not only was there the return of emigrants, thus increasing competition for agricultural labour in Bihar, but there was consequently a reduction in the amount of remittances coming from Bengal, a double blow to poor Bihari families.[92] There was a similar problem in Orissa as emigration to Calcutta began to dry up and recruitment to the Assam tea gardens was restricted.[93] The remittances to Bihar and Orissa from outwith the province, which had been rising steadily from Rs 7,63 lakhs in 1925-26 to a peak of Rs 8,57 lakhs in 1928-29 slumped, within two years to Rs 6,98 by 1930-31 and declined further to Rs 4,00 lakhs by the mid-1930s.[94]

In the face of the distress created by the joint dislocation of depression and monsoon failure in 1930, district officials returned to the tried and tested method of opening test works and distributing taccavi (agricultural loans at $6^1/_2$ per cent).[95] Local officials were able to persuade some large zamindars, such as the Darbhanga Raj, to open similar relief works. The desperation of the situation in the Tirhut Division was such that in Muzaffarpur alone over 8,000 labourers turned out to work in the various relief operations at a rate of only Re 0-1-6 per day paid in grain or cash. The District Engineer for Muzaffapur reported back to Scott that:

> 'There are miles of fields ploughed up without any crops and seedlings of paddy and all drying up due to no rains... I had expected about 900 men to turn up in total for work at three centres but we got 3,000 men instead on the very first day... When I told them that if the pay was not suitable they need not work as I was not forcing them to do so, they replied that as they were starving they were compelled to accept any employment. Hundreds of these men were begging me to give them even three pies at once as they were starving

for one to four days each. This sight that they presented was really pitiable.'[96]

Such reports from local officials tended to fall on deaf ears at government level. Thus J. Whitty of the Board of Revenue declared that he had provided Rs 5,000 to aid the situation in Tirhut but that he was 'also writing to him [Scott] demi-officially as I want him to be particularly careful as to see that these early relief works are made a serious test and not a charity.'[97] A view echoed by J. D. Sifton, an official in charge of taccavi loans who added 'I notice A.K. Bose at Motihari contemplating doles of charitable relief which might be demoralising at this stage'.[98] All the Government of Bihar and Orissa seemed concerned about was maintaining the collection of land revenue and cess from zamindars and rentals from cultivators.

Land revenue and cess collections were maintained, generally through the coercion of the certification process. Even in the poor season of 1932-33, only Rs 69,677 of cess and Rs 8,811 of water dues were remitted, less than 1 per cent of demand.[99] The Government of Bihar and Orissa admitted freely to the central authorities that the issue of certificates threatening sale of land for non-payment of revenue was its first resort, not its last.[100] It was hoped that the threat of sale would force the landowner to meet this revenue demand before the actual sale took place. Thus, the number of certificates issued was generally three to four times greater than the total number of sales.[101]

Government officials argued that zamindars had made substantial profits during the period of high prices in the 1920s and, as such, had ample resources with which to meet 'the exceedingly light incidence of the revenue payable for the permanently settled districts which cover the greater part of the province.'[102] Indeed, officials believed that the Zamindar recognised this and 'values the permanent settlement too much to suggest for a moment that any variation in revenue is possible. At the most, he may ask for a temporary suspension.'[103] The smaller zamindars of the temporarily settled districts of Orissa, however, frequently petitioned for such revisions, but such requests were continually rejected on the grounds of the chronic shortfall in government revenue created by the reduction of excise revenue.[104] The Government continued its policy of certification and sales until 1932-33 by which time the number of estates sold had increased to 320 from 198 in 1926-27.[105] The policy was only modified when it was realised that much of the land was being bought by government estate managers in the absence of private purchasers.[106]

In Bihar, only the large zamindars, such as the Maharaja of Chota Nagpur and the Darbhanga Raj, succeeded in collecting the bulk of their rentals. This was not necessarily a reflection of the level of rent demands in these estates. In the Banaili estates in Bhagalpur Division rents were considered to be 'fairly easy and collection is on the whole fair'. Yet it was still not sufficient to prevent the Banaili Raj from applying for remission of revenue on some of his lands 'owing to bad collections'.[107] Meanwhile on his estates in Bhagalpur and Tirhut Divisions, 'Darbhanga manages to keep his rents to a fairly high level and to collect as well.' Even in 1932, the Darbhanga Raj managed to collect over 85 per cent of rental demands.[108] In general it was considered that, 'broadly speaking [rent] collection has been difficult, but where the collecting agency is efficient, as generally the case of larger landlords, the bulk of the dues is collected.'[109] In part, large zamindars were able to offer small remissions of rent to encourage prompt payment on the due date. Mostly, though, it was because large zamindars still had the finance to use the threat of court proceedings in a way similar to the government's use of certificates.[110] Thus, coercion rather than remissions maintained rental collections for large zamindars.

Smaller zamindars, usually with scattered holdings, had greater difficulty in collecting their rentals. In particular, the small zamindars of Orissa faced major problems with reports of rental collections in the coastal divisions being as low as 35 per cent, which led to an increase in the number of zamindars defaulting on their land revenue payment. In Orissa rents had been raised during the land settlement operations of the late 1920s and both rent and revenue had been pitched at 1920s price levels. The most marginal zamindars in Orissa lost control of their tenants during the slump. District officials were convinced that 'it is unquestionable that they have had considerable difficulty in realising their dues, particularly from the better class of tenants, and they have had to work hard for what they have been able to collect'.[111] The petty zamindars of Orissa began to lose part of their holdings to meet revenue demands. In the coastal districts of Orissa there was an increase in the sale of holdings between 1 and 2 acres.[112] This division of fortune, the strengthening of control over their tenants by large zamindars in North Bihar, and the weakening of the position of the small zamindars repeats the pattern discovered by Bose in Bengal during the depression.[113]

Pursued by the government for land revenue, small zamindars also attempted to force their tenants to pay their rents through litigation. By 1932-33, district officials were reporting that small zamindars in both Bihar and Orissa were recovering on average as little as 50 per cent of their rents which led to a large increase in the number of court actions to recover rent arrears, as shown in Table 4.4 below:

Table 4.4: Number of Suits for Recovery of Rent Arears in Bihar and Orissa, 1924-25 to 1934-35

1924-25	35,968
1926-27	40,642
1930-31	60,922
1931-32	68,483
1932-33	80,803
1933-34	91,123
1934-35	100,369

Source: Report on Land Revenue Administration in Bihar and Orissa (Patna, annual)

At the same time, there was a corresponding increase in the number of suits against illegal duress in pursuing rent claims and illegal ejectment from property, reflecting the anxiety of both zamindars and their agents to collect rentals. Some tenants tried to commute their rents back to produce rentals, but most zamindars fiercely resisted such moves since they did not want further stocks of produce which could only be sold at low prices.[114]

In the long run, the pursuance of rent arrears through the courts proved futile, merely adding to the burden of the landlord's debt. The only recourse open to the courts was to evict the sitting tenant, but landlords then found that they could not resettle the land at the same rent, as had the managers of khas mahal estates. Thus, the

Commissioner of Bhagalpur commented:

> 'I have just been inspecting a small wards estate where the manager has had some thirty holdings bought at court sales on his lands for more than a year. No one will take them at what the manager considers a reasonable rent. Though the manager strenously denies the suggestion, it is probable that the original raiyats are still getting a crop off his land... Private landlords tell me the same story. They have all rushed to court in the first instance and found themselves with no money and only holdings which they cannot settle.'[115]

Nor did the zamindar have recourse to the land market to recover his losses. As the rental income from land declined, so did land values. From early 1931 to 1934, land values in Bihar and Orissa declined by some 40 per cent.[116] Instead zamindars began to reclaim bakasht land. Tenancy legislation only protected tenants who paid their rents in full, those in arrears lost their rights to remain on bakasht land and it reverted back to the landlord's demesne (zirat). This process had several major advantages for the zamindars in both Bihar and Orissa (a similar return of bakasht to nijchas land was occurring in Orissa). Firstly, it meant that the zamindar no longer had to worry about resettling the land, hereditary tenants on bakasht land remained as occupancy-tenants on the reclaimed zirat. So, as long as the occupancy-raiyat could not meet his rental payment in full, the zirat land could not revert back to bakasht under the three year rule as had been happening in the 1920s.[117] Most importantly, the reclamation of zirat land returned economic and social power to the zamindar. The landlord could dictate the agricultural season of tenants on zirat from crops sown to nature of marketing: the crop was no longer the raiyats but the landlords. The reclamation of zirat also had major implications for agricultural efficiency in the province.

Occupancy-raiyats with little prospect of returning their hereditary status, lost their incentives to cultivate efficiently, to manure or irrigate their land or to hire additional labour and reverted to subsistence farming based on family labour.[118] Being downgraded to an occupancy-tenancy was also a major blow to the social status of the raiyat in the village and since franchise was linked to the ownership of property, political power swung back to the zamindars.[119]

To some extent, the restoration of zirat helped the zamindar to offset the difficulties created by the credit squeeze. As we have seen the mechanisms for transmission of credit in Bihar and Orissa were not as highly developed as those in provinces with better communications and a more sophisticated level of marketing. However, during the depression, unlike other provinces, there was a continued levelling off of price in Bihar and Orissa which indicated that the commercialisation of the province was continuing. This can be attributed to the changing nature of credit structures in the province during the slump: the mechanisms adjusted rather than broke down completely.

With the first large reductions in the price of rice in late 1930, the network of cash credit in Bihar and Orissa was threatened. Grain dealers stopped providing credit to mahajans and to large zamindars since they were left with large stocks of rice sellable only at a low price. However, there is no indication of panic-selling leading to a breakdown in the provincial market, as identified by Rothermund in Bombay.[120] Instead this squeeze on credit was a traditional feature in Bihar and Orissa. Whenever there was a local crisis, usually a monsoon failure, cash credit was withdrawn while grain dealers waited for prices to rise.[121] This was their response in 1930 to price falls which many anticipated to be of a temporary nature.[122] However, as it became clear that the slump was not temporary and as it became exacerbated by local monsoon failures and floods, grain dealers and mahajans began to offer cash credits again but on a restricted basis. Moneylenders initially demanded the outright sale of land before allowing zamindars to secure credit.[123] However, from 1932 as land values plummeted mahajans were left with land they could not re-sell or settle. Therefore, they returned to the security of mortgages.[124] This process was helped by the restoration of zirat which gave landlords greater control of their tenants and provided the greater security demanded by the mahajan.

Although official reports were sympathetic to the plight of zamindars during the peak years of the depression, 1930-32, ultimately it was the raiyats who suffered most from the credit squeeze.[125] As mahajans had stopped lending to landlords during these years, landlords in turn stopped providing cash credit for their tenants. Hereditary tenants desperate to maintain their right to bakasht land used all their savings to meet their rent demands. Thus in Bihar and Orissa, most of the gold and ornaments coming on to the market represented true 'distress gold', the forced disinvestment from hoards to meet basic necessities such as rental payments to maintain their claims to their land. Since Bihar and Orissa was a poor province, such hoards were small and quickly exhausted. This explains, then, the increased reclamation of bakasht from 1933. By then hoards were exhausted and tenants began to default and lost their customary rights. The exhaustion of credit also meant that the tenant no longer had security for any new cash credit.

In this situation raiyats were forced to accept credit in the form of dadani (advances). Occupancy-tenants on zirat land received dadani in kind, in the shape of seed for the next harvest. Thus the zamindar was able to dictate the nature of crops sown. The only other alternative was to accept dadani from sugar factories or their agents. Usually this was in cash to meet the cost of purchasing seed and manure for the cane cultivation.[126] The pattern in Bihar and Orissa was similar to that studied by Amin in the United Provinces. Raiyats needed cash to meet their rent and so accepted dadani from the sugar factories and were forced into cane cultivation not simply through the price-profit motivation but because this was the only regular source of credit open to them after the slump. Thus, sugar cultivation far from being the saviour of the Bihari and Orissan cultivators, as claimed in Government reports, proved to be another mechanism for their exploitation.

This short study of Bihar and Orissa during the slump has shown that it shared in several of the trends witnessed in other provinces, in particular the downgrading of hereditary tenants with resulting implications for agricultural efficiency. However, there were some differences based primarily on the backward nature of the provincial market at the onset of the depression. The cessation of cash credit in late 1930 to early 1931 was, for example, a traditional response to what was perceived as a local crisis. It was not simply a reflection of the transmission of the slump. Also, despite the cuts in government expenditure, the small increase in the road network during the depression helped to continue the commercialisation process in the province. Above all, because of its backwardness Bihar and Orissa was still at the mercy of climatic conditions. It was the combination of economic depression and a series of poor seasons, culminating in the earthquake of 1934, which made the years 1930 to 1935 so difficult in the province with long-lasting effects that were ultimately to lead to the explosion of peasant protest through the Bihar Kisan Sabhas in the late 1930s described in the work of Henningham.[127]

Overall, then, while the depression failed to alter fundamentally the long-term structure in agricultural productivity, it did have a marked impact on the network of social and economic relationships within rural areas. The loss of income suffered by small peasant farmers and small landowners created by the twin problems of the collapse in prices and of cash credit, led to the alienation of their land and a weakening of their position vis-a-vis their landlords. However, rich peasants and larger zamindars benefited to the extent that, while the value of their land was decreasing, their social position was being strengthened both through the acquisition of the land of their tenants and, most importantly, through their control of credit in kind. Thus during the depression the statification of rural society increased. At the bottom, share-croppers were further immiserised during the slump while at the top large zamindars retained their control of rural wealth. If, outwith the most backward areas such as Bihar and Orissa, the process of commercialisation was being retarded by the fall in incomes and collapse of credit and subsequent reduction in consumption levels of the ordinary peasant, what impact was there on the Indian industrial sector? Did restricted rural consumption of manufactured products act as a break on industrial development? Or was the falling value of rural land pushing the investible surplus from agrarian to urban-industrial areas? To further our discussion of the impact of the depression we now must consider the development of the industrial sector.

NOTES

1. Census of India, 1931, Vol. I, Part 1, p.2, para.3.

2. Census, Page 2, para.3.

3. Census, p.3, para.4.

4. Census, p.3, para.4.

5. S.C. Mishra, 'Agricultural Trends in Bombay Presidency 1900-1920: The Illusion of Growth' Modern Asian Studies [hereafter MAS], 19, 4, 1985, pp.733-759; R. Ray 'The Crisis of Bengal Agriculture, 1890-1927; The Dynamics of Immobility'. Indian Economic and Social History Review [hereafter IESHR]. 10, 3, 1973, pp.244-79.

6. J.F. Richards, J.R. Hagen and E.J. Haynes 'Changing Land Use in Bihar, Punjab and Haryana, 1850-1970', MAS, 19, 3, 1985, pp.699-732.

7. G. Blyn, Agricultural Trends in India, 1891-1947: Output, Availability and Productivity (Philadelphia, 1966), p.101.

8. S. Sivasubramonian, 'Some Comments on the Source Material on Agricultural Output in India, 1900-1947' in B.N. Ganguli, (ed.), Readings in Indian Economic History, (Delhi, 1964), pp.157-162; Blyn, Agricultural Trends; A. Heston, 'Official Yields per acre in India, 1886-1947. Some Questions of Interpretation', IESHR, 10, 4, 1973, pp.203-322; A.V. Desai, 'Revenue Administration and Agricultural Statistics in Bombay Presidency', IESHR, 15, 2, 1978, pp.173-185; A. Heston, 'A Further Critique of Historical Yields Per Acre in India', IESHR, 15, 2, pp.187-210; M.M. Islam, Bengal Agriculture 1920-1947 (New Delhi, 979); S.C. Mishra, 'On the Reliability of Pre-independence Agricultural Statistics in Bombay and Punjab', IESHR, 20, 2, 1983, pp.171-190; C. Dewey, 'The Agricultural Statistics of the Punjab, 1807-1947', Bulletin of Quantitative and Computer Methods in South Asian Studies, 2, 1, 1974, pp.3-14 and his 'Patwari and Chaukidar: Subordinate Officials and the Reliability of India's Agricultural Statistics' in C. Dewey and A. Hopkins (eds.), The Imperial Impact, (London, 1978), pp.280-314; C.E. Pray, 'Accuracy of Official Agricultural Statistics and the Sources of Growth in the Punjab, 1907-47', IESHR, 21, 3, 1984, pp.313-33.

9. Pray, p.319.

10. P.J. Thomas and N.J. Sastry, Indian Agricultural Statistics (Madras, 1939); R. Mukerjee, Food Planning for four Hundred Millions (London, 1938).

11. In his work on Japan, Ohkawa admits his calculations on long-term agricultural development can be challenged because of unreliable labour input statistics despite the benefits of the LTES calculations. Such difficulties are even greater for a country

with triple the population of Japan in Ohkawa's period and far less reliable statistics. K. Ohkawa, 'Phases of Agricultural Development and Economic Growth' in Ohkawa (et al, eds.) Agriculture and Economic Growth: The Japanese Experience (Princeton, 1970) p.11.

12. Letters P.W. Murphy, Commissioner Patna, to Board of Revenue, Government of Bihar and Orissa, No R-450-XXXIV-4-34, 6th March 1930 in Government of Bihar and Orissa, Revenue Department [hereafter B.O.Rev.Dept.] File 11-T-15 of 1931, State Archives of Bihar, Patna: Census of India, 1931, Volume 7. Bihar and Orissa, Part 1, Chapter 1.

13. B.B. Chaudhuri, 'Eastern India' in D. Kumar (ed.), The Cambridge Economic History of India [hereafter CEHI] Vol.II, (London, 1983), p.110.

14. Sir B. Darley, 'The Development of Irrigation in India', Journal of the Royal Society of Arts, [hereafter, JRSA], December 12, 1941, pp.41-48.

15. A.V. Williamson, 'Indigenous Irrigation Works in Peninsular India', The Geographical Review, 193, pp.613-26.

16. B.C. Burt, 'Agricultural Progress in India during the decade 1929-1939', JRSA, February 20, 1941, pp.203-216. Also work of H.H. Mann collected in D. Thorner (ed.), The Social Framework of Agriculture, (London, 1968).

17. See Mann's work in The Social Framework; N. Das, Agriculture in India, Past, Present and Future, (Calcutta, 1944), p.16.

18. See for example, the career of Sir Herbert Stewart, Director of Agriculture for the Punjab, described in India Office Library and Records, London [hereafter IOL], Mss.Eur. T.125/2.

19. M.M. Islam, 'Irrigation and Punjab Agriculture, 1900-1945: Some Preliminary Notes', South Asia, 2, 1, (1978), pp.29-37.

20. Crop and Season Report, Bihar and Orissa, 1935-36, para.4.

21. Crop and Season Report of the Bombay Presidency in the year 1929-30, Statement VI.

22. Crop and Season Report for Bihar and Orissa in the year 1938-39, Statement VI.

23. Crop and Season Report of the Bengal Presidency in the year 1930-31, Statement VI.

24. For instance, see C.L. Lee, 'The Effects of the Depression on Primary Producing Countries', Journal of Contemporary History, 4.4 (1969), pp.139-155.

25. Crop and Season Report, Bihar and Orissa, 1934-35, para.2; Crop and Season Report, Punjab, 1934-35, para.3; Crop and Season Report, Bengal, para.VIII.

26. O. Goswami, 'Agriculture in the Slump: The Peasant Economy of East and North Bengal in the 1930s', IESHR, 21, 3, (1984), pp.335-364; M.M. Islam, 'The Peasant Economy of East and North Bengal in the 1930s: Some Comments', IESHR, 23, 2, (1986), pp.217-221; Goswami, 'The Peasant Economy of East and North Bengal in the 1930s: A Reply', IESHR, 23, 2, (1986), pp.221-226.

27. Crop and Season Report, Bengal, 1933-34, para.XV.

28. Season and Crop Report, Punjab, 1932-33, para.4; 1935-36, para.4.

29. Crop and Season Report, Bombay and Sind, 1930-32, para.21.

30. Crop and Season Report, Bombay, 1934-35, para.16; 1935-36, para.16.

31. Crop and Season Report, Bombay, 1934-35, para.17.

32. Statistical Abstract 1929-30 to 1938-39, BPP, Cmd 6333 of 1941-42, Table 187, pp.498-9.

33. B.B. Chaudhuri, 'Land Market in Eastern India, 1793-1940', IESHR, 1, (1981), p.34.

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37. M. Mukherjee, 'Commercialization and Agrarian Change in Pre-Independence Punjab', in K.N. Raj (et al, eds.), Essays on the Commercialization of Indian Agriculture, (Delhi, 1985), pp.51-104; N. Bhattacharya, 'Agricultural Labour and Production in Central and South East Punjab, 1870-1940', in ibid, pp.105-162; Bose, Agrarian Bengal; Goswami, 'Agriculture in the Slump'; Baker, Tamilnad; S. Guha, The Agrarian Economy of the Bombay Deccan, 1818-1941 (Delhi, 1985); N. Charlesworth, Peasants and Imperial Rule, Agriculture and Agrarian Society in the Bombay Presidency, 1850-1935 (Cambridge, 1985).

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39. Census Report, 1931, Vol. VII, Bihar and Orissa, p.1, para.1.

40. D. Rothermund, 'The Evolution of an Economic Enclave; the Indian Coalfield, 1890-1970' in his The Indian Economy under British Rule (Delhi, 1979), pp.42-55.

41. As can be seen in the voting patterns of all major debates. For example, if a resolution was debated calling for a reduction of land revenue in Orissa, Bihari landlords in the Council would vote with the official representatives of Government to quell the motion, and vice versa.

42. Bihar and Orissa in 1927-28 (Patna, 1928), p.14 and p.16.

43. Census Report, 1931, Vol.VII, p.50.

44. As estimated by B.B. Chaudhuri, 'Land Market' p.33.

45. G. McDonald, 'Unity on Trial; Congress in Bihar, 1929-39', in D.A. Low (ed.) Congress and the Raj, (London, 1977), p.293.

46. Crop and Season Report, Bihar and Orissa, 1925-26, p.30.

47. For description of system in Bengal, see Bose, Agrarian Bengal.

48. Chaudhuri, 'Eastern India', p.124.

49. See Legislative Council Debates, Government of Bihar and Orissa, 1926 to 1932.

50. For description see D. Thorner, 'Employer-Labour Relationships in Agriculture' in D. & A. Thorner, Land and Labour in India, (Bombay, 1962), pp.30-55.

51. D. Rothermund, 'A Survey of Rural Migration and Land Reclamation' in his Indian Economy under British Rule, p.63.

52. D. Thorner 'The Agricultural Labour Enquiry: Reflections on concepts and methods', in Land and Labour in India, p.186; Chaudhuri, 'Eastern India', p.166; A.D. Tuckey, Deputy Commissioner, Hazaribagh to Commissioner, Chota Nagpur Division, No 8957-G of 23 July 1929 in B.O.Rev.Dept., File 11T-4 of 1930.

53. Legislative Council Debates, Bihar and Orissa, 22nd February 1930, p.368.

54. P. Chaudhuri, 'The Impact of Forced Commerce on the Pattern of Emigration from Orissa 1901-21', in K.N. Raj (et al, eds.), Essays on the Commercialization of Indian Agriculture (Delhi, 1985). pp.184-209.

55. See Captain Hunt, All in a Day's Work in IOL Eur Mss. D.569.

56. Bihar and Orissa in 1930-31, P.T. Mansfield, p.88.

57. Mansfield, p.89.

58. Mansfield, p.77.

59. See Bose, Agrarian Bengal, Ch.3; Report on the Marketing of Wheat in the Punjab (Lahore, 1937); Report on the Marketing of Rice in India and Burma (Delhi, 1942).

60. Legislative Council Debates, Bihar and Orissa, 2nd September 1932, pp.281-4.

61. Census of India, 1931, Volume VII, p.20, para.26. The jute trade of Purnea was based on access to Calcutta via the branch lines at Forbesganj and Kisharganj.

62. Quoted in Legislative Council Debates, Bihar and Orissa, 24 February 1936, p.371.

63. Chaudhuri., 'Eastern India', p.153.

64. Crop and Season Report, Bihar and Orissa, 1930-31, Appendix VI.

65. Crop and Season Report, Bihar, 1936-37, p.2, para.3.

66. Quoted in Blyn, pp.52-53.

67. Blyn, p.45.

68. Census of India, 1941, Part 1, Vol.I, Quoted in Blyn, Appendix 8.

69. D. Narain, Impact of Price Movements on Areas under Selected Crops in India, 1900-39, (Cambridge, 1965), p.11.

70. Crop and Season Report, 1930-31, para.10.

71. Narain Price Movements, p.13.

72. Blyn, Appendix 7.

73. Crop and Season Report, 1932-33 and 1935-36, Appendix III.

74. D. Rothermund, An Economic History of India (London, 1988), p.88.

75. Census of India, 1931, Vol.VII, para.23.

76. Census, p.89, para.11.

77. See Rothermund, 'Evolution of an Economic Enclave'.

78. Calculated from Statement VI of Crop and Season Reports (annual).

79. Bihar and Orissa in 1931-32, p.35.

80. Bihar and Orissa in 1935-36, p.117.

81. Crop and Season Report, Bihar and Orissa, 1934-35, para.12.

82. Blyn, p.175.

83. Crop and Season Report, Bihar and Orissa, 1935-36, Statement III.

84. Bihar and Orissa in 1928-29, C. Murray, p.11.

85. Bihar and Orissa in 1930-31, Mansfield, p.12.

86. Bihar and Orissa in 1930-31, p.28. The Government of Bihar and Orissa also believed the slump would be a temporary phenomena. See, for instance, Legislative Council Debates, 29th August 1930, Reply by H.C. Prior for Government, p.139.

87. Letter, Philips to Board of Revenue, D.O. 839-H. 4 August 1932 in B.O. Rev.Dept., File IC-16 of 1932.

88. Hubback to GOL, Dept. of Education, Health and Lands, 11 August 1932, in B.O.Rev.Dept. IC-16 of 1932.

89. Philip to Board of Revenue, D.O. 339-H of 4 August 1932.

90. Sir E. Blunt, 'Agricultural Indebtedness in the United Provinces', JRSA, LXXXV, 1937, pp.675-693.

91. Crop and Season Report, 1933-34, para.20.

92. Census of India, 1931, Vol.VII, p.74, para.63.

93. Bihar and Orissa in 1932-33, p.18.

94. Bihar and Orissa in 1934-35, p.36.

95. Legislative Council Debates, 24 January 1931, p.1164.

96. Note on relief work in Sitamarhi Division by District Engineer of Muzaffarpur, in D.O. 226-C, 9th August 1932 in B.O.Rev.Dept. IC-16 of 1932.

97. Note J.D. Sifton, 13-8-1932 in above file.

98. Note by J. Whitty, 13-8 1932 in above file.

99. Land Revenue Report, 1932-33, p.14, para.35: memo 247-ILW-6-33-1-R of 13 May 1933 in B.O.Rev.Dept., File IT-LI of 1933.

100. Note Rai Bahadur Das, Offg Secretary to Board of Revenue, to GOI, CD, No 19-38-11 of August 8th, 1933 in B.O.Rev.Dept., File IT-LI of 1933.

101. See notes by District Commissioners in B.O.Rev.Dept., File IC-16 of 1932.

102. See Note by Rai Bahadur Das. Also see speech by P.T. Mansfield for Government of Bihar and Orissa in Legislative Council Debates, 19th August 1931, p.31.

103. Notes on meeting between Dain (Board of Revenue), Middleton (Commissioner, Patna) and Tuckey (Commissioner, Tirhut) on August 24th 1933, in NAI, GOI, FD, File 7(15)F of 1934.

104. See Legislative Council Debates for petitions, for example, 22nd February 1930, pp.368 ff.

105. Note by Rai Bahadur Das.

106. Land Revenue Report, 1932-33, p.20, para.42.

107. J. Dain, Commissioner Bhagalpur Division to Board of Revenue, D.O. 249-C of 5th August 1932 in B.O.Rev.Dept., IC-16 of 1932.

108. B.M. Chattarji, Collector Darbhanga to Scott, Commissioner of Tirhut, D.O. 503-C of 4th August 1932 in B.O.Rev.Dept., lC-16 of 1932.

109. Prior, Secretary of Revenue Dept., to GOl, EHL No. 517-1C-16.R.R. of 14th August 1932 in B.O.Rev.Dept., IC-16(2) of 1932.

110. Letter Secretary of Government of Bihar and Orissa to Gol, FD, No. 1549/IC.61 of 6th October 1933 in NAI, Gol, FD, File 7(15)F of 1934.

111. Philip, Commissioner of Orissa Division, to Board of Revenue, D.O. 339-H of 4th August 1932, in B.O.Rev.Dept., IC-16 of 1932.

112. Philip, 4th August 1932.

113. Bose, Agrarian Bengal, p.136.

114. See submission by Government of Bihar and Orissa in NAI, Gol, EHL, File Agri-F(B), Nos.21-36 of January 1932.

115. Land Revenue Report, 1932-33, p.20, para.41.

116. Bihar and Orissa in 1933-34, p.89.

117. Legislative Council Debates, Bihar and Orissa, 24th February 1936, pp.373-75.

118. Bihar and Orissa in 1934-35, p.59.

119. See McDonald, 'Unity on Trial'.

120. Rothermund, Economic History of India, p.98.

121. See notes in B.O.Rev.Dept., File IC-16 of 1932.

122. Notes, File IC-16 of 1932.

123. B.O.Rev.Dept., File IF-13 of 1932.

124. Land Revenue Administration Report, Bihar and Orissa, 1933-34, p.18.

125. For sympathy towards landlords see Legislative Council Debates and memos in B.O.Rev.Dept. File IC-16 of 1932.

126. Legislative Council Debates, Bihar and Orissa, 2nd September 1932, pp.281-283.

127. S. Henningham, Peasant Movements in Colonial India, North Bihar 1917-1942 (Canberra, 1982).

CHAPTER FIVE

Industrial Development During the Depression

During the last 15 years, there has been renewed interest in the development of Indian industry in the inter-war period. While there has been increased attention paid to the questions of labour history, the literature has remained dominated by two themes. Firstly, the emergence after the First World War of Indian industrial capital outwith the Bombay enclave and the pressures which this brought to bear upon the relationship between the Indian and European business communities. Secondly, the impact of government policy or the lack thereof, most specifically in the award of protection. Indeed, to a large degree, industrial development in India during the inter-war period has been seen in terms of the ability to gain protection and the success or failure of such protection.

Furthermore, within this literature, there has been a tendency to dwell on studies of individual industries, classifying them as either 'old' or 'traditional' industries such as cotton or jute manufacturing, or as newer 'protected' industries like iron and steel, sugar and cement. Little has been written, as yet, about the large rural sector of Indian industries based on the processing of agricultural produce such as cotton ginning, jute pressing and rice, oil and flour milling. These industries, predominantly seasonal in nature, provided the major additional source of income for rural labourers. Of course, the sugar industry itself was an agricultural processing industry, but it involved a greater degree of modern, large-scale plant than most of the generally small-scale, widespread processing industries.

In part, the concentrations evident in the historiography reflect the availability of research material. The prominent industries studied to date were controlled either by European managing agency houses or the rising Indian family groups. In both cases many resources remain. However, these resources are primarily personal papers and, while these are useful, it would be better if historians could have access to company records and balance sheets which so far have rarely been available. Thus Government official publications have formed the other major source of information, emphasising the concentration on larger units of manufacturing. For these reasons, the present study also concentrates heavily upon the major Indian industries of the period, using predominantly official sources and commercial publications such as the Investors' Yearbook.

While the literature tends to consider the evolution of Indian industry throughout the inter-war period as a whole, some interpretations about the impact of the depression have emerged. Many contemporaries such as Thomas and Anstey believed that, even in the face of falling income levels, India's potentially large domestic market shielded Indian industry from the worst effects of the slump.[1] Officials in Whitehall also regarded India's industrial progress as a sign that the depression had had remarkably little impact, particularly when they compared the performance of the Indian cotton industry with that of Lancashire. After reading the 1935 Indian Tariff Board Report on the Cotton Industry, one India Office spokesman remarked that it would be difficult to find any evidence of a slump and that the industry no longer needed protection:

> 'The rest of the world has not exactly been rolling in prosperity since 1931 but the Indian cotton mills have increased their production of woven goods from 2,561 million yards in 1930-31 to 3,396 million yards in 1934-35, a rise of 33 per cent ... [this] has been particularly marked in goods Lancashire used to supply. If it had been the business of the Board to say whether protection was justified at all, this third chapter might have formed the basis of a negative answer.'[2]

This remark illustrates the way in which protection was regarded as an all-powerful weapon. Hence, insofar as officials of the Government of India believed that the depression was having a severe impact on certain industries, they pinned their faith on increased tariff protection and the potential of increasing the domestic market.[3] Certainly the Government of India was quick to claim their policies were fundamental to the development which occurred in protected industries. In 1945 the Planning and Development Department boasted:

> '... It is a matter of history that the cotton textile, the iron and steel and the sugar industry have made rapid strides in India largely as a result of the fiscal policy pursued by the Central Government.'[4]

Of course, officials in Delhi also had an eye to the possible financial consequences of increased customs duties upon which they relied for the greater part of their revenue. Outwith the policy of protection, however, lack of statistical information was used as the excuse for government inactivity.[5] Schemes were proposed by Sir George Schuster to gather the necessary statistical data and Sir Arthur Salter was invited to the country to suggest a framework for a full-scale statistical enquiry of India. The League of Nations was approached to provide the necessary funding but, on receiving no reply, the financial stringency of the Government of India was again the excuse for delaying the proposed survey.

Among modern historians, there are several areas of consensus about the impact of the depression on Indian industry. Most agree that there was a short period at the beginning of the slump when credit flows tightened as prices and profits fell.[6] However, this proved to be a temporary phenomena and of much shorter duration than in other countries.[7] From late 1931 credit in the westernised banking sector increased, partly as a consequence of the large gold exports.[8]

Bagchi and Ray have charted the rise of the Indian trading families during the 1930s,[9] arguing that it was the increased award of protection which encouraged Indian entrepreneurs to diversify their interests from trade and indigenous banking into industry.[10] Tomlinson has suggested that a second phenomena also may have been at work, namely the 'shaking out' of capital from the agrarian to the industrial sector, either through the flow of hoarded gold or the depreciating profit to be made from the traditional areas of investment of land and moneylending.[11] Baker, also, has found evidence of this in Madras with the diversification of the Chettiars from indigenous banking into sugar and cotton manufacturing.[12] Alternatively, Bagchi has argued that the repatriation of funds by

European firms left a capital gap which was filled by domestic capital. Before the slump, he argued, entry into the modern industrial sector was barred by European control over foreign trade and finance, although this grip had loosened slightly during the 1920s. Thus, Bagchi saw the 1930s as providing a 'more suitable' environment for Indian entrepreneurship.[13] Whatever the underlying causes, the emergence of Indian capital marked an important turning point in investment practices. As late as 1930, the Central Banking Enquiry Commission had reported that Indian capital was still 'shy' of entering industry.[14]

By international standards, the Indian industrial sector was little affected by the 1929 depression. Hilgerdt's comparative study of manufacturing production for the League of Nations shows only a minor halt in industrial growth in India in 1930.[15] Table 5.1 (over) illustrates the general trends in industrial production during the period.

From this it can be seen that, during the depression, India's manufacturing production increased steadily above the world average. Only the Union of South Africa, the Soviet Union, Japan, Finland and Greece showed higher production increases than India, although the figures for Greece are highly dubious. India's manufacturing production remained higher than the economies of the industrial west and of other primary producing economies. This performance seems even more remarkable when set against the problems of the trade and agricultural sectors catalogued in previous chapters. Hilgerdt's statistics have been cited both by Morris and Ray with differing

Table 5.1: Annual Indices of Manufacturing Production (1913 = 100)

	World	UK	India	Australia	Japan	Chile	Canada	USA	USSR	Union of South Africa
1920	93.2	92.6	118.4	100.5	176.0	-	99.1	122.2	12.8	312.1
1925	120.7	86.3	132.0	141.2	221.8	89.6	116.5	148.0	70.2	403.6
1929	153.3	100.3	157.3	143.4	324.0	156.3	162.7	180.8	181.4	532.1
1930	137.5	91.3	144.7	129.1	294.9	156.7	147.5	148.0	235.5	-
1931	122.5	82.4	155.3	120.2	288.1	116.3	128.2	121.6	293.9	-
1932	108.4	82.5	155.3	128.5	309.1	132.4	108.5	93.7	336.1	497.1
1933	121.7	88.3	167.7	141.7	360.7	146.2	108.5	111.8	362.2	614.3
1934	136.4	100.2	190.2	154.7	413.5	159.4	127.7	121.6	437.0	714.3
1935	154.5	107.9	205.4	169.2	457.8	183.6	141.0	140.3	535.7	825.7
1936	178.1	119.1	216.6	182.0	483.9	188.6	154.2	171.0	693.3	945.0
1937	195.8	127.8	234.9	180.9	551.0	196.6	174.8	185.8	772.2	984.3
1938	182.7	117.6	239.7	193.3	552.0	204.2	161.8	143.0	857.3	1,067.1

Source: League of Nations, Industrialisation and Foreign Trade, (Geneva, 1945), Prepared by F. Hilgerdt, pp.134-137 interpretations. Morris stressed that the increased production was a sign that the concentration in the historiography on India's links with the international economy has been misleading. He argued that the domestic market was the most important outlet for Indian industry but it took the collapse of international trade during the 1930s for this to be realised. He views the growth during the slump as a key period in the development of Indian industry.[16]

Ray agreed that India's industrial performance in the 1930s was 'not unimpressive' and that 'there was a significant growth in manufacturing output'.[17] However, for Ray, this was not enough viewed against India's 'potential' development. Thus, he argued that the constraints to Indian industrial growth had not been eliminated, only weakened slightly. Implicit in his argument is the belief that the depression was a lost opportunity: had the Government of India responded more positively and vigorously, growth rates could have matched those recorded during the Second World War and allowed the diversification of the industrial structure to include capital goods at an earlier stage.[18]

In such arguments, there are echoes of the studies of the Latin American economies during the depression. Diaz Alejandro, for example, has analysed how the Argentinian industrial sector was able to weather the most severe effects of the depression through positive government action.[19] Fiscal policy was adapted in two ways to promote industrial growth by maintaining price levels. Currency devaluation was accompanied by exchange controls which favoured exporters at the expense of importers. This was backed by a vigorous tariff policy to promote import-substitution industries. Meanwhile, the Government of the Argentine sought to maintain its traditional export sector by securing markets in a series of bilateral trading agreements. Similarly, Baer has argued that the strengthening of tariff policy by the Brazilian Government helped to stimulate those industries which had begun to emerge in the 1920s.[20] Not only did domestic investment expand, but the tariff barrier encouraged a renewal of foreign investment with the establishment of American firms, notably paper mills and motor vehicle assembly lines.[21] Furtado has emphasised that the purchase of coffee stocks by the Brazilian Government maintained the level of the domestic money supply, allowing the expansion of consumer industries.[22] Studies of the Chilean and Uruguayan economies during the slump also have stressed the importance of the increased participation by the government through fiscal policies such as exchange controls, purchase schemes, use of contracts and loans, tax concessions and land grants.[23] In most Latin American economies, the domestic market was seen as an antidote to falling world trade and governments promoted industrial growth to break traditional dependence upon the exportation of primary produce.

However, there are major debates about the effectiveness of these policies. Diaz Alejandro is positive in his assertion that increased government involvement in the promotion of industry helped to steer the Argentinian economy through the depression.[24] However, others have argued that the moves to protect Argentina's exports, particularly to Britain, increased the country's dependence upon primary production and held back growth of the industrial sector.[25] Baer has disagreed with Furtado over the nature of the commitment of the Brazilian Government to industrial expansion, arguing that it was not total and lacked a development strategy, thus Brazilian industry failed to reach its full potential.[26] Glade maintained that the Chilean Government made a serious effort to promote industrial development, but that the restriction on finance, created by the massive slump in the sales of copper and nitrates, limited what could be accomplished.[27]

The most striking example of industrial recovery and growth during the depression occurred in Japan, a recovery unique in being based upon export-led growth despite the general contraction of world trade. Allen refers to the role of the depreciation of the yen in lowering the price of Japan's exports by 40 per cent and also the skilful rescheduling of many of Japan's trade agreements.[28] Most contemporaries viewed the depreciation as Japan's most potent instrument in the expansion of its export of manufactured goods.[29] However, the inherent strength of the Japanese industrial base was the true foundation for the growth of the 1930s. Japanese businessmen had been quick to rationalise their concerns during the 1920s and to re-equip with the latest technology such as the automatic loom. Also, there had been a general trend towards larger industrial units offering increased possibilities of economies of scale, particularly under the aegis of the zaibatsu.

A possible explanation why the depression has received little emphasis in the historiography of industrial development could be that the limited nature of the government response in India has denied historians the framework which can be established in other economies. Thus, studies on Indian industry concentrate upon protection because that was virtually the only form of response by the Government of India. The explanations of why government response should be so muted in India are seen in the long-term colonial relationship between Britain and India and so again the phenomenon of the depression is blurred.[30]

This chapter, then, will assess the nature of development of Indian industry during the depression: which industries felt the impact of the crisis and which expanded. Secondly, the factors behind the diverse effects of the slump will be studied. For instance, was the key factor in development government patronage in the form of contracts or protection or was it changes in production costs which gave advantages to certain industries? To assess this there will be a series of case studies of individual industries.

1. Trends in Level of Employment

For Indian industry, the depression appeared to be reflected in falling prices, changes in the pattern of consumption and decreased profit levels, at least in the short-term. The limited nature of the slump on the industrial sector can be seen in the remarkable stability of numbers of factories and employees, as demonstrated in Table 5.2 over. This shows that the number of factories employing over 20 workers rose steadily with only a minor decrease in 1931. Numbers employed in these concerns fell by just under 10 per cent between 1929 and 1933, but numbers recovered rapidly so that by 1938 the figure was nearly 12 per cent greater than in 1929.

Table 5.2

Factories subject to the Indian Factories Act

	No. of Factories	No. Employed	Index No. of Employment (1929=100)
1929	8,129	1,553,169	100.0
1930	8,148	1,528,302	98.4
1931	8,143	1,431,487	92.2
1932	8,241	1,419,711	91.4
1933	8,452	1,405,402	90.5
1934	8,658	1,487,231	95.7
1935	8,831	1,610,932	103.7
1936	8,338	1,562,917	100.6
1937	8,930	1,675,869	107.9
1938	9,748	1,737,755	111.8

Source: Statistical Abstract, 1929-30 to 1938-39, BPP, Cmd 6333 of 1942.

Recent research on trends in Indian industry by Colin Simmons has shown the same remarkable stability despite the slump. In a series of statistical exercises based on earlier work by Sivasubramonian, Simmons found, that in terms of manufacturing output and employment, 'that over 1929-33 India's "modern" secondary sector taken as a whole faltered but did not pass through a depression - much less a general or great depression'.[31] While manufacturing employment did decrease (by some eight per cent between 1929/30 - 1933/34), output recovered quickly implying a gain in labour productivity. Simmons' work shows a similar trend to the figures in Table 5.2, but records a greater level of recovery in employment (by 18 per cent in 1937/38). This is because Simmons included workers employed in factories with less than 20 workers.

2. Trends in Profit Levels

Another indicator of the impact of the depression can be seen in the levels of profitability of manufacturing concerns. Table 5.3 (over) illustrates profit levels in large scale industries (over 20 workers). This index is taken from official Government of India records. It is a chain index of profits recorded by firms in the Investors' Year Books. Naturally, this is not a complete source. Problems include fluctuations in the number of concerns included and the series generally accounts for only 60 per cent of individual industries. The profits comprise the aggregate profits of these concerns divided by the number of firms. The measure of profits defined in this official index excludes taxes, interest and commission but includes depreciation charges. In effect, this is an unweighted index of the gross profits made by some of India's most important industrial companies. A later study by Munshi and Karnik, on behalf of the Federation of Indian Chambers of Commerce and Industry, found that their index of net profits to be 'on the whole very similar to those indicated in the Economic Advisors' Series'.[32] Their trends showed the same peak years and the same magnitude of rises in the overlapping years of the two series (1936-1941). Therefore it is assumed that the official series provides a genuine reflection of trends in the Indian industrial sector during the depression.

Table 5.3 Index of Profits (1928 = 100)

	All India	Jute	Cotton	Tea	Sugar	Paper	Iron & Steel	Coal
1929	78.0	85.6	99.1	59.8	79.6	93.2	18.6	98.4
1930	47.1	37.9	37.9	14.9	93.6	91.3	70.6	122.1
1931	27.8	8.7	52.8	-19.3	144.5	86.6	78.0	91.2
1932	34.6	12.6	82.8	-1.1	253.9	92.4	66.2	75.0
1933	44.2	19.8	33.9	93.9	254.2	110.8	90.3	60.3
1934	62.6	34.4	90.1	50.2	294.2	108.1	169.2	59.7
1935	69.2	39.8	89.0	63.5	157.7	136.4	192.9	63.8
1936	63.1	25.9	98.8	70.8	249.0	157.4	179.0	62.5
1937	61.1	11.1	137.9	108.4	122.3	182.8	211.6	71.9
1938	67.7	-9.8	208.3	73.9	168.3	172.1	316.7	134.1
1939	72.4	13.6	154.6	96.2	179.4	151.8	289.3	189.1
1940	99.9	48.8	220.1	95.4	180.0	358.7	300.7	140.2
1941	135.4	46.8	489.1	141.3	247.3	482.2	389.3	114.9

Source: Ministry of Finance, Joint Stock Companies in India, (N. Delhi, 1955), Table 17, Calculated from Investors' Year Book (Calcutta).

On an all-India level, profit levels dropped rapidly reaching their lowest point in 1931. They rose again only slowly and unsteadily, until the affects of the Second World War finally took the index back over the 1928 level in 1941. Of course, the general index masks the varied impact of the depression on the different industries and it is clear that it was the problems in the jute and coal industries which deflated the all-India index.

The profits of jute companies seem to have been affected most by the depression; the index dropping to 8.7 in 1931. Recovery was only partial when profits fell again in 1937-38 after the period of unfettered competition when the output restriction scheme broke down. Even with war demand the profits of jute companies did not recover to the 1928 level. It was the impact of the depression and several years when even European companies failed to declare dividends that taught the Indian jute industry that it needed to rationalise.

The performances of the other major industries were markedly different. The cotton industry also had to face a period of major readjustment in the inter-war period. The heavy losses in profits during the depression gave an added vigour to rationalisation schemes. By the late 1930s the profits of the cotton industry were well above the 1929 level. However, this index masks the dichotomy between the Bombay Island and the up-country mills. The weaving mills of Ahmedabad and Delhi and the spinning mills of Madras consistently showed a higher level of profit than Bombay mills.

Coal profits were not affected as severely as jute and cotton but the general level of profits in this industry was normally low because of the large number of small open-cast collieries. The lowest point was in 1934 when the index number stood at 59.7. Reports of the 1920s talk of a depression then, as India lost her export markets for coal. Possibly, when the depression of the 1930s was at its peak, those coal companies which were least efficient and economic had already gone out of production. It was reported that in the late 1930s when profit levels again went above 1928, many of the small mines were re-opened to gain quick profits.

It is interesting to note the performances of sugar, paper, and iron and steel industries, all of which received protection during the depression. Profits of the iron and steel companies were cut very badly during the depression probably through the initial retrenchment of expenditure by the Railways Department and Public Works Departments, both at central and provincial levels. Profitability was restored more rapidly than most other industries. The 1934 Supplementary Agreement gave Indian iron and steel semi-manufacturers a vital preference in the British market which allowed the industry to gain benefit from its extended capacity. The sugar industry also recovered and expanded quickly with the effects of protection. 1929 was the lowest point on the index, marking the year of peak imports of refined sugar into India. However, after 1936, profits began to falter. Severe competition among factories pushed down prices and a substantial domestic market for refined sugar had failed to be created, so profit levels could not be maintained. The profits of the paper industry were affected very little by the onset of the depression. Indeed the depression probably helped to reduce production costs through lessening the prices of imported wood pulp, essential while research was being carried out into the use of bamboo pulp as a substitute. There was a slight decrease in the late 1930s, again through the emergence of competition, with the establishment of new Indian-owned paper mills. However, this was quickly overtaken by the effects of the war.

Thus, the general level of profits of large-scale industry in India recovered reasonably quickly after the depression. The continued problems in the jute industry clearly is the source of the deflated levels in the all-India index. In terms of profit levels, then, it seems that Indian industry did indeed recover quickly from the slump, although the profits of most of the export-oriented industries were slower to revive.

The relatively early recovery from the slump in Indian industry can also be traced in the development of joint stock companies, illustrated in Table 5.4 (over). As was to be expected, there was a reduction in the numbers of cotton, tea and coal mining firms registered, as well as a decrease in agricultural processing mills in the period 1929-30 to 1932-33. Numbers then rose steadily. With the award of protection in 1932, the numbers of sugar companies doubled. The steady increase in subsidiary financial service companies throughout the depression is witness to the general buoyancy of the industrial sector. The only strange phenomenon is the steady increase in the number of jute mills despite falling profit levels.

From this general survey of profitability it appears that the award of protection was an important factor in early recovery from

Table 5.4: Development of Joint Stock Companies, 1929-30 to 1938-39

	1929-30	1930-31	1931-32	1932-33	1933-34	1934-35	1935-36	1936-37	1937-38 [A]	1938-39 [A]
Banking and Loans	1,544	1,633	1,667	1,700	1,785	1,855	1,993	1,981	1,894	1,852
Insurance	137	206	333	437	582	708	783	778	702	650
Tea	484	480	475	459	485	478	476	472	417	423
Coal Mining	217	216	214	212	275	282	283	261	200	203
Cotton Mills	270	272	288	297	306	316	339	331	324	337
Jute Mills	64	68	68	69	69	75	80	82	73	78
Cotton Processing	100	97	106	101	106	114	123	131	143	140
Jute Processing	20	28	29	30	33	34	33	35	29	29
Flour Mills	26	24	24	23	30	33	34	30	26	26
Sugar	30	32	46	106	151	172	190	196	171	186
Total No. Cos. Registered	6,009	6,387	6,806	7,252	8,346	8,934	9,467	10,061	9,877	10,070

A: Excludes Burma.

Source: Statistical Abstract, 1929-30 to 1938-39, BPP, Cmd 6333 of 1942.

the slump. However, since protection was not part of a coherent government development strategy, other factors beside protection must have been involved.

3. Trends in Prices of Manufactured Products

The most immediate impact of the depression was the fall in prices for Indian manufactures both at home and abroad. However, goods produced for export markets experienced more heavy declines than those sold in the domestic market. For instance, the index number for price of manufactured jute in Calcutta fell from 122 in 1929 to 76 in 1931, while that for cotton piecegoods fell from 160 to 123 over the same period, as can be seen in Table 5.5.(over) The depression brought a swing in the terms of trade in favour of the manufacturing sector as raw material prices fell farther than those for finished products. Thus, the index number for raw jute fell from 95 in 1929 to 49 in 1931 and continued to fall below 1914 levels while prices of manufactured jute were recovering. Therefore, industry could benefit from a reduction in production costs covering that part which was spent on raw material purchase. This saving would have been even greater between 1932 and 1936 as raw material prices continued to fall while prices for manufactured goods showed signs of recovery and the gap between the two widened. From this it can be seen that the impact of the depression was highly complex involving differences in factors such as market structure, composition of production costs, availability of capital and general price levels, all of which must be considered.

From this general survey it is clear that the Indian

Table 5.5 Index Numbers of Wholesale Prices in Calcutta (July 1914 = 100)

	Sugar	Tea	Raw Jute	Manufactured Jute	Raw Cotton	Manufactured Cotton	Other Textiles	Metals	Mustard Oil
1920	407	78	104	149	152	325	162	236	127
1921	270	100	83	104	148	280	142	236	108
1922	221	159	110	144	191	239	162	172	116
1923	246	206	90	138	244	221	163	163	100
1924	239	205	102	159	272	228	146	159	106
1925	179	180	154	177	205	210	132	125	113
1926	178	180	120	147	147	173	119	137	117
1927	171	165	93	146	167	159	126	131	116
1928	165	154	100	150	167	159	139	124	110
1929	162	140	95	122	146	160	133	128	108
1930	149	114	63	88	91	139	85	114	97
1931	135	86	49	76	83	123	68	109	68
1932	146	61	45	75	92	119	67	106	61
1933	131	95	41	77	80	113	64	99	52
1934	125	131	39	77	73	115	64	101	53
1935	128	112	50	74	78	117	77	100	78
1936	121	125	50	64	89	111	94	101	69
1937	102	144	56	67	89	117	126	144	75
1938	132	130	49	62	67	106	83	140	77
1939	164	142	80	102	75	106	110	147	81

Source: Statistical Abstract, 1929-30 to 1938-39, BPP, Cmd 6333 of 1942, Table 158, p.423.

industrial sector did not suffer from the depression, although it faltered slightly in the early period. However, there were significant exceptions, especially the jute and coal industries. The reasons why Indian industries should suffer so lightly in comparision to other industrial countries, have not yet been considered fully. To do so, the development of individual industries must be studied. For the sake of convenience, the case studies are divided into categories of 'traditional' and 'new industries'. In the former category are jute, cotton and coal, while in the latter are included iron and steel, sugar, paper and cement. Analysis will be made of factor costs and market availability as well as the role of protective tariffs.

Jute Manufacturing

Since output of jute manufacturing was geared almost wholly to the export market, it would be expected that this industry would feel the most severe effects of the depression. Restriction of demand may have been so great as to offset the benefits of any changes in local factor costs. However, given the dominance of European capital in the jute industry, a vigorous response to the problems of jute manufacturers by the Government of India could have been expected.

The 1920s had been a period of rapid growth in the Indian jute industry both in terms of capacity of existing mills and in establishment of new mills. The new entrants to the industry were attracted by the high profit levels which continued until 1926. As Timberg and Lamb have shown, much of the new capital was provided by

Indian groups previously involved in the local trade in raw jute who had made large profits during the Great War.[33] In the early 1920s, the new capacity appeared to have been accommodated with ease. The expansion of the sugar industry in Cuba and Java and the revival of world trade in agricultural produce increased demand for jute sacking and bags. However, there were signs that world demand might level off and even decline. In America and Australia, new technology involving grain elevators and bulk transportation was reducing demand in the industry's two most important traditional markets. Substitutes, both synthetic and natural, were produced on an increasingly large scale.

As the jute industry was so heavily dependent upon the health of the world's agrarian producers for its sales, it was one of the first industries to suffer price declines, from late 1929. However, the depression only reduced the rate of growth of new capacity; it did not stop the trend, as can be seen in Table 5.6 (over).

In comparison with the Bombay Island cotton industry, the number of mill closures in Calcutta was very small and later in date. Despite various restriction schemes loom capacity continued to expand. Statistics of production do not exist before 1932, but an estimate of production can be made from figures of consumption of raw jute. This fell between 1929 and 1932 but then rose steadily. Since the increase in output was accompanied by a reduction of employees, there must have been significant gains in efficiency within the industry as a result of the slump. However, the expansion of output is a sign of continued problems in the industry as demand did not

Table 5.6: Development of the Jute Industry during the 1930s

	Number of Mills	Authorised Capital Rs, £ & $	Paid-Up Capital Rs, £ & $	Number of Looms	Number of Spindles	Consumption Raw Jute Bales (400 lb)	Average Daily Numbers Employed
1929-30	98	21,86,67,000 £3,175,000 $12,000,000	18,71,65,615 £2,525,000 $12,000,000	53,900	1,140,435	6,424,000	342,257
1930-31	100	23,60,67,000 £3,175,000 $12,000,000	19,61,74,249 £2,525,000 $12,000,000	61,834	1,224,982	4,564,000	307,676
1931-32	103	23,60,67,000 £3,175,000 $12,000,000	19,76,49,386 £2,525,000 $12,000,000	61,426	1,220,586	4,269,000	276,810
1932-33	99	23,70,67,000 - £3,175,000	19,72,05,145 - £2,525,000	60,506	1,202,183	5,002,000	263,442
1933-34	99	23,70,67,000 - £3,175,000	19,56,54,808 - £2,525,000	59,501	1,194,405	5,004,000	257,175
1934-35	100	23,05,67,000 - £3,175,000	19,67,69,738 - £2,525,000	61,387	1,221,786	5,356,709	263,739

1935-36/

Table 5.6 (Contd.)

	Number of Mills	Authorised Capital Rs, £ & $	Paid-Up Capital Rs, £ & $	Number of Looms	Number of Spindles	Consumption Raw Jute Bales (400 lb)	Average Daily Numbers Employed
1935-36	104	24,11,47,000 - £3,175,000	19,97,07,038 - £2,525,000	63,724	1,279,416	6,022,927	277,986
1936-37	104	24,42,47,000 - £3,175,000	20,21,52,480 - £2,525,000	65,273	1,300,077	7,191,420	289,136
1937-38	105	24,88,47,000 £3,175,000 $3,750,000	20,29,05,640 £2,525,000 $3,750,000	66,705	1,337,958	7,355,635	305,785
1938-39	107	26,81,61,000 £3,175,000 $3,750,000	20,30,55,525 £2,525,000 $3,750,000	67,939	1,350,465	6,163,062	295,162

Source: Statistical Abstract, 1929-30 to 1938-39, BPP, Cmd 6333 of 1942, Table 205
Employment figures from A.K. Bagchi, Private Investment in India, p.277.

recover to 1929 levels. While there may have been some increased demand within the domestic industry, for instance with the expansion of the sugar and cement industries, this does not appear to have offset faltering overseas demand. Jute manufacturing entered a period of intense internal competition between 1936 and 1939 as supply constantly outstripped demand.

The depression could have brought some benefits to the industry: lower wage bills and reduced prices for raw jute would have decreased production costs. However, the critical factor was the slack in world demand and the increasing over-production of jute goods as capacity continued to grow. There was only a slow appreciation of the problems facing the industry. Unlike the traditional industries of cotton manufacturing and coal, the early days of the depression did not bring investors rushing to off-load their shares in jute. There was a general belief that the fall-off in demand would prove only temporary and most investors believed that the industry had sufficient reserves accumulated to pay reasonable dividends despite the crisis.[34] It is indeed noticeable that, in contrast to the cotton and coal industries, as late as 1932 about 50 per cent of jute mills were still declaring dividends of between 15 and 40 per cent and even where no dividends were declared, the mills concerned did not make actual losses.[35]

Production costs were decreased during the slump. The wholesale price of raw jute in Calcutta fell by two-thirds between 1929 and 1931 and its price remained below 1914 levels for the rest of the decade.[36] Since prices for manufactured jute products fell by only a third and then rose again after 1933, the gap with the raw material widened appreciably. Fuel costs also reduced as coal prices declined.[37] New entrants also would have benefited from the reduced price of imported machinery.[38]

There were also determined efforts to decrease the cost of labour. The average monthly wages of Calcutta mill operatives were reduced from Rs 17.7 per mensam in 1928-29 to Rs 14.3 per mensam in 1930-31.[39] Wages rose again slightly in 1931 as a result of labour disputes over reduced hours but then declined once more till 1936, by an average of 15 to 25 per cent.[40] This was also accompanied by reduced hours of work and the end of double shifts.[41] Labour costs were also reduced by decreasing the size of the workforce. In 1929-30, 343,868 workers had been employed in the jute industry but this was down to 257,175 by 1933-34. Even by 1938-39 the numbers employed had only risen to 295,162.[42] In 1932, meanwhile, the Inspector of Factories in Calcutta had commented upon the easing situation in the city's housing shortage as the jute labour force returned to their villages.[43] There were significant gains in labour efficiency as a result of these trends since despite the falling workforce the average loom capacity per mill was increased from 553.9 in the period 1926-27 to 1928-29 to 632.6 between 1936-37 and 1938-39. Meanwhile jute consumption per worker had risen from 17.1 to 23.26 bales in the same period.

Therefore, the main components in the production costs of the jute industry fell during the depression, yet profit levels continued to decline and even during the Second World War did not recover to 1928 levels. The major problem was the shrinking world demand for

Indian jute manufactures. During the slump, the efforts to find substitutes for Indian jute intensified. In some primary producers one response had been to increase sisal production which was rapidly becoming a successful substitute for jute. In America, in an attempt to find a use for surplus stocks of cotton as well as to reduce imports of manufactured Indian jute, cotton sacking was promoted. This represented a two-fold challenge to jute since cotton sacking proved to be twice as durable as its jute equivalent. Most advanced countries researched into synthetic substitutes. Alternatively, some governments, particularly in Latin America and Central Europe, helped to sponsor domestic jute manufacturing. They aimed to benefit from the larger reductions in the price of raw jute compared to the manufactured product and the establishment of jute factories would help to provide employment opportunities in their countries.[44] Thus while the volume of exports of manufactured jute declined by 30.8 per cent between 1929-30 to 1933-34, exports of raw jute fell by only seven per cent. While exports of manufactured jute were slow to recover, exports of raw jute had reached new peaks by 1936.[45]

While its monopoly position had been unchallenged, the Indian jute industry had become complacent, failing to diversify its production or update its techniques. While Indian mills remained content to produce the traditional gunny bags and hessian cloth, mills in Central Europe were experimenting with jute mixtures with silk, wool and artificial fibres to increase its durability and range of uses.[46] The Indian manufacturers had failed to appreciate the changes in world demand and so to gear their production accordingly. The lower costs of raw materials and labour in India, allied to a more diversified range of products could have consolidated India's position of world leader in jute manufacturing and could have preserved some of their continental and American markets during the slump.

The position of the industry was not helped by the responses of the manufacturers to the crisis. The years of the depression for the jute industry can be characterised as a struggle to overcome the problem of over-production in terms of falling demand and so raise prices while attempting to bolster the monopolistic position of Indian jute. The jute industry, under the aegis of the Indian Jute Mills Association (IJMA) was probably the most highly organised group of Indian manufacturers. This might have been expected to have aided rationalisation and product restriction, but this was not to be the case. The responses to the depression by the IJMA highlight the difficulties of guiding the operating policies of a cartel.

The initial impact of the depression was deepened by the actions of the IJMA in the late 1920s. By 1929 the association and its counterpart in London had become aware of the dangers inherent in the developing jute mills of Central Europe. They attempted to destroy any prospective competition by increasing Indian production. Hence the IJMA allowed an increase in the working week of jute mills from 54 hours to 60.[47] Of course, this was the worst possible moment in which to increase production and it must be remembered that this was within the context of increasing capacity. With only one year's hindsight, the Investors' Year Book lamented:

> '... It is an unfortunate and striking coincidence that the period of longer working hours should have coincided with

financial stringency and slack trade all over the world resulting in the purchasing power of consuming markets being considerably curtailed.'[48]

Furthermore, since there was no wage increase accompanying the increased hours, the action provoked the longest strike in the history of the Indian jute industry.[49] It was not until 1930-31 that the IJMA finally decided to try restricting output to increase price levels, as the price reductions began to affect the industry's profitability. Therefore, in 1930 the IJMA tried to re-introduce the 54 hour week. This created more labour disputes since many mills had been forced to increase their wages during the previous year. These troubles, though, were quelled quickly. The first problems in making an agreement such as this, however, began to emerge since it was binding only on those mills within the Association. Although the Indian manufacturers who had entered the industry in the early 1920s such as Birla and Hukumchand, had joined the IJMA, later entrants increasingly did not. Having established mills at a time of high cost, these manufacturers wished to increase output to reduce their working costs per unit and so back their relatively small capital stock. While the Hukumchand mills produced dividends of over 20 per cent until 1930 and Birla Brothers 15 per cent, few of the newly established mills, including European ones, produced dividends until the mid-1930s although they did not usually make losses.[50]

In October 1930, the IJMA tried to take restriction further by closing mills for one week per month. Even so, the problems of the industry grew and in 1932 the working week was decreased to 40 hours and 15 per cent of the loom capacity of association mills were ordered to be sealed. Since mills outwith the IJMA continued to increase their production, two mills broke away from the association. From this point, fearing a crisis, the IJMA appealed to the Government of Bengal for assistance in maintaining an agreement by legislation. The local government was asked to use its influence in bringing the outside mills into the association. All blame for the ills of the industry were placed on what the IJMA viewed as the 'over-production' of these mills. At the root of their request lay the fear that more mills would leave and the association would collapse totally. A Government of Bengal note summarised the consequences of this as predicted by the IJMA:

> '... unrestricted, cut-throat competition ... output will at once jump and, in the absence of increased demand, prices will fall, profits will disappear, and many mills will have to be closed down. In this process, the prices of raw jute will fall, there will be failure in the bazaar; the banks will be involved; all other industries depending on jute will be seriously affected. And ... government revenues will suffer.'[51]

Constantly in their appeals, the IJMA stressed the unfortunate position of the cultivator who would then have no consumer for his crop. While sceptical about the Association's sudden concern for the cultivator, government officials recognised the force of this argument as being the one most likely to attract public attention. The Government of Bengal sought to improve the position of the cultivator by promoting the restriction of jute sowings in the hope of raising the price. They also tried to popularise the cultivation of other cash crops especially sugar-cane.[52]

However, the Government of Bengal refused to legislate since it would be interfering with the rights of the non-association mills, but it agreed to act as mediator between the various parties involved.[53] The dominance of European capital in jute manufacturing did not provoke the anticipated response. Throughout the early 1930s, the Government of Bengal was facing a crisis in its ability to control law and order. Government officials feared that they would promote further public disturbances if they were seen to side openly with Europeans against the predominantly Indian new entrants into the industry. In May 1932 an agreement was concluded which recognised the special needs of the newer mills to increase production to cover their higher overheads. Such mills were allowed, therefore, to operate a 54 hour week and one, the Agarpala Mill, to increase its loom capacity.[54]

By 1934 with the general rise in prices, the IJMA decided to permit the unsealing of its loom capacity, despite an appeal from Calcutta Gunny Traders Association that the market was not yet buoyant enough to absorb increased production, although stocks had been decreased.[55] As the GTA had predicted, the rapid increase in production brought a fresh fall in prices and the tensions between association and non-association mills surfaced once more.

Under these conditions the agreement broke down in 1936. The Government of Bengal again refused to legislate believing that the industry needed a period of intense competition to stimulate efficient producers. This echoed the private thoughts of the chairman of the IJMA, Benthall, although even he hesitated to make such opinions public.[56] Between 1936 and 1938 more looms were unsealed and new capacity installed, production levels rose, prices continued their downward trend and profits dwindled. The IJMA panicked but this time the Government of Bengal, now with an Indian majority, stepped in. They were worried by the effect of price falls on the cultivator and wage cuts on the labour force.[57] In September 1938, therefore, an ordinance decreed a maximum 45 hour week with exceptions for certain small mills.[58]

The attempt at restricting production by the IJMA displayed the classic problems associated with such voluntary schemes. Not only were the agreements not binding on non-association mills they could not even be enforced on member mills. Throughout the 1930s the IJMA failed to prevent increased capacity. There was no will within the industry for restriction: an independent audit in 1930 had found that association mills had deliberately under-estimated their loom capacity by as much as 25 per cent to prevent full implementation of any restriction schemes.[59] Manufacturers believed restriction raised the work cost per unit at a time when reduced production costs were necessary. While a scheme was in operation there was always the temptation to gain an advantage by being the first one to break the agreement, but when there were mills already outwith the agreement it became impossible to enforce.

While the jute manufacturers cannot be blamed for failing to anticipate the onset of the world depression, they seemed to have had a short-sighted approach to their business. While they talked about an 'absence of increased demand', they did not realise that the conditions in world markets had changed permanently. There seems to have been an inflated air of optimism about the prospects of the jute industry. This helps to explain why there was an expansion of capacity despite the continuing difficulties in the industry.

However, the effects of the use of substitutes and technological progress were increasingly encroaching upon the demand for Indian jute goods. Also, it is likely that customers were becoming frustrated at the almost monopolistic control of the jute trade exercised by Indian manufacturers and their tendency to inflate prices. While jute manufacturers complained about warehouses full of unsold stock, they continued to increase production. An effective rationalisation scheme was needed. The local government feared to become involved because of the racial complications of ownership. With the majority of the new smaller concerns being Indian owned, the authorities did not want to leave themselves open to the charge that they favoured European businessmen. It is noticeable that it was a National Ministry which enacted the first compulsory legislation.

It was the failure to understand the changing nature of their market which was the crucial problem facing jute manufacturers in the 1930s as it had been in the 1920s. This was the underlying long-term problem facing the Indian jute industry, which was exacerbated by the short-term problem of under-consumption of traditional jute products during the depression. Few managing agencies had research departments and it took the formation of the Indian Central Jute Committee to force the jute manufacturers to consider diversification of products and rationalisation of their means of production. With the heavy dependence upon the world market, knowledge about the conditions and requirements of customers was essential, but few firms seemed to take the marketing of their product seriously. Had the range of jute goods produced in India been diversified in the 1920s, Indian advantages of cheaper raw material, and labour costs could have preserved the Indian industry's competitive advantage and secured its markets. While production costs were lowered during the slump, this did not have a significant impact on the established jute firms. It enabled new capital to enter the industry at a time of reduced prices and profits. However, without a sustained demand for jute products, decreases in production costs alone could not pull the jute industry out of the depression.

Cotton Manufacturing

Cotton manufacturing was one of India's traditional staple industries. The industry had evolved from the production of yarn for the Indian handloom weavers and for export to the Far East, particularly China, to the manufacture of cotton piecegoods sold predominantly on the domestic market. This latter transition had brought the Indian industry into competition with British cotton manufacturers, especially those of Lancashire. During the twentieth century the industry began to diversify its location away from the traditional base in Bombay Island, a phenomenon accelerated by the depression. The history of the cotton industry during the slump highlights the wide dichotomy in experience between the mills of Bombay Island and the newer up-country centres.

Even before the onset of the depression, the Bombay City mills were facing severe difficulties arising from the massive dividends paid out during the post-war boom period which seriously depleted the reserves of the cotton manufacturing firms.[60] Attempts to solve these problems by rationalisation and efficiency schemes only resulted in prolonged and damaging labour disputes in the mid-1920s and again at the end of the decade.[61] The Bombay Millowners' Association (BMA) had a long history of using its power to influence both the central and provincial governments to give maximum support to the industry. In 1925 this had led to the abolition of the countervailing cotton excise duty, a long-running source of dispute between Bombay and Lancashire.[62] In the 1930s, the BMA faced a new threat and asserted that the position of the Bombay industry was being made untenable by 'unfair' foreign competition, though now from Japan rather than England.[63]

Outwith Bombay Island, the cotton industry seemed to be going from strength to strength. Up-country mills had been established in various centres already in the early 1920s, for instance in Ahmedabad, Sholapur, Madras and Delhi. This trend accelerated in the 1930s with the maturing of these earlier centres and the further diversification of the industry to Cawnpore and Madras Presidency. The considerable growth outwith Bombay Island can be seen in Table 5.7 (over).

Bombay still retained the largest single concentration of mills in India. However the locational pattern of the industry was changing. One crucial factor may have been that the balance of factor costs moved in favour of the up-country centres, while the impact of the depression in reducing production costs must have been influential.

Development in the 1920s can be split into two periods. The cotton industry shared in the post-war boom with a rapid increase in the establishment of new mills, in existing capacity and in numbers employed between 1919 and 1923-24.[64] The industry then entered a period of difficulty during which growth rates slowed down. This reflected mostly the problems of Bombay Island mills which were suffering from the excesses of the boom period. A programme of

Table 5.7

Regional Distribution of Mill Capacity (Percentages)

		Bombay City	Ahmedabad	Other Indian Centres
Mills	1913-14	31.4	18.0	50.6
	1938-39	17.5	19.8	62.7
Spindles	1913-14	44.4	14.2	41.4
	1938-39	28.3	18.9	52.8
Looms	1913-14	46.8	18.5	34.7
	1938-39	33.2	23.2	43.6
Employment	1913-14	42.3	13.5	44.2
	1938-39	25.7	17.7	55.6

Source: M.D. Morris, 'Growth of Large-Scale Industry to 1947', CEHI, Vol. 2, Table 7.18, p.618.

rationalisation provoked severe labour problems from the mid-1920s preventing the full implementation of the plan and the problems of the Bombay industry multiplied. The effect of the labour troubles can be gauged by the total closure of 11 mills on Bombay Island for a full year in 1929 and the partial working of most other mills in the area.[65] Thus when the depression began to affect the industry from

1930, certain sectors were already facing difficulties. While the number of mills and total production increased, loom capacity was reduced between 1930 and 1932, as can be seen in Table 5.8 (over). Again, it was Bombay which faced the most acute problems while the crisis took longer to affect up-country mills. Therefore, while the total number of mills in India increased from 256 to 289 between 1929 and 1934, the number of working mills in Bombay Island decreased from 77 to 55 including the failure of the largest group, the Currimbhoy mills, and the closure of 4 mills managed by Petits and 1 by Sassoons.[66] The overall figures, then, are a measure of the rapidity of growth outwith Bombay.

The output of the Indian cotton industry is recorded in Table 5.9 (over). Immediately noticeable is the almost continual growth in the All-India figures. Yarn production, for instance, expanded through a large increase in the manufacture of finer counts which began in the early 1930s. Competition from interior mills in coarser cloth had forced Bombay to diversify production to finer counts, as had importation of cheap coarse Japanese cloth. The increased production of cambrics and lawns is evidence of this, although the small increase in the output of coloureds reflects the slow development of ancillary industries. The move towards finer counts also brought Bombay back into conflict with Lancashire manufacturers who also were diversifying to counteract the problems of the depression.[67] During the boycott of foreign cloth and under pressure from Congress, Indian mills also began to produce more khaddar, the coarse cloth similar to the handwoven product.

Table 5.8 Progress of the Cotton Industry in the 1930s

	Number of Mills	CAPITAL Authorised	CAPITAL Paid-Up	CAPITAL Debentures	Number of Looms	Number of Spindles
1929-30	256	48,36,19,750 £60,000	35,08,52,434 £51,643	3,83,53,387	155,805	8,127,072
1930-31	261	48,28,58,250 £60,000	32,98,05,789 £51,643	3,34,14,375	153,481	7,866,436
1931-32	266	46,86,28,550 £60,000	33,47,27,273 £51,643	3,52,09,303	154,102	7,893,064
1932-33	278	46,09,42,075 £60,000	32,34,99,590 £51,643	4,03,46,548	160,110	8,121,262
1933-34	289	47,10,99,215 £60,000	31,67,47,986 £51,643	4,09,87,700	162,084	8,139,758
1934-35	288	46,83,88,572 £60,000	30,70,09,293 £51,643	2,84,53,977	161,524	7,906,401
1935-36	303	49,13,53,998 £60,000	31,70,89,232 £51,643	2,93,97,422	164,198	8,084,826
1936-37	297	49,84,20,687 £60,000	31,62,31,669 £51,643	2,93,37,449	163,121	8,042,088
1937-38	318	50,65,54,965 £60,000	31,59,02,135 £51,643	2,97,72,373	166,312	8,113,347

Source: Statistical Abstract, 1929-30 to 1938-39, BPP, Cmd 6333 of 1942, Table 201.

Table 5.9

Cotton Mill Production (000 lb)

	Yarn	Woven Goods	Coloureds	Hosiery	Total
1928-29	557,675	274,444	91,794	1,385	376,513
1929-30	730,819	357,680	114,761	1,732	484,621
1930-31	753,665	393,871	104,132	1,525	507,870
1931-32	848,126	449,967	124,813	1,761	585,296
1932-33	885,772	455,767	131,170	2,310	597,952
1933-34	796,711	421,678	113,330	2,183	551,398
1934-35	853,241	480,212	124,628	4,500	621,619
1935-36	900,568	491,512	127,121	4,539	637,142
1936-37	887,103	502,324	127,295	5,477	650,253
1937-38	975,619	554,110	136,689	6,881	715,486
1938-39	1,104,030	588,356	143,367	6,962	756,489

Source: Statistical Abstract 1919-20 to 1928-29, Cmd 3882 of 1931, Tables 303 and 304.

Statistical Abstract 1929-30 to 1938-39, Cmd 6333 of 1942, Tables 208 and 109.

The overall figures, representing a pattern of almost continuous growth, mask the problems of the cotton industry on Bombay Island. Between 1929 and 1932 the loom capacity of the Bombay industry fell by 15 per cent at a time when loom capacity in Ahmedabad was increasing by 10 per cent.[68] While yarn production in Bombay City mills did not decline during the depression, output was recovering from the impact of the labour problems of 1928 and 1929. Growth in yarn production in Bombay Island was only 8 per cent between 1929-30 to 1932-33 compared with 25 per cent in Madras and Delhi and 22 per cent in the Punjab. There was a similar trend in Bombay City piecegood production: the output levels of 1927 were not surpassed until 1932.[69] The decline of the overall figures in 1933-34 again represent the problems of the Bombay industry faced with renewed labour troubles. In that year alone yarn production declined from 558 million lb to 484 million lb.[70]

From the mid-1930s the overall figures showed signs of the renewed growth, now including Bombay, with rapid growth in the number of new mills, capacity and labour. An interesting feature of the late 1930s was the increased establishment of mills in the Indian states and the French settlements, from 51 in 1931-32 to 66 in 1937-38.[71] Some manufacturers moved production outwith British India to avoid the increased costs associated with the factory legislation which had resulted from the recommendations of the Royal Commission on Labour. The Governments of the Indian States encouraged such developments with bounties, tax exemptions and grants.[72]

In explaining the diversity of experience of different sectors of the industry during the depression, changes in factor costs must be important. The evidence of the various Tariff Board reports in the early 1930s showed that the up-country mills had the advantage of lower labour and transport costs, both for the raw material and of the finished product.[73] Also since many of subsidiary components such as bleaching and dyeing were local cottage industries this also helped reduce costs at least in the short term. The advent of cheaper hydro-electric power promoted rapid growth of the industry in

Madras which had long been at a disadvantage in terms of fuel costs. Baker has argued that the cheap electric power was crucial to the development of the Madras cotton spinning industry.[74] Meanwhile, in Bombay, land values, rents and local taxes had all increased with the general prosperity in the area during the early 1920s.[75]

Labour costs were more expensive in Bombay City to cover the higher cost of living than at an up-country centre. Wage rates were up to one-third higher than Ahmedabad and Nagpur and up to 50 per cent higher than Sholapur and Madras.[76] In the early years of the depression, this would have placed a severe strain on working capital with a time lag between fall in the price of manufactured cotton and reductions in wages. To counter this, Bombay manufacturers reduced their labour force and worked short-time. The total numbers employed full-time in Bombay mills decreased by 18,000 between 1929 and 1933.[78] One official estimate put the reduction of labour as high as 35,000 by 1932. This was probably because of the pool of badli workers failing to gain part-time work which they normally received by covering the absenteeism of full-time labourers.[79] The need to reduce production costs forced Bombay manufacturers to rationalise their enterprises and increase efficiency. Between 1929 and 1932 the number of operatives per 100 looms was decreased from 94 to 61.[80]

Outwith Bombay Island wages were generally lower because of the lack of competition for labour. In Bombay unskilled labour was needed also in the railway workshops and docks. Elsewhere, the main competition for labour came from seasonal agricultural processing industries therefore wage rates remained low. In Ahmedabad, however, the situation was different. Wage rates there were negotiated between the Ahmedabad Textile Labour Union and the local Millowners' Association in accordance with a conciliation agreement formulated by Gandhi in 1921.[81] This placed the Ahmedabad workers in a stronger position to resist wage cuts, unlike Bombay where the unsuccessful strikes of the late 1920s had discredited trade unions and consequently reduced their bargaining power. The ATLU successfully avoided wage cuts until 1934. By this time mills belonging to the AMA were complaining of the high incidence of labour costs especially since new mills were not bound by the agreement and were paying markedly lower wages.[82] The AMA asked for a general wage cut of 25 per cent, however, after nearly a year's negotiation the ATLU brought the figure down to 6.5 per cent.[83] Thus, by 1935 wage rates were higher in Ahmedabad than in Bombay. This eventually worked against the industry in Ahmedabad and expansion ground to a halt in 1938. By then the advantage of lower wage rates had swung to Sholapur and the Madras Presidency.[84]

In terms of material costs the interior mills also had an advantage. Most of these mills specialised in coarser cloths using short-stapled cotton. Since they could purchase their supplies of raw cotton through fewer intermediaries, there were fewer opportunities to mark up the price of the raw material. One disadvantage would have been that their purchasing season would have been shorter so they could not take fullest possible advantage of falling prices unlike Bombay where stocks existed all year round. However, by purchasing locally in less sophisticated markets than in Bombay, the speculative price for their raw material would probably have been lower. Both Bombay and Ahmedabad concentrated on the finer counts. For them the longer-stapled raw cotton imported from East Africa and Egypt would have fallen in price, but this would have been offset by the import duty on raw cotton imposed in the Emergency Budget of 1931 including a surcharge of 25 per cent. Both the BMA and the AMA complained bitterly to the 1936 Tariff Board that this duty artifically raised the price of imported raw cotton.[85] Meanwhile, internal supplies of longer-staple cotton were not as reliable during the depression since they needed larger amounts of irrigation and water rates became oproportionately more burdensome in the canal areas, so that cultivators reverted for a few seasons to shorter staple indigenous cotton.[86] Where Ahmedabad had an advantage over Bombay was that it had turned to finer counts at an earlier stage and had the necessary technology to admix short-staple Indian cotton with longer-staple imported cotton, thus reducing costs without affecting the quality of their product unduly.[87] Bombay mills would have had to invest more capital to make the necessary technological adjustment at a time when they were already experiencing severe financial problems. Gordon has argued that Bombay mills were at a considerable disadvantage in terms of price of its raw materials. While the general average decline in the price of Indian raw cotton was 59 per cent, prices of Broach in the Bombay markets had declined by only 37.5 per cent between 1927 and 1931. (Gordon omits 1928 and 1929 because of the instability created by the labour problems)[88]

The interior mills probably had their greatest advantage in transport costs. Being closer both to local suppliers and local markets, their transport costs were reduced considerably. At first

Bombay mills received preferential rates for long-distance freight but these were phased out during the depression to the advantage of the up-country mills.[89] This saving in transport costs could have explained why Ahmedabad was able to sustain higher labour costs for so long.

Local mills would also have a wider knowledge about their local market conditions and requirements. Very little has been written about the marketing of Bombay cloth, but in the 1936 Tariff Board there are several complaints that the Bombay industry was failing to modernise its methods and was falling into a similar trap to Lancashire.[90] Gordon, though, has argued that one result of the boycott was to persuade Bombay millowners such as the Sassoons to end the system of marketing through Marwari agents and begin selling directly to their customers.[91] Interior mills were probably more able to adapt to changes in demand than the standardised productions of Bombay. This in conjunction with the price difference would have made interior mills highly competitive in local markets against Bombay goods.

Bombay mills also had higher fuel costs. Although the industry had managed to break away from its dependence upon coal for fuel with the establishment of a hydro-electric scheme financed jointly by the Tatas and Sassoons, the electricity supplied was relatively expensive if more reliable.[92] Cawnpore mills were located nearer coal supplies and could benefit from the reduction in price during the depression. Meanwhile, the several large hydro-electric schemes in Madras Presidency supplied cheap power for an area long-hindered by its distance from coal supplies, thus allowing the considerable expansion of Coimbatore and Madura and the neighbouring Mysore State.[93]

Factor costs, therefore, were essential in explaining the changing regional distribution of the Indian cotton industry. Although Bombay millowners complained bitterly about 'unfair foreign competition' especially 'Japanese dumping', their main concern should have been the steadily increasing internal competition. Morris is correct to argue that the concentration upon Bombay in the historiography of the Indian cotton industry has led to an over emphasis on the role of protection.[94] After all, Japanese imports were mostly in coarser cloth and hosiery, which would have competed with the goods of interior mills rather than Bombay which was increasingly turning to finer counts.

The newly emerging local centres for cotton manufacturing in the 1930s represented the entry of new Indian capital into the industry. As the depression cut profits from cotton trading, many up-country merchants shifted their investment into the apparently more secure manufacturing sector. This mirrors the trend in the jute industry. Mostly these new concerns were small-scale: Baker estimated that new spinning mills could be established in the Madras Presidency in the mid-1930s with a fixed capital of only 5 to 6 lakhs, even less if second-hand machinery could be used.[95] This pattern was repeated in the Central Provinces and Cawnpore where the new mills had a much smaller loom capacity than the older European managed firms of the pre-depression period.[96] The reduction in factor costs must have been vital to provide such small concerns with a margin of profit.

The problems of the Bombay Island mills, however, were not totally economic in origin during the years of the slump. The depression coincided with the political crisis of the Civil Disobedience campaign and Bombay City was the centre of some of the most prolonged disturbances. Bombay mills were caught up in the controversy of the Swadeshi campaign and the boycott of foreign firms. Congress declared a boycott of all non-Swadeshi mills in 1930. To be declared Swadeshi a mill could not spin or weave lower than 18 counts (so as not to compete with the handloom industry), could not use foreign yarn or artificial silk, not have more than 25 per cent foreign directors and capital and to insure with Indian companies.[97] While Motilal Nehru was prepared to be more accommodating to Bombay millowners (to decrease the counts to 10s, for instance) the Bombay Provincial Congress Committee was not and on Motilal's arrest, 24 Bombay mills were banned as non-Swadeshi: including the Sassoon group. Eventually this number was reduced to 15 but these mills, still including the Sassoon group, represented 25 per cent of the gross output of Bombay City. Banned mills found themselves subject to picketing (often violent), hartals and the public burning of their cloth. Constant changes by the BPCC of the definition of 'Swadeshi' produced a feeling of insecurity among Bombay millowners during this period of economic depression. The boycott also affected Bombay markets. The premier Bombay cloth market, the Mulji Jetha Market, was frequently closed including a four month continuous period in 1932, which left mills with increased stocks of unsold cloth. Thus, the economic problems of the depression in Bombay city textile mills were exacerbated by the political uncertainties of the period.[98]

In economic terms, by increasing the advantages to up-country mills in terms of factor costs, the depression forced Bombay mills to recognise the necessity of rationalisation. However, financial stringency meant they needed some measure of government support to enable them to complete the reorganisation and technical adjustments within the industry. To gain this help from the Government of India, the BMA had to stress the danger of foreign competition. The Indian authorities were always being pressed by Whitehall to keep in mind the position of Lancashire and was unlikely to be able to make a case for supporting Bombay only in terms of adjustment to local competition.[99] The 1926 Tariff Board, supported grudgingly by Whitehall, had recommended protection only for a period to allow Bombay a breathing space to adjust to the changing face of the Indian cotton industry. This Bombay was slow to do, partly through problems of capital unwisely speculated in the early 1920s. The depression served to highlight the dichotomy between the traditional and newer centres of the Indian cotton industry and forced Bombay to accept that it had to meet the challenge of the up-country mills to survive.

Coal

The Indian coal industry had been a traditional industrial sector which had actually enjoyed export markets although producing predominantly for the domestic market. The years of the depression marked a period of severe difficulties for the industry. Prices had been falling from 1927, but the impact of the depression brought a more rapid reduction from 1930-31. The price of coal continued to fall until mid-1936 when one ton of Grade 1 Jharia coal could fetch only Rs 2.3 in the Calcutta wholesale market.[100] Production also fell from 22.3 million tons in 1930 to 19.7 million tons in 1933, while the price reductions decreased the value of the coal raised from Rs 8.4 crores to Rs 5.5 crores in the same period.[101] Recovery was not steady until 1937-38 marking a more prolonged period of difficulty than that faced by other industries.

India's coal industry had been facing serious problems from the mid-1920s.[102] The fuel shortage immediately after World War One had led to an embargo on coal exports between 1920 and 1923. This resulted in India losing its best foreign markets, Colombo and Singapore, to the Union of South Africa. Since this was also a period of high prices for Indian coal, the domestic market did not expand significantly, except for demand from the iron and steel industry. Therefore, by the mid-1920s, since production had increased significantly, large stocks of unsold coal had been created and prices declined. In July 1925 the Member for Labour and Industry of the Government of India wrote to London that the Indian coal industry was 'passing through a phase of severe depression', diagnosing the problem as one of 'over-production'. He prophesied that 'a difficult time is ahead for the coal industry and that a good many of the smaller and less efficient collieries can hardly hope to survive'.[103] The response by colliery owners was to have production increased further in an attempt to reduce costs. Meanwhile the Government believed that the export market could be regained by regulating the quality of Indian coal exported. They adopted recommendations of the 1924 Coal Committee for the establishment of a Coal Grading Board and a rebate on railway freight charges for coal destined for export from

Calcutta.[104]

The major problem facing the Indian coal industry was the quality of much of its produce. Indian coal had a high ash content and there were only relatively small reserves of good quality coking coal suitable for industrial use and this was highly localised in Jharia and Raniganj coal fields. This meant that, including freight charges, Indian coal was at a severe disadvantage in the western and southern domestic markets. Thus, many industrial consumers preferred to use coal imported from South Wales or oil, while in the 1930s in certain parts of India, cheap hydro-electricity became available for industrial use as a by-product of some large irrigation barrages, notably in the Madras region. Between 1922 and 1935, according to the 1937 Coalfield's Commission the distribution of consumption of Indian coal changed only slightly.[105] This can be seen in Table 5.10 (over). The only major new consumer for domestic coal was the expanding iron and steel industry which doubled its consumption. Given the general progress in Indian industries in this period, these changes in the consumption patterns were very disappointing for the coal industry.

At the height of the depression, between 1930 and 1933, consumption of Indian coal declined heavily despite falling prices. From 1931 until 1935 consumption lagged behind, as illustrated in Table 5.11 (over). The only major benefit to the coal industry from the depression was that the price of Indian coal fell below that of imported coal and imports declined sharply from 218,560 loss in 1929 to 47,544 loss in 1932. Thereafter imports of coal remained depressed, particularly as the South African industry hit major

Table 5.10

Consumption (estimated) of Coal by various users (000 tons)

	1922	1927	1929	1935
Railways	6,186	7,259	7,583	7,293
Cotton, Jute, Paper, Tea	2,424	2,144	2,859	2,541
Iron and Engineering	2,415	5,260	5,231	5,583
Admiralty, Port Trusts	1,628	2,158	2,286	1,135
Bunker Coal, Inland Skanes Kilns, Potteries, Cement	437	565	691	792
Collieries and Wastage	2,471	2,208	2,342	1,220
Other Industrial/Domestic	4,521	2,085	1,879	3,721
Total	20,082	21,706	22,871	22,885

Source: Report of the Indian Coal Mining Committee, 1937, Vol. I, p.50, para 21.

Table 5.11

Indian Coal Production and Consumption (tons)

	Output	Consumption
1928	21,140,104	22,083,000
1929	21,561,971	22,871,000
1930	22,362,452	23,514,000
1931	22,762,394	21,355,449
1932	20,153,387	19,679,154
1933	19,789,163	19,427,899
1934	22,057,447	21,799,458
1936	21,885,691	21,981,627

Source: Indian Coal Statistics, Indian Trade Journal (annual) transportation problems in the late 1930s.[106] This provided some scope for import substitution from the middle of the decade. However, the depression was marked by reduced consumption in India and output from Indian mines declined with a time lag of one year. Exports also became almost negligible despite the attempts at quality control. Meanwhile, the railways which had traditionally been the single largest consumer of Indian coal, cut their purchases by about one million tons between 1931 and 1933.[107] The Report of the Chief Inspector of Mines also referred to a marked decline in sales to Bombay Presidency, both to cotton mills and the port. The decline in sales to the Railway Board was a major problem since it was the Board which set the level of the price of coal in India with individual consumers normally not accepting higher tenders than the Railway Board. There were many complaints from colliery owners that the Board was attempting to cut its costs at their expense by forcing down the price of coal. To reduce tender prices, the Railway Board threatened to increase production in its own collieries.[108] Thus while the Board was forcing down the price (by one rupee per ton in 1932 and 1935) it was also reducing orders, a double blow to the Indian coal industry.

Unlike other industries, it seems that there was little scope for reduction of production costs during the depression, nor was there the possibility of re-location of the industry. The working costs of an average colliery were not high. Entry was relatively easy since a large proportion of the coal could be mined open-cast with little technical difficulty. Throughout India, only some Rs 10 crores was invested in the coal industry. Labour costs were also low with the majority of workers being recruited from local tribal groups.[110] While this labour was often seasonal, the 1946 Labour Report stated that most returned every year to the same group of collieries giving a certain stability to the workforce.[111] During the depression wage rates were cut in Bengal and Bihar coalfields through a reduction in rates per tub brought to the surface and through shorter hours, as illustrated in Table 5.12 (over)

Wage rates for the higher paid Central Provinces collieries were decreased by ten per cent between 1930 and 1932. These rates remained in force until the outbreak of the war and the consequent shortage of labour forced wages to rise again. Employers also tried to reduce labour costs by pressing for the re-introduction of family labour underground. However, the government strenuously opposed such pressure.[112] Further cuts were made through short-time working: by 1932 most collieries in Bihar and Orissa and Bengal were working only a three or four day week.[113] Numbers employed were also reduced, from 184,370 in 1930 to 163,173 in 1933, although they rose again after that.[114] Meanwhile per capita output was falling from 187.8 tons per worker in 1929 to 169.2 tons in 1933.[115]

Production costs of mining companies would have been affected by the increased railway charges which resulted from the depression. From January 15, 1932 the Railway Board imposed a 15 per cent surcharge on coal freights.[116] Thus for instance freight rates from Raniganj to Calcutta rose from Rs 3.6 per ton in 1929 to Rs 3.14 per ton in 1932, to Bombay from Rs 12.6 per ton to Rs 14.4 and to Delhi from Rs 8.14 per ton to Rs 10.3. By 1936 only the rates to Bombay had been reduced to the 1929 level.[117] Owners and managers from the Jharia field complained to the Governor of Bihar and Orissa that

Table 5.12: Daily Average Wages in Jharia and Raniganj (A-p)

	1929		1930		1931		1932	
	Jharia	Raniganj	Jharia	Raniganj	Jharia	Raniganj	Jharia	Raniganj
Underground								
Male Miners	13-6	13-0	13-6	12-9	11-6	11-0	9-9	9-3
Male Loaders	11-0	10-3	10-9	10-9	11-6	9-6	8-6	8-0
Skilled Labour	12-9	12-3	12-6	12-3	12-0	11-6	10-9	10-9
Unskilled Labour	9-9	9-0	9-6	9-3	8-6	8-3	7-9	7-6
Females	8-6	7-6	7-6	7-9	7-6	6-6	6-6	5-9
Surface								
Skilled Labour	13-3	11-6	12-9	11-9	11-9	10-9	10-9	9-9
Unskilled Labour	8-9	8-6	9-0	8-6	8-3	7-9	7-0	7-3
Females	6-9	6-0	6-6	5-9	6-3	5-3	5-3	4-9

Source: Report of the Chief Inspector of Mines, (Calcutta, annual).

their industry was being ruined by 'excessive and discriminatory' railway freights. The local government, however, refused to petition the Central Government on their behalf 'at least until facts are reported which show that this coalfield is being unfairly treated'.[118] While the Government of Bihar and Orissa was seeking to establish a case to renegotiate the Meston Award, they were unwilling to antagonise a central government under great pressure from Whitehall to balance the budget of the Railway Department. Only that coal destined for export was allowed a rebate on railway freight and this was increased by a further eight annas per ton for certified coal in 1936.[119]

After pressure was put on Central Government by both the Indian Mining Federation and the Indian Mining Association, it agreed to the creation of a Soft Coal Cess Board to promote a wider market for the product. To pay for this a surcharge of two annas per ton was placed on railway freight.[120] The depression hit the industry before the effects of this legislation could be measured. Given the fall in income levels generally, it is unlikely that there would have been any great rise in demand for soft coal in more rural areas when traditional forms of fuel would have been available more cheaply. The Chief Inspector of Mines, though, in the 1937 report maintained that the work of the Board prevented a disastrous reduction in demand for soft coal at the peak of the depression and so provided some relief for the industry.[121] Soft coke output declined only slightly from 754,000 tons in 1929 to 722,500 in 1931. Output then rose rapidly to reach 915,700 tons in 1936, the bulk of the sales in Calcutta.[122]

In general, the major difficulty facing the industry was its failure to modernise outwith some large-scale units. The Indian coal mining sector was dominated by small-scale, open cast mines. This was facilitated by the low capital input necessary to enter the industry. Also the Bengal and Bihar fields tended to be hopelessly sub-divided. This was a legacy of the Permanent Settlement which had given the land to local zamindars before the mineral resources had been discovered. The landowners were mostly willing to sub-divide their mineral rights in small plots to the highest bidder.[123] Thus, the pattern of development for the industry emerged whereby small collieries were opened to secure quick profits at times of high prices, only to be closed rapidly when prices fell. The depression years were characterised by many such closures particularly since most of the easily mined seams had been worked by the early 1920s. Meanwhile, larger concerns were increasing production in the effort to reduce costs per unit, so their share of total production began to rise, and continued to do so until the end of the period, as shown in Table 5.13 (over).

This would have benefited the industry in the long run. The larger units were usually run on more efficient lines and being open-cast could employ economies of scale. The 1937 Coalfields Committee reported that the 9 large scale coal companies had been able to reduce their raising costs by 46 per cent by increasing production by 80 per cent between 1925 and 1935.[124] They were also in a stronger position to improve their technological basis, for instance, through the employment of power-driven cutters and electrical pumps. However, it is noticeable that, although their share of total output had decreased, the numbers of the smallest mining units increased rapidly

Table 5.13

Share of Production in Indian Coal Industry

	1923	1928	1934	1939
Up to 5,000 tons:				
No. Mines	388	171	135	190
% output	3.5	1.4	0.9	1.2
5,000 - 25,000 tons:				
No. Mines	187	151	146	162
% output	14.7	9.0	8.9	8.1
25,000 - 100,000 tons:				
No. Mines	175	149	137	156
% output	44.6	32.6	30.0	27.6
100,000 - 200,000 tons:				
No. Mines	20	38	41	49
% output	16.5	23.4	25.2	22.8
Over 200,000 tons:				
No. Mines	12	18	22	30
% output	20.6	33.6	35.0	40.4

Source: Report of Indian Coalfields Committee, (1946), Vol. I, p.296, Appendix VII.

again in the later 1930s as conditions improved.[125] The impact of the depression had failed to alter the structure of the industry and the basic weaknesses remained. The increased share of the larger colliery companies was a long term feature, the major shift in output occurring before 1928 and after 1934. The reports on the coal industry in 1925, 1937 and 1946 all catalogued the same list of problems facing the industry, particularly the number of small collieries. Thus, the 1946 Coalfields Report could still lament:

'The opening up of small collieries during periods of prosperity and their closure during bad times both have a deleterious effect on the proper exploitation of the country's resources. These collieries are generally ill-equipped and their object is to secure the easiest coal. The result, not infrequently, is that coal-bearing areas become pock-marked with shallow workings which may lead to unsound development in the neighbourhood and may, as has happened in the Jharia field, be the cause of disastrous fires.'[126]

In an attempt to solve the problems which had been exacerbated by the depression, a proposal for a scheme of output restriction was raised in 1933. The scheme would restrict output for the next three years in Bengal, Bihar and the Central Provinces based on a standard tonnage of the average of output in 1930-32. The quota would be 75 per cent for Bengal and Bihar and 100 per cent for Central Provinces. Output of soft coke would also be restricted by the same quota. However, in-fighting between the rival Indian groups, the Indian Mining Federation and the Indian Colliery Owners Association led the Government of India to reject the proposal.[127] The central authorities believed that there was no way in which an agreement could be made binding on all parties when there was such disunity in the industry. In this, they may have had before their minds, the example of the failure of the restriction schemes in jute manufacturing to be binding, despite the seeming dominance of the IJMA.

The Indian coal industry began to show signs of recovery from 1937. Production rates and unemployment figures increased and profits showed some growth. In part, this was aided by a recovery in exports which arose from around 250,000 tons in 1936-37 to 1.3 million tons in 1938-39 mostly sold to Burma but also to China and

Ceylon.[128] However, most of the increase came from the revival of internal demand from the iron and steel industry and other domestic consumers. Thus, once again, it was problems of demand for Indian coal, allied to the traditional structure of the industry, which exacerbated the impact of the depression on the coal industry. The slight reduction in production costs was offset by the failure of government to significantly decrease freight charges. Therefore, consumption of coal failed to increase significantly during the slump despite the general increase in industrial production.

Iron and Steel

From the beginning, through the dominance of the production of rails and fish-plate production, the modern Indian iron and steel industry had depended upon government patronage for its survival, culminating in the award of protection in 1924. Given this early dependence upon government support, especially through orders from the Railway Board, the depression could have proved to be a crushing blow, but the industry was able to diversify its lines of production and actually increase output during the depression. The later 1930s also saw the widening of the manufacturing basis of the industry away from the one firm, although the pioneers, the Tata Iron and Steel Co (TISCO) still dominated the Indian industry.

Yet, in 1929 local commentators were predicting a serious crisis for the industry because of the problems of TISCO. Birla's agent in Jamshedpur declared 'the Tata Steel Co is at present in a very precarious condition.'[129] Having engaged on a large extension programme at the end of the war at the time of maximum prices, TISCO needed a period of prosperity to recover. The rapid fall in the world price of iron and steel, especially on Continental Europe, had been the reason for the grant of protection in 1924. In 1927, however, this was modified to allow 'discriminating protection' for British steel entering India.[130] Although TISCO was awarded government contracts for rails, steel for construction purposes such as bridges was imported from Britain, so in the late 1920s, while TISCO production increased so did imports. A prolonged labour dispute in the summer of 1929 brought TISCO to the brink of crisis.[131] Production was halved and profits plummeted at the moment when new investment had begun in a further extension of the plant. This had been the root of the strike, since the new technology reduced staffing levels considerably.

Against this background, the depression, with its effects on government spending, could have been the final blow. However, the fall in costs brought about by the depression, added to the increased efficiency of the new plant, meant that TISCO not only survived the depression, but the early 1930s proved the basis for the long-term development of the company. The 1933 Tariff Board which, naturally enough, concentrated on TISCO provides page after page of evidence of the reduction of costs.[132] Works costs for production were reduced, as shown in Table 5.14 (over).

These reductions were made up of falling cost of coal and spelter, the establishment of a Fuel Efficiency Department in 1928 and a Retrenchment Committee with a monthly cost committee of all departmental heads. Technological efficiency had been improved with

Table 5.14

Production costs of Indian iron and steel industry (Rs per ton)

	1928-29	1931-32	Jan-June 1933
Pig Iron	24-4	20-8	18-6
Saleable steel (average)	92-5	76-9	69-6
Rails	86-5	74-6	64-8
Fishplates	127-0	103-3	73-2

Source: Report of the Indian Tariff Board in the Iron and Steel Industry, 1933, pp.51-52, Statement 1a and 1b.

the enlargement of two blast furnaces and a new boiler system in the foundry and these added to the reductions in costs.[133] Labour costs were reduced both by the reduction of manning levels from 22,853 in 1929-30 to 17,517 by mid-1933, and through the introduction of shorter hours, fewer working days 'and by adopting the system of leave by rotation'. Indianisation of the technical and managerial staff also helped to reduce labour costs since Indian senior staff were paid on average half the salary of European or American personnel.[134]

However, the Report also goes on to highlight that the company was not able to make as effective use of those reduced costs as they could have.[135] The depression did bite, especially in the loss of government railway orders: the contract from the Railway Board for rails decreased from 1,197,000 tons in 1929-30 to approximately 400,000 by 1933-34.[136] To offset this TISCO had to sell more steel further afield in Bombay, Karachi and Madras and this entailed heavier freight rates, especially since the freight agreement with the major railway companies ended on 30 June 1933.[137] TISCO estimated that this would add around Rs 40 lakhs per annum to costs on the basis of 1932-33 freights.[138]

Consumption figures for steel in India declined heavily during the depression with the reduction in construction, particularly by government. Consumption was halved from 1,145,900 tons in 1928-29 to 574,100 in 1932-33.[139] Consumption of pig-iron also fell off so that in 1931 the other major iron company, the Indian Iron and Steel Co, (IISCO), was operating only one furnace, thus increasing its costs.[140] For the production of pig-iron two trade treaties became important. The Supplementary Agreement to Ottawa of 1934 guaranteed free entry for Indian pig-iron into Britain providing a valuable market as the domestic market suffered. Morris stresses the importance of this maintenance for the Indian industry of the British market.[141] By 1933 Britain was taking 87 per cent of her pig-iron imports from India and this would have been a valuable market to lose. The 1933 Indo-Japanese Convention helped stabilise Indo-Japanese trade relations generally and helped restore some of the lost market for Indian pig-iron. This was particularly important for IISCO.[142]

These difficulties brought about by the depression forced the Indian iron and steel industry to diversify from its dependence upon railway orders. In 1929 rails and fishplates had accounted for one-third of all production but by 1939 only amounted to one-tenth of total output.[143] The quality of steel produced was also improved so that the 1933 Tariff Board was able to recommend that a wider range of government contracts should be given to domestic suppliers instead of imported steel.[144] Overall the TISCO share of the domestic market for steel increased from 31 per cent in 1929-30 to 65 per cent by 1936-37.[145]

As the Indian economy generally recovered from the depression, the iron and steel industry was able to take fuller advantage of its decreased costs. TISCO production expanded rapidly, doubling between 1931 to 1939 when it reached 715,000 tons of saleable steel.[146] Meanwhile the IISCO was expanded by its managing agents Birds to form the Bengal Iron and Steel Co. By 1937 TISCO believed it could dispense with protection except in the case of dumping.[147] The sustained profit levels during the depression were ploughed back into further extensions: two new sheet mills, a new blast furnace, a plant for the production of sulphuric acid in 1936 and a new power plant in 1938.[148] The strength of the small-scale domestic industry can be gauged by the fact that between 1934 and 1939 fifty small re-rolling plants were established throughout the country.[149]

Thus while the Indian iron and steel industry was able to expand during the slump, protection and the reduction of costs were not enough to overcome all the immediate problems created by the depression. However, the cost reductions achieved during these years allowed an even more rapid expansion of the industry in the late 1930s, based on the willingness to plough back profits to increase technological efficiency.

Sugar

The Indian sugar industry has often been cited as showing the value of tariff protection in industrial development. For instance, the 1938 Tariff Board claimed that, 'As a result of the policy of discriminating protection, it is no overstatement to say that the sugar industry in India has been revolutionised'.[150] This can be compared to an earlier verdict in the Investors' Year Book of 1930 which maintained that the Indian sugar industry could never compete with foreign rivals 'and this is reflected in the price of rupee shares, many of which have been unsaleable for months at any figure in reason'.[151]

Until 1932, the Indian sugar industry had concentrated on the manufacture of the traditional product, gur. The process involved was highly inefficient with much wastage.[152] There were a few factories producing refined sugar but most Indian consumption of refined sugar was met by imports, principally from Java. These imports continued to expand until 1930 when they reached a peak of 933,000 tons.[153] The indigenous producers of refined sugar could not compete with the prices of imported sugar mainly because of the heavy freight charges to the principal consuming areas and the general level of inefficiency within the industry. Indeed tariff protection was ruled out by the 1919 Sugar Commission because they believed it would only strengthen the inefficient practices rather than promote modern techniques.[154] However, by late 1930, as the depression began to reduce the price of Javanese sugar, this in turn depressed the price of gur in Indian markets threatening both producers and the cultivators. Gur producers manufactured more in an effort to reduce costs but this only served to reduce the price further.

As a purely revenue measure, the duty on imported sugar was raised to Rs 6 per cwt in 1930.[155] At the same time, the Governments of the United Provinces, Bihar and Orissa and the Punjab had requested a Tariff Inquiry into the sugar industry, a plea to which the newly formed Imperial Council of Agricultural Research also added its weight.[156] The demand for protection was unusual in its official origin compared to other industries and sprung from a concern for the impact of the price falls on the sugar-cane cultivator. In these provinces, the other major cash crops had been wheat and rice, the price of which had been heavily affected by the depression. While the local governments did not feel able to offer much help to those products, there was a belief that a modern sugar industry could be strengthened not only during the depression but also in the long-term.[157] Such government involvement is in marked contrast to the halting government intervention to aid cultivators of jute, the seemingly more important crop. Partly this can be explained in economic terms, in the financial difficulties of the Government of Bengal. Partly, however, the reasons were also political. The Governments of the United Provinces and Bihar were faced with some of the most sustained disturbances during the Civil Disobedience Campaigns and probably hoped that intervention to aid sugar cane cultivators would counter much of the anti-Government propaganda of the Indian National Congress.[158]

The Government of India accepted this idea and a protective duty of Rs 9-1-0 per cent was imposed in 1931.[159] This effectively ended the import of refined sugar into India, although these were already falling off under the impact of the revenue tariff. With the award of protection, the number of sugar factories increased rapidly. In 1930 there had been 29 factories refining white sugar and 14 gur, by 1938-39 there were some 234 of which 79 were gur factories.[160] A measure of the growth of the industry is the rapid increase in the impor of sugar machinery, which rose from Rs 921,000 in 1929-30 to Rs 33,639,000 in 1933-34.[161] The reduced price of imported machinery during the depression greatly facilitated the establishment of sugar factories.

Large amounts of new capital were attracted to the sugar industry which was made more attractive by the stagnation in the other agricultural processing industries of Northern India such as jute baling and rice milling. Between 1929-30 and 1936-37 the paid-up capital of the sugar industry increased nearly five times.[162] Numbers employed rose rapidly too, from 15,253 in 1928 to 70,000 in 1936, although the growth rate then slowed down to reach 75,000 by 1938.[163] Rosen has calculated that in 1938 the sugar industry ranked fourth in terms of capital investment and industrial production.[164]

The location of the industry was restricted by local supplies of cane, because after being cut the sucrose content of the cane deteriorated rapidly. The 1931 Tariff Board estimated a maximum location of 16 miles from the source of supply.[165] Therefore, transport costs remained relatively unimportant to the industry, with most supplies being within carting range. What was important was the cost of the raw cane which amounted to almost two-thirds of the total production costs. It is this which helps to explain the location of the industry in Northern India and the use of the relatively inferior domestic cane. Although the best quality and highest yielding canes were the tropical varieties of Madras and Bombay, they were the most expensive to cultivate requiring large amounts of irrigation. It cost 12 annas to produce one pound of sugar cane in Madras, but only 4 annas per lb in Bihar.[166] The indigenous canes of Northern India required far less irrigation and while they yielded less, they did provide a relatively more stable source of supply.

While new capital was encouraged to enter the industry, Bagchi has concluded that the most profitable sugar companies in the 1930s, however, were those already in existence before the award of protection.[167] The mills managed by Parrys, for instance, declared annual average dividends of between 9.25 and 17.5 per cent during the period 1931-40, while the two mills managed by the Narang Brothers that were in operation before 1930 registered dividends in the same period of between 17.9 per cent and 22.1 per cent. The new mills, while profitable, could not match these dividends. Between 1934 and 1941 the average dividend of the Babrampur Mill of Begg, Sutherland and Co was 5.18 per cent while the Nawabganj Mill of the Narang Brothers yielded 8.8 per cent.[168]

Bagchi suggests that the reason for this was the size of the earlier mills and their style of operation. The pre-protection mills tended to be larger and many owned the surrounding cane fields to regularise their supply of raw material. This type of factory could be found in Bihar and Orissa and parts of Bombay. The new mills, however, were predominantly small to medium sized, that is, with a capacity of up to 500 tons per day.[169] These mills did not own land and depended upon supplies of raw cane from independent cultivators. Even the larger mills, as their capacity expanded, grew to depend more on purchases from the local product so that the Indian industry did not become dominated by the plantation sector as in Cuba and Java. The danger of this lay in the uneven development of the Indian sugar industry. As production became concentrated in the United Provinces and Bihar and Orissa, the supply of cane did not keep progress with the erection of new mills.[170] Remembering the limit on distribution area of mills, this led to severe competition in these provinces for the supply of raw cane. Meanwhile the industry in Bombay and Madras remained underdeveloped until the mid-1930s.

At the same time it was becoming apparent that while protection had pushed out imported refined sugar, for a viable Indian industry demand had to be raised substantially within the domestic market. The figures for the consumption of white sugar and production of gur are contained in Table 5.15 (over). The majority of Indian consumers, still preferred gur for various reasons including taste, nutritional value and adhesive quality in sweet-making.[171] Protection had also acted as a stimulus to gur production, with output doubling between 1929-30 and 1935-36. Some of the new capital was being invested in the more effective production of gur, for example, triple-roller crushing. Local governments also promoted production of gur and khandsari sugar as cottage industries which diverted consumption from mill-refined white sugars.[172]

The local governments remained involved in the development of

Table 5.15

Production and Consumption of White Sugar and Gur in India (000 tons)

	Total Factory Production	Production Khandsari	Net Production Gur	Net Imports White Sugar	Indian Consumption White Sugar
1926-27	121	-	2,313	815	936
1927-28	720	-	2,276	706	826
1928-29	99	-	1,778	859	958
1929-30	113	200	1,842	933	1,046
1930-31	150	200	2,241	898	1,048
1931-32	221	250	2,758	510	731
1932-33	368	275	3,240	366	734
1933-34	519	200	3,486	249	768
1934-35	622	150	3,701	220	842
1935-36	980	125	4,101	198	1,178
1936-37	1,137	100	4,268	-17	1,120
1937-38	948	125	3,364	-35	913
1938-39	666	100	2,728	-4	662
1939-40	1,269	125	2,441	198	1,468

Source: A.K. Bagchi, Private Investment in India 1900-1939, Table 12.3, p.372, (Cambridge, 1972).

Indian Trade Journal, Vol. CXXXlX, Oct.-Dec. 1940, p.13 Supplement on Sugar industry in 1939-40

the sugar industry but always with the interest of the cultivator foremost, hence the interest in gur and khandsari. They promoted a minimum price for sugarcane which was backed by legislation in the United Provinces and Bihar.[173] This led to the sugar industry being the only industry in India which experienced greater falls in price for its manufactured product than its raw material. Thus, while prices for raw sugar delivered to factories in Bihar fell from an average of Rs 7.0 per maund in 1930-31 to Rs 6-4 in 1934-35, the price for refined sugar declined from Rs 9-11 to Rs 7-4 in the same period.[174] In the United Provinces the average price for raw cane fell only from Rs 6-3 in 1931-32 to Rs 6-0 per maund in 1934-35, while those of refined sugar were reduced from Rs 9-12 to Rs 8-5.[175] Although the Indian Sugar Mills Association (ISMA) successfully negotiated a reduction in the freight on manufactured sugar from Cawnpore and Patna in 1933, the industry was then hit by the imposition of an excise duty by the Government of India in 1934 in an effort to recover some of the revenue lost from import duties.[176] In 1936 this was raised from Rs 1-5-0 to Rs 2 per maund.[177] With the failure of the Indian market to expand as rapidly as had been anticipated, competition emerged between the old established mills and the new entrants and prices fell further.

In 1936 the ISMA formed a sugar syndicate, ostensibly as a marketing organisation, but in reality an attempt to strengthen the political power of the sugar lobby at both local and central government level. The sugar lobby maintained that the minimum price structure was artificially inflating the cost of raw materials and that if the industry was to fail, the cultivators' position would be worse than ever.[178] They succeeded in persuading the Government of India to abandon minimum price legislation and raw cane prices slumped by an average of Rs 2 per maund in 1936-37 alone.[179] Still concerned about the position of the cultivator, the Governments of the United Provinces and Bihar attempted to regulate the industry in their districts through licensing of factories and zoning of supply districts. Although the legislation could easily be circumvented by both cultivator and factory manager, it meant that the majority of new factories established from 1937 were in Bombay or Madras, but since these areas had the highest costs, progress was slow, and again sugar mills were small in size and made little profits.[180]

While the domestic market was slow to expand, the India sugar industry was denied any opportunity of establishing an export market when the Government of India signed the International Sugar Agreement in 1937.[181] After years of refusing to join any restriction scheme government officials had been persuaded to accept agreement in 1937 because it did not interfere with domestic production, but placed a five year embargo on all exports of sugar by sea from India. Officials, both in India and Whitehall, did not believe that Indian sugar could compete with Javanese or Cuban sugar in world markets. Therefore, they did not think that they had anything to lose by signing the agreement and in so doing actually helped to strengthen the bargaining power of the Australian Government. The Indian authorities hoped that by acting in this way, they could gain reciprocal trade advantages in the Australian market. The ISMA protested, but it is unlikely that Indian sugar could have captured world markets successfully being more expensive and of much poorer quality than either Javanese or Cuban sugar.

The 1919 Sugar Commission had suggested that the award of protection would only serve to bolster an inefficient industry, and this is what occurred in the greater part of the industry. The 1947 Tariff Board reported that, according to the standards of the ISMA, two-thirds of all sugar factories in India were of an uneconomic size.[182] They also severely criticised the failure to utilise by-products to reduce costs apart from the use of bagasse as fuel. Unlike Java anmd Cuba, there was little research within the Indian industry on the utilisation of by-products.

Thus the award of protection gave the domestic sugar market to Indian producers, but thereafter government policy was inconsistent, and, for a viable industry, the demand in the domestic market was not large enough due to the failure of overall incomes to rise. Despite the necessity of securing markets, little was done to organise marketing of the basic product let alone the by-products. By the late 1930s the great investment boom in sugar was over as the problems came to the surface.

Paper

The Indian paper industry can also be classed as a new 'protected' industry. There had been paper mills in existence before the inter-war period, dominated by two European managing agents; Heilgers managed the largest group, the Titagarh Paper Mills Co, and Balmer Lawrie the Bengal Paper Mill Co. The industry lacked sufficient supplies of a viable indigenous pulp material and so was at an extreme disadvantage against imported paper in this period. Tariff protection was granted in 1925 because it was believed that bamboo pulp could provide a basis for the long-term development of the industry, thus allowing a reduction in production costs.[183]

Protection was increased in 1931 when the Tariff Board reported that once technology for pulp-making from bamboo had been established commercially, India could have a potential export in both machinery and raw material.[184]

Supply of raw material proved to be the major problem facing the industry. The traditional raw material had been sabai grass, thus the original location for the industry had been in Bengal to be near the coal fields since it was cheaper to transport the grass to the mills near the fuel supply than vice versa. However, as the location of the supplies of sabai grass grew ever-distant, production costs increased as transportation costs rose.

Although the various early Tariff Boards had hoped that research into bamboo pulp technology would be actively pursued, only the new Indian Paper Pulp Co, managed by Andrew Yule and Co, maintained a research programme. The lack of enthusiasm is not difficult to understand since the Indian Paper Pulp Co, failed to make any profits for the first 14 years of its existence, the mill being financed by Yule's wider interests.[185] Active research on a wider scale was not considered until the early 1930s when the Yule mill was beginning to show some signs of progress and an import duty on wood-pulp necessitated the hasty research for a viable indigenous raw material.

Prior to this, protection had served mainly to increase the import of wood pulp (Table 5.16). The duty on imported wood-pulp was imposed to push the industry back into the research on bamboo-pulp technology and while this increased the use of the indigenous material, imported wood-pulp could not be dispensed with altogether.

Table 5.16

Types of Pulp Used in Production of Paper in India

	1923 %	1931-32 %	1936-37 %
Bamboo Pulp	6.1	13.2	37.7
Grass Pulp	39.4	22.8	28.5
Other Indigenous Pulp	23.2	8.3	18.2
Imported Wood Pulp	31.3	55.7	21.6
Total Wood Pulp (000 tons)	24.6	39.7	51.1

Source: M.D. Morris, 'Growth of Large Scale Industry to 1947', Cambridge Economic History of India, (1983), p.653.

Bamboo-pulp was unsuitable for the manufacture of newsprint so the duty on wood-pulp merely served to increase production costs. The newsprint problems were not solved until 1947.[186]

Other basic problems confronting the industry included the lack of sites with a supply of clear water throughout the year and the reliance on imported chemicals, particularly caustic soda and chlorine. Caustic soda imports continued to increase despite the slump reflecting its importance as an industrial raw material and the lack of development in the domestic chemical industry.[187] The 1946 Tariff Board on Heavy Chemicals pointed out that the bulk of Indian production was carried on by paper mills own chemical plants. This must have added heavily to production costs.[188]

The level of protection was increased also by the general surcharge of 1931. However, despite this, and unlike the case of sugar, levels of production and employment remained stable through the depression years, as shown in Table 5.17 (over). This was the result of relative factor costs. The duty on imported wood-pulp was raised to Rs 56.25 per ton which offset most of the decrease in its price brought about by the depression.[189] Similarly, the short-lived attempt between 1931 and 1934 to protect the Indian heavy chemical industry increased the costs of the paper industry, both by raising the cost of imported chemicals and the internal price of indigenously produced chemicals. Most seriously, railway freights for the paper industry increased substantially during the height of the depression and then were reduced only marginally between 1933 and 1936.

Bagchi has blamed the generally depressed state of the Indian economy in the early 1930s for effectively blocking development of the paper industry despite the award of protection.[190] Certainly the strain on Government finances, particularly at the provincial level, must have been a severe constraint since much of the early development was based on government contracts. In an effort to counteract this the Indian Paper Makers' Association formed a price pool in 1935 to try to win government orders. Reduced real incomes of consumers also would have curtailed the demand for paper producers.

Production, and investment levels did not expand until the later 1930s, in line with the general economic recovery. Much of the new capital entering the industry was coming from Eastern Indian groups, especially the Birlas and Dalmias. The development of bamboo-pulp

Table 5.17

Paper Mills - Number, Capital and Production

	No. of Mills	Authorised Capital Rs	Average No. Persons Employed Daily	Production Quantity Tons	Value Rs
1928	8	82,61,500	5,825	38,016	1,81,94,077
1929	9	1,44,62,500	-	40,712	1,86,75,694
1930	10	1,64,62,500	-	39,706	1,74,12,178
1931	9	1,14,62,500	-	40,558	1,85,00,489
1932	9	1,14,62,500	5,674	40,391	1,78,43,409
1933	9	1,14,62,500	5,611	43,206	1,79,36,760
1934	9	1,14,62,500	5,995	44,179	1,71,13,169
1935	10	1,19,62,500	6,621	47,305	1,89,87,767
1936	10	1,34,62,500	-	48,209	1,92,12,791
1937	11	1,81,13,250	7,276	56,593	2,48,13,096
1938	12	2,24,13,250	7,761	60,114	2,46,04,675

Source: Statistical Abstract 1919-20 to 1928-29, Cmd 3882 of 1931, Table 209, p.693

Statistical Abstract 1929-30 to 1938-39, Cmd 6333 of 1942, Table 207, p.572.

technology slashed production costs through the cheapness of the raw material. In 1931 the Tariff Board estimated that one ton of bamboo-pulp might cost Rs 38 but by 1938 the actual cost was only Rs 14 to Rs 22 depending on quality of bleaching.[191] The new technology also allowed the diversification of location and gave a new impetus to production of sabai grass by relieving the burden of it being the only major indigenous raw material.[192] In the late

1930s new mills were constructed by Birla in Orissa and by the Thapars in the Punjab. The location of the Birla's Orient Mill was particularly cost-effective being situated near the Rampur colliery as well as good local supplies of bamboo. It was also an area of markedly cheaper labour costs having experienced little previous industrial development.[193]

It is interesting to consider the timing of the entry of Indian capital into the paper industry. Despite the problems during the depression the established European firms were still able to declare high dividends in the early 1930s: the dividends for the Bengal Paper Mill Co ranged from 20 to 25 per cent between 1929 and 1934, while those for the Titagarh group were maintained between 35 and 45 per cent in the same period.[194] This probably reflects the diversity of interest of the managing agents involved and the extent of the reserves which they had been able to build up before the depression. Although these dividends were high, entry into the sugar industry offered quicker returns for new capital. In paper, large inputs of capital were required for the development of bamboo-pulp technology to break the dependence on the imported wood-pulp now at an inflated price. Therefore, it is not surprising that the Indian entrepreneurs delayed investment in paper until the necessary technological developments had taken place. By 1937, profit levels in the sugar industry were showing signs of constraint while the technology was now available for the paper industry to progress. It is notable that the Indian groups now entering the paper industry were those which had invested heavily in sugar in the previous period, such as the Birlas, the Thapars and the Dalmias.

Cement

The Indian cement industry, unlike other industries categorised as 'new' such as paper and sugar, did not officially receive protection, although the general surcharge on import duties imposed in the Emergency Budget of September 1931 did have important protective effects. Entry into the cement industry was not difficult since the technology involved was relatively simple and India possessed good supplies of excellent limestone, well-distributed throughout the country, and well located for rail transport. The industry, therefore, was technically in a position to secure the domestic market. Furthermore, as transport costs were the main component of production costs, the Indian cement industry should have had a significant advantage over foreign suppliers, which were led by Britain.

The prosperity of the war and post-war boom period stimulated a rapid expansion in the Indian cement industry allied to the growth of several other industries. Between 1922 and 1925 seven new cement companies were formed.[195] However, as the boom period ended for many industrial consumers, supply overtook demand for cement and prices began to fall, cutting profit levels. A Tariff Board was constituted in 1925 to consider the merits of awarding protection to the Indian cement industry, which argued that the industry could solve its own problems by internal re-organisation. It pointed out that the industry was at a severe disadvantage in the ports of Bombay and Calcutta since many factories were located in the Indian interior and while this protected them in local markets, the ports should have provided them with their best market opportunities.[196] The Board considered that the industry could rationalise with comparative ease since it was a virtual monopoly dominated by the Bombay finance companies including those of Thakurdas and Chetty. The grant of protection under these circumstances would merely serve to raise the cost to the consumer unnecessarily and so the Board recommended that the Bombay financiers should use their influence to stabilise the condition of competition within the industry. In so doing, the Board believed that Indian cement producers would be able to secure the domestic market without protection.[197] However, they did recommend bounties on Indian cement at the ports to help the industry in the initial stages of rationalisation, but this was rejected by the Government of India.

The Indian cement manufacturers heeded the recommendations of the Tariff Board and in 1926 the Indian Cement Marketing Association was founded to create a common sales policy and to establish a fixed sales price.[198] In 1929 the Concrete Association of India was established to investigate and popularise new methods of using cement which it did by organising free technical demonstrations and providing free advice to individual consumers.[199] Finally, in 1930, the Cement Marketing Company of India Ltd was founded to organise the sales and distribution of all the cement companies through zonal allocation of markets.[200]

The depression did not affect production levels, as can be seen in Table 5.18 (over) and the industry continued the steady progress begun in the early 1920s.

Table 5.18

Production of Cement (tons)

1929-30	561,000
1932-33	592,531
1933-34	642,944
1934-35	780,794
1935-36	890,683
1936-37	997,414
1937-38	1,169,894

Source: Statistical Abstract 1928-29 to 1938-39, BPP, Cmd 6333 of 1942, Table 210, p.582.

By 1938 production had topped the one million tons mark. Meanwhile, the 'de facto' protection of the surcharge was reducing imports of Portland Cement considerably, despite the preference granted to British producers at Ottawa. Imports declined from 120,575 tons in 1930-31 to only 31,916 tons in 1937-38.[201] By then, Indian manufacturers supplied 95 per cent of domestic requirements, compared to 57 per cent in the period 1920-24.[202] However, the Indian cement industry was still not producing to maximum capacity. In 1937 installed capacity of the industry was 1.5 million tons although only 1.1 million tons was actually produced.[203]

Consumption levels remained steady through the depression. Since retrenchment in government circles, both provincial and central, led to a reduction of government contracts, this is a measure of the new consumers being found for Indian cement which helped to reduce the dependence upon government orders. In particular, the cement industry was aided by the growth of urbanisation in the 1930s, as suggested by Baker in Madras.[204] The new sources of demand are also reflected in the changing location of the industry. New factories were opened up near the ports and also in Bihar, Punjab and the

United Provinces. This suggests that a large part of the new demand might have been through the enlargement of the TISCO works at Jamshedpur and also with the growth of the sugar industry. Establishment of the new cement factories near their markets helped to reduce the price, reducing freight charges. It also gave cement companies flexibility in meeting orders. The work of the Cement Marketing Company helped to rationalise the production of existing factories so they were all able to remain profitable, despite the depression clearing dividends of between 5 and 18 per cent.[205]

A further stage in the rationalisation of the Indian cement industry came in 1936, with the merger of the two largest firms into the Associated Cement Company which then controlled ten out of the existing 12 production units. The board of directors of the ACC 'represented practically all the major business groups of Western India' among them Thakurdas, Mehta and Tata.[206] The ACC aimed to rationalise production of the existing factories, increasing output in those factories nearest to markets and reducing output in those with the poorest location. In this way they hoped to reduce production costs and pool the cost of buying of raw materials, stores and plant and the marketing and distribution of the finished product.

The monopolistic position of the ACC was soon challenged. The general level of profits proved attractive to the capitalists of Eastern India and in 1938 the Dalmia-Jain Group established five cement factories in Eastern Provinces.[207] This was to take advantage of the market possibilities in Bihar and Calcutta. It is also true that these financiers had interests in jute and sugar and may have been diversifying into the cement industry to reduce production costs and rationalise their interests over the long term. In the general market, however, the new capacity provoked new fears of an over-production crisis. Confidence in the cement industry faltered and prices began to fall from mid-1938: the price fell from Rs 43 per ton in May 1938 to Rs 30 in September 1938.[208] The profits of the ACC were halved between 1934 and 1939. Eventually, at the end of 1939 a joint marketing and price-fixing policy was agreed between the two groups.[209]

The financial and manufacturing interests in the Indian cement industry proved more willing to rationalise than those in most other major Indian industries. The Investors' Year Book continually made the claim that it was this willingness to co-operate which gave the industry the buoyancy it needed during the depression.[210] It could be that the associations its managers had with other industries gave them a wide knowledge of market conditions and local needs, knowledge which the industrialists were willing to use to expand their manufacturing base. In the early 1930s the Indian cement industry seems to have come of age. It changed from being an inefficient, conservative industry into one in which industrialists were prepared to take more risks and invest more in establishing the industry on sound commercial lines. The fruits of this change in policy came to mature in the second world war period when the industry was able to make rapid progress in meeting war time demands.

Conclusion

It is clear from these case studies that during the 1930s there was a considerable increase in production in consumer industries but relatively little expansion of heavy industry. During the depression each industry faced a range of differing problems and each met these problems with a wide range of solutions. There is, then, no one theory adequate to explain the response of Indian industry to the slump. Instead, historians have provided partial answers, responses which varied between industries. Thus, the relatively early recovery of Indian industry in general from the depression was not solely the result of protection, but of a complex series of factors including market availability, supply of raw materials, trends in production costs, levels of co-operation within industries, as well as the degree to which individual industries could win government support. The jute industry, for instance, suffered from a prolonged period of depression since manufacturers lacked the foresight to adapt their production to the changing structure of world markets. Until the late 1930s, there was little research within the industry into means of diversifying the range of basic products. For the paper industry, a long-term disability was the lack of a viable domestic raw material. Once the technology for the production of bamboo pulp had been marketed successfully, new capital rapidly entered the paper industry. On the other hand, the sugar industry made great progress in the early 1930s substituting for Javanese imports. However, consumption failed to increase and once domestic suppliers had pushed out imports, supply began to overtake demand.

The impact of the slump was vital in understanding the patterns of Indian investment. During the depression, the collapse of values in the land market, of profits in moneylending and of the former mechanisms for the transmission of credit from urban to rural areas, pushed capital from rural areas. Some went abroad, principally to the Far East. Much, however, was pulled towards investment in urban industry which seemed to offer a more secure return on investment. Hence the increased investment in sugar, cement,iron and steel and the cotton industry outwith Bombay Island. The new concerns might not have been as profitable as the pre-depression firms or as former investments in land, mortgages or moneylending but they were more secure. There were two patterns visible in this new investment. In Madras; Baker has identified what he terms 'merchant enterprise': small scale units of production with low ratio of fixed to working capital, a fast turnover and a predominantly unskilled labour force. This, he argues, gave rise to 'a rather unambitious industrial sector' characterised by a volatile level of investment leading to over-supply of individual commodities followed by a slump and a high number of financial failures.[211] In both the United Provinces and Bihar investment in the sugar industry followed a similar pattern. However, there was a second trend also at work in the rise of indigenous capital in Northern India. These new industrial leaders, the Birlas, Dalmias and Thapers, also evolved from trading families but they entered industry on a wider scale then their counterparts in the South. They seemed more open to risk-taking and investing in large-scale units.

The survey of individual industries has highlighted two aspects of these emerging Indian capitalists groups. Firstly, they adapted the managing agency structure to their own ends. The family groups which emerged tended to function as managing agencies with different branches of the family being involved in different industrial sectors. Again, there is a similarity with the European groups in that many of the traditional and managing agencies had been founded as family concerns. Secondly, the industrial competition which emerged in the 1930s was not simply a conflict between European and Indian businesses. So far, the literature has concentrated on discussion of how the emerging Indian capitalists undermined the control of the European agencies of India's industrial sector. The 1930s witnessed the growth of competing interests within the Indian business community itself. This is particularly notable within the sugar and cement industries and was a sign of the growing power of the Indian entrepreneurial groups.

A large proportion of this new investment was coming from domestic sources, but it would be wrong to maintain that there was a scenario of dynamic Indian capitalism versus stagnating, conservative European capital as painted by Bagchi and Ray. European managing agencies were at the forefront in many of the new industries of the 1930s. The technology for producing bamboo pulp was developed by Andrew Yule and Company and Binny's in Madras managed some of the most modern cotton textile mills in India. European firms owned the largest and most modern coal mines and sugar factories. It is true that most of the new European capital in the 1930s was being invested in sectors outwith the control of the traditional managing agencies. This period witnessed the emergence of the fledgling multinational companies in India: Dunlops, Imperial Chemicals, Lever and General Electric Company, for instance. However, this should not be allowed to overshadow the expansion which did occur in firms owned by

European agencies in the 1930s. Not all European capital was being remitted out of India during the slump.

The major problem being faced by the traditional European managing agencies was not lack of entrepreneurial drive but problems in capital. Thus, for instance, with the decline of the import handling firms run by Shaw, Wallace & Co., the agency lost much of its business during the slump. It closed agencies for the importation of a wide range of goods, from piecegoods to cement, and ended its operations in Karachi altogether. The agency then had less to invest in its mining and jute companies.[212] Similarly, Tomlinson has traced the difficulties faced by Bird & Co. in establishing new iron and steel capacity in Bengal in the 1930s. Again the problem was lack of capital rather than lack of entrepreneurial drive.[213]

By late 1939, the Indian industrial sector had diversified considerably, especially in the production of consumer goods. Indian concerns catered for the demand of many goods from cotton piecegoods, to steel bars, to cement. Imports of such products were now negligible. However, the failure to develop capital goods industries was hampering development. The lack of chemical and machine production industries was a crucial development block. Thus, it seems that the industrial sector can also be classed as an area in the Indian economy in which growth occurred without substantially breaking from the state of underdevelopment. Given the failure of incomes to rise substantially throughout the 1930s, there was a limit to the expansion of the Indian market. During the depression, then, the products produced by Indian industries were limited to import-substitution. There was, then, new industrialisation without new patterns of consumption and range of goods. Industrial development received a boost during the depression but it was still within the confines of an underdeveloped economy. However, the developments in the industrial sector during the slump were of crucial importance in the long-term evolution of the Indian economy. They laid the foundation for the rapid developments in Indian industry during the Second World War.

Notes

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3. See, for instance, Noyce Memo on cotton, 5-7-30, in National Archives of India, New Delhi, [hereafter, NAI], Government of India, Finance Department, [hereafter GoI,FD], File 17(97)F of 1930.

4. Government of India, Department of Planning and Development, <u>Statement of Government Industrial Policy</u>, (New Delhi, 1945), para 2, p.2.

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7. Tomlinson, <u>Political Economy</u>, p.38.

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9. Bagchi, <u>Private Investment</u>; Ray, <u>Industrialisation</u>.

10. Bagchi, <u>Private Investment</u>, p.371; Ray, <u>Industrialisation</u>, p.50.

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12. Baker, 'Debt and Depression', p.239.

13. A.K. Bagchi, 'European and Indian Entrepreneurship in India, 1900-1930', in E. Leach and S.N. Mukherjee (eds.), <u>Elites in South Asia</u>, (Cambridge, 1970), pp.241-242.

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CHAPTER SIX

Industrial Labour: The Retreat in the 1930s

Within the historiography of India, little has been written about the industrial labour force. Predominantly, the labour force has been seen through the eyes of its employers. Thus, there are studies of the problems of recruitment and of maintenance of a labour force and its role in production costs. In the past, many of the problems of Indian industry have been blamed on an inefficient labour force, composed of migrant landless rural labourers who were categorised as undisciplined, thriftless and prone to much absenteeism.[1] Morris' pioneering study of the Bombay cotton millworkers attempted to dispel these ideas, but they have persisted largely because there have been so few studies since then.[2] R. Kumar broke new ground in a short study of the role of women in the Bombay labour force and recent work has attempted to unravel the cultural and caste background of industrial workers, for instance, Simmons on coal workers and C. Joshi on the textile labourers of Kanpur.[3]

From this limited literature, two general and opposing conclusions have emerged about the impact of the inter-war depression upon India's industrial labouring classes. Anstey, writing in 1936, argued that the industrial labourers fared better than their agricultural counterparts, enjoying rising real incomes as the prices of basic commodities, especially foodgrains, fell.[4] This was the view of many contemporary officials and has been accepted by Bagchi, in the light of the analysis by Mukerji of textile workers in Bombay, Ahmedabad and Calcutta.[5] At the other extreme, Morris and Mukerjee and historians of trade union development in India paint a black picture of wage cuts, retrenchment and cuts in working hours which immiserised the workforce, especially through the increased burden of indebtedness.[6] In such arguments, employers were passing the full costs of the crisis on to their workers.

Neither of these conclusions are necessarily wrong. There was a time lag between wage cuts and price falls, so that real wages could have risen for those in work during the early years of the depression. However, by 1934, as wage cuts were pursued more vigorously at a time when prices were beginning to rise once more, real wages would have declined. This chapter will focus upon the issues of levels of employment, changes in wage rates, problems of labour unrest and the nature of the government response in considering the condition of industrial labourers during the slump.

Levels of Employment

Table 6.1 (over) illustrates the figures of employment in large scale industrial units for 1927-1934.[7] These statistics show that the total numbers employed remained remarkably stable during the years of the depression, with only a slight reduction overall. There was not the massive industrial unemployment which occurred in western nations. However, while the comparative smallness of the industrial sector in India meant that there was no widespread distress, the highly localised nature of industrial development could have caused pockets of acute distress.

Table 6.1: Labour in Large Scale Industrial Units

Year	Factories*	% Annual Charge	Mines	% Annual Charge	Railways	% Annual Charge	Total	% Annual Charge
1927	1,553,382		269,290		655,777		2,478,449	
		-2.21		-0.60		+2.31		-0.78
1928	1,520,315		267,671		670,969		2,458,955	
		+2.76		+0.75		+1.66		+1.87
1929	1,553,169		269,701		682,169		2,505,039	
		-1.60		-2.97		-4.50		-2.55
1930	1,528,302		261,667		651,159		2,441,128	
		-6.33		-11.80		-5.87		-6.79
1931	1,431,487		230,782		612,892		2,275,161	
		-0.82		-11.30		-3.45		-2.59
1932	1,149,711		204,658		591,696		2,216,065	
		-1.00		+0.90		+0.65		-0.38
1933	1,405,402		206,507		595,584		2,207,493	
		+5.82		+11.00		+0.88		+4.98
1934	1,487,231		229,381		600,877		2,317,489	

* Includes railway workshops.

Source: Bulletin of Industries and Labour, No. 57.
State Action in Respect of Industries 1928-35, (Delhi, 1936), p.5.

Table 6.2

Labour in Large Industrial Establishments

	1931	1933	1935	1937
Cotton Textiles	364,913	366,289	440,923	475,782
Jute	-	257,175	277,986	305,785
Woollen Mills	4,846	5,051	5,926	7,378
Railway Workshops	118,953	105,772	106,186	102,078
Iron and Steel	26,892	23,726	32,711	39,818
Sugar Factories	17,562	48,559	70,625	74,448
Chemicals	2,776	3,223	3,902	4,133
Bleaching, Dyeing	5,928	5,370	6,744	8,899
Paper Mills	5,674	5,944	6,621	7,966
Cement, Potteries	5,062	5,216	7,701	10,938

Source: Large Industrial Establishments in India, (Delhi Bi-annual), 1931-37.

From this it can been seen that the major retrenchment came in government-owned railway workshops. The Railway Board sought to cut its losses through retrenchment of staff. The labour force was also cut in the iron and steel industry. While there was a rationalisation campaign during the depression to increase labour efficiency, staff was retrenched predominantly to reduce costs at a time of falling government contracts.[9] Between 1929 and 1934, the many problems of the jute industry led to an 18 per cent reduction in numbers employed.[10] Although the overall figure for numbers employed in the cotton industry increased between 1931 and 1933, this reflected the growth of mills outwith Bombay. New mills were under construction in Ahmedabad until 1934 and mills in the interior were working multiple shifts including night shift.[11] In Bombay, however, labour was reduced by 18,000 in an attempt to cut costs to compete with the double threat of expanding interior mills and Japanese imports.[12]

There are two major problems with these figures. Firstly, they are underestimates of the numbers employed deriving from returns provided by those establishments which came under the net of the Factory Act and the Mines Act. Often employers failed to send in their official returns, so much of the information was gathered informally through unofficial enquiries from local government officials. The general reply to such enquiries was that manufacturers were not reducing their labour forces, so as to maintain a good image with officialdom. Local governments frequently complained about the inaccuracy of statistical information, yet normally the first retrenchment measures they took were to cut the inspectorate staff.[13] The figures are supposed to make allowances for seasonal variations in levels of employment, but, given the paucity of inspectors, they are largely crude estimates.

The second major difficulty is that the figures do not distinguish between full and part-time employment, thus disguising the problem of industrial unemployment in India. At first glance, the figures do seem to indicate that the depression in India did not bring about the wide-scale industrial unemployment associated with the crisis in western economies and the subsequent deep social problems. Yet, given the problems in the Bombay cotton and Calcutta jute mills, it is unlikely that these traditional industrial centres of India could have avoided large-scale redundancies during the slump. The spectre of unemployment for industrial workers in India had been raised earlier by the Royal Commission on Labour. This had detailed the cuts in labour in cotton textiles, iron foundries and in the railways which had been brought about already by rationalisation schemes in the late 1920s. The Commission speculated that unemployment could become a major problem in India with the depression creating new redundancies.[14] However, as late as 1933, the Secretary to the Government of India was informing the Consul General for the Dutch East Indies that 'industrial unemployment in the true sense in which it is understood in the west does not exist in India to any large extent'.[15] Namely that when industrial labour was made redundant it could be absorbed either in other forms of employment or by returning to the land. This became the basis for government arguments that a state insurance scheme was unnecessary, a view echoed by local government officials.

While it is difficult to get accurate data, the government was probably correct to some extent in its view that 'unemployment' was being transferred from the urban industrial areas back to the rural areas. For instance, the 1931 Census of India recorded a population decrease in Bombay City and a corresponding increase in density in the main recruiting areas of the Konkan.[16] On a more qualitative level, the Inspector of Factories for Bengal reported in 1934 that the drastic overcrowding of tenements in Calcutta had been alleviated by the number of unemployed jute workers returning to their villages.[17] This was reiterated by officials in Bihar who spoke of large numbers returning from Calcutta.[18] Given that the population was increasing rapidly at this time, it must have led to severe pressure on the land in certain parts of India where existing under-employment originally had made recruitment to the industrial areas attractive, a problem which we discussed in the study of Bihar in Chapter Four. These returning workers helped to depress rural wages further, with more people seeking agricultural employment.[19]

There was unemployment in Bombay and Calcutta and in the mining regions. The Royal Commission on Labour had pointed out that there was a permanently settled labour force emerging in several industrial centres, created through long-distance migration and reflected in the changing sex-ratios shown in succeeding Census Reports.[20] For instance, there had been considerable recruitment in Bombay from the United Provinces. Thus, there was a section of industrial labourers emerging for whom return to a village during prolonged periods of unemployment, would no longer be an alternative. This created a problem in the two major metropolitan centres, Bombay and Calcutta, with decreased employment opportunities in the mills, railway workshops, transport industries and docks.

A more widespread problem within Indian industry would have been under-employment during the slump. In most industries, recruitment through jobbers encouraged the formation of a pool of reserve labour which could be hired or fired as the economic conditions dictated or utilised to cover absenteeism of established workers, one example being the badli system in Bombay Island. Thus, under-employment was an established feature of the industrial structure of India. This was exacerbated during the depression as employers cut back hours worked to reduce costs or, as in the case of the jute industry, sealed looms.[21] Workers could find they had a shortened working week or might be left without employment for one week in four. Short hours became widespread through several industries. The Labour Federation of Jamshedpur, for instance, in its evidence to the Tariff Board Enquiry into the steel industry in 1933, stated that the Tatas had resorted to reduced hours beginning with the more rigorous enforcement of days off.[22] Short time workers led a precarious existence without any job security. As the Bombay millowners tried to compete with the lower costs of interior mills, some mills worked double and night shifts during periods of peak demand only to 'close down suddenly after demand had slackened, and often very little regard is paid to the disturbances on family and civic life that result'.[23] Thus, while India did not experience the widespread unemployment common to western economies during the depression, this crisis had equally as serious an effect in India's underdeveloped economy through widespread underemployment.

Wages

The second major question to be considered is that of wages paid to industrial labourers during the slump. How far were wages cut and when, and what impact did this have on the standard of living in urban centres?

Actual data on wage levels is fragmented and unreliable, with confusion over wage rates and earnings. The most recent and seemingly comprehensive analysis on wage rates has been compiled by

Mukerji for Bombay Island, Ahmedabad and Calcutta, whose figures are contained in Table 6.3 (over).

These show wide variations in each centre. In Bombay Island textile mills, wage rates seem to have been stable between 1926 and 1933, falling only from 1933 to 1937. They then rose again, reaching a new peak in 1939. In Ahmedabad wages remained stable until 1932, when they rose. Thereafter, they did not fall until 1935. A further decrease was recorded in 1937. However, even in 1939 wage rates had not recovered their level of 1932-34. Meanwhile, in Calcutta wage rates seem to show more volatility with the major reductions occurring before the onset of the depression. Wages rose in 1931 but this was not maintained. From 1936 wages for jute mill operatives rose steadily once more.

However, there must be doubt about the validity of these figures. For instance, the long period of stability of wage rates recorded for Bombay Island between 1926 and 1933 does not seem to fit with the violent strike activity of 1928 and 1929, which was a result of conflict over pay cuts. Similarly, there is no evidence for the pay rise negotiated by the Ahmedabad Textile Labour Association (ATLA) in 1929-30. The problem is that Mukerji's figures are not representative, in that they rest on a very narrow base, and for several years are simply estimates. They represent money wages paid to workers for an average month of 26 working days. The statistics relate only to two cotton mills in each centre and one jute mill and, as such, cannot be said to illustrate general trends.[24]

An attempt was made to find a more broad selection of wage data

Table 6.3

Average monthly wages of workers (Rupees)

	Bombay Island	Ahmedabad	Calcutta
1925	32.75	33.62	19.8
1926	34.56	33.80	19.2
1927	34.56	33.80	19.3
1928	34.56	33.80	17.7
1929	34.56	33.80	16.5
1930	34.56	33.80	14.3
1931	34.56	33.80	16.2
1932	34.56	35.69	15.4
1933	34.56	35.69	14.6
1934	27.25	35.69	14.6
1935	27.25	33.46	14.6
1936	27.25	33.46	16.9
1937	28.44	30.96	18.3
1938	32.18	32.98	19.6
1939	35.37	35.00	19.6

Source: K. Mukerji, 'Trend in Real Wages in Cotton Textile Industry in Bombay City and Island from 1900 to 1951', Artha Vijnana [hereafter AV], 1959, pp.82-97.
'Trend in Real Wages in Cotton Textile Industry in Ahmedabad from 1900-1951', AV, June 1961, pp.124-132.
'Trend in Real Wages in Jute Textile Industry from 1900 to 1951', AV, March 1960, pp.56-67.

with which to test Mukherji's conclusions. However, variations in official statistics available are so wide as to make comparison almost impossible. There is widespread variation in the interpretation of the definition of wage rates. Some are simply divisions of money paid out by firms by the average numbers employed (as, for instance, in the data used by Mukherji) which would include both basic salary and dearness allowance and deductions made for poor workmanship or absenteeism. Others provide daily rates which represent only the basic rate. It has been estimated in Bombay, for instance, that the basic rate represented only 30 per cent of total money wages in 1930. Neither of these calculations of average monthly or daily rates include payment of kind (common, for instance, in Sholapur) or credit arrangements with the millshops. Whatever base is used, the official statistics over-estimate the level of average pay since they do not include deductions paid to jobbers and sirdars, the recruiting agents.

Despite such fragmented and problematical data we can at least estimate trends in wage levels, if not actual rates. Thus, there was a time lag between initial declines in price in 1929 and the first wage cuts apparent in 1931. From then, however, as the depression affected the price of manufactured products, employers instituted a series of wage cuts to help reduce labour costs. These cuts took the form of the reduction of dearness allowance due to declining costs of basic necessities. From 1936, there seems to have been some increase in wage rates, but by 1939 they had failed to recover 1929 levels. The Textile Labour Inquiry Commission discovered, for instance, that wage rates in Bombay City had declined by around 40 per cent between 1931 and 1937, although there had only been a reduction of 25 per cent in both Ahmedabad and Sholapur. However, in all three centres the 1939 levels remained some 25 per cent below those of 1929 due to the decline of dearness allowances. Similarly, the Bihar Labour Enquiry Committee estimated a decline of 30 per cent in the wages paid to employees at the Tata Iron and Steel Works, between 1929 and 1938. Only wages paid to furnace men had increased due to their greater responsibility under the TISCO extension plan. Again in the small workshops of urban Punjab, the Board of Enquiry reported a similar pattern of declining wages between 1931 and 1936, but no return to 1929 levels until the war boom period.[25]

Data on average daily earnings in the main coalfields includes basic rates, which were calculated by the number of tubs filled, plus an allowance for kerosene and grain. Again the first cuts appear in 1931-32. Thus average daily earnings of a miner in the Jharia field fell from 13 annas per day in 1930 to 11 anas per day in 1933. This was the result of short-time working and a shortage of tubs for the miners to fill, as well as a cut in the basic rate of pay. There were also claims that tub size was being increased as a new method of cutting pay.[26] By 1937 earnings began to rise again but they did not reach their 1928-29 levels until the war.

Other more impressionistic data on the extent of wage falls can be found in the reports of the Inspector of Factories and the Inspector of Mines. These reports show that there was no uniformity in the levels of cuts even within firms run by the same managing agent, just as there had been no standardisation of wages before the depression.[27] In general cuts were in the region of 30 to 50 per cent.[28] However, given the use of contract labour, the cuts for the actual labourer would have been more severe than for those employed directly by business owners. The depression seems to have widened the already large discrepancies in pay of workers engaged in similar operations. The Budget Reports of 1934-36 show that for one category of employee, for instance, a ring-spinner, the variation in wages in one centre could be as much as 50 per cent, while variations between different centres were even higher.[28] Given the difficulties of assessing variations in wage levels, estimations of the effect on the real wages of the working class must be even more impressionable. The 1934 Budget Report in Bombay stated that '... prominent mention has been made of the fact that, owing to a substantial fall in prices, especially of foodstuffs, and subsequently the fall in the cost of living, working class families in Bombay were substantially better off in 1932-33 than in 1921-22.' The calculations of the report showed that the percentage of family budget spent on food and clothing had been reduced by 12 per cent, although the real burden of rent changes had increased by five per cent.[30] In several industrial centres, official attempts were made to assess the cost of living. These show a steady reduction in the cost of living in Bombay City, Ahmedabad, Nagpur and Jubbelpore between 1929-30 and 1934-35. Thereafter, the cost of living began to rise again, but even in 1939 the indices were generally one-third lower than in 1929. These figures are based on rent, rates and the price of a range of basic commodities including grain, vegetables, cloth, oil and salt, all of which fell between 1929 and 1934. These trends also emerge in the statistics of the Government of Bihar and Orissa for Jharia and Jamshedpur.

An attempt to relate cost of living figures to wage data to test changes in real wages has been made by Mukerji, whose figures are contained in Table 6.4 (over). There are problems in utilising Mukerji's series as mentioned earlier, but it is still the only estimate so far made and as such needs to be examined. For easier comparison, the indices for Ahmedabad and Calcutta have been recalculated from base 100 in 1951 to base 100 in 1934.

There seems to be a similar trend in Bombay City to the official index with a rise in real wages up to 1933 as basic commodity prices fell. Wage cuts were partially restored in 1938 and real wages rose again. In Ahmedabad, real wages also rose to 1934, however, there was a major round of wage cuts in 1935-36 which were not restored before 1939, so real wages remained depressed. Mukerji's index for Calcutta shows a decline in real wages from 1931 to 1933 with recovery from 1936.

The major problem with Mukerji's analysis, as indeed with the official series, is that it does not take into consideration the effect of short-time working which was widespread through industry. Overtime had provided a major source of income for many workers. The Labour Association of Jamshedphur estimated that about one-fifth of workers' total income came from overtime.[31] In Bombay cotton mills, jute mills, mines and at the iron and steel plants of Jamshedpur, overtime was lost and short hours imposed. In other centres of the cotton textile industry, while double and night shifts continued, overtime and basic pay was cut so real wages must have decreased in the late 1930s. Nor does the index include deductions from pay for fines for faulty work or for payments to jobbers and sirdars. Thus it seems that Mukerji, like contemporary government officials,

Table 6.4

Revised Index of Real Value Average Monthly Wage (1934=100)

	Cotton Bombay Island	Cotton Ahmedabad	Jute Calcutta
1928	86	70.7	82.7
1929	85	69.2	77.5
1930	93	77.2	75.3
1931	115	94.6	98.9
1932	116	93.3	92.0
1933	123	98.6	91.1
1934	100	100.0	100.0
1935	99	93.7	96.6
1936	99	93.7	116.1
1937	102	81.0	122.5
1938	111	92.4	128.2
1939	123	95.3	129.2

Source: Recalculated from Mukerji's series in Artha Vijnana

underestimated the fall in real wages after 1934. The fall in the cost of living did not necessarily mean rising real wages. Part-time working and short-term lay-offs reduced earnings and led to an increase in the level of urban indebtedness during the 1930s. In Ahmedabed in 1936 it was estimated that 69 per cent of textile workers' families were indebted at an average debt of Rs 320 per family.[32] Also, during the slump, many firms suspended the rudimentary health benefits given to workers such as free medicines and medical care. This would have been another drain on real incomes. Therefore, any benefit of the fall in the cost of living for industrial workers would have been only a short-term phenomenon. Once the lag between reduction in prices and reduction in wages had been bridged, underemployment would have led to a substantial fall in real incomes.

Labour Unrest and Trade Union Development

With an increase in distress among industrial labourers as the depression progressed, it might have been expected that labour unrest would have increased. At the onset of the slump, trade unionism in India was till in its infancy. Trade unions had only been recognised officially in 1926, having been resisted at length by manufacturers. The unions in existence tended to find their leadership not from the ranks of the labour force, but from the middle classes.

The most successful and effective union in India was the Ahmedabad Textile Labour Association (ATLA). After a prolonged strike in 1920, negotiations between Gandhi and the Ahmedabad Millowners' Association resulted in an arbitration scheme for future disputes. This scheme remained in operation throughout the inter-war period and so strike activity was rare.

Elsewhere, the labour force was split into several rival unions. The attempts at rationalisation in the late 1920s produced a wave of strike activity in Bombay, Calcutta and Jamshedpur. The major trend of these strikes was the emergence of more radical unions, infuriated by the moderate stance of existing labour organisations. In Bombay, for instance, the strike leadership changed from the moderate Bombay Textile Labour Association (BTLA) to the more radical GKU, branded as Communist agitators by the local government. Similarly in Jamshedpur, the official Labour Association became dominated by left-wing agitators such as Homi and Bose who tried to form a completely new union. These strikes were also accompanied by a rising trend of violence both on the part of workers and in police suppression of strike activity.

The strikes of 1929 created massive disruption in the industrial sector, but brought little success for the workers involved. Most had begun over the question of cuts in pay and of hours worked. However, rationalisation schemes added to the pool of surplus labour, therefore it was a simple matter for a firm's manager to declare a lockout and open up again a few days later with new staff. The only success came in Ahmedabad where the conciliation and arbitration system diffused tensions and negotiations led to a five per cent pay increase.[33]

By 1930 the relative failure of stike activity had created deep divisions in the Indian labour movement. Officially the movement had as its controlling body, the All India Trades Union Congress, modelled closely on the British TUC. After 1929 the AITUC became dominated by the two main left-wing unions the GKU and the Great Indian Peninsular Railwaymen's Federation. These unions became discredited by their refusal to condemn violence and intimidation and lost their influence with the workers as the strikes of 1929 ended unsuccessfully. However, they became more powerful within the AITUC.

The final split came over the question of co-operating with the International Labour Organisation and the Whiteley Commission.[34]

The advent of Labour administration in London had created conflict with Delhi over the legitimate role of trade unions in India. The Labour ministers were convinced that the free development of an active trade union movement was essential for the protection of Indian workers. The Government of India was more concerned about the possible political implications of recognising unions. While London tended to regard the strike activity of 1929 as the legitimate airing of grievances by the workers, the Indian authorities complained that strikes were being manipulated by left-wing activists not for the good of the workers but for political reasons. They stressed the links which existed between the GKU and the GIPRF and the Communist International and that these two unions had put forward a motion at the AITUC Conference in 1930 to send the workers representatives not to Geneva, but to a Labour Conference sponsored by Moscow. The Labour Government remained convinced that the strikes were brought about by genuine grievances and so the Secretary of State for India, Wedgewood Benn, promoted the appointment of a commission to consider labour conditions in India with a view to making recommendations for their betterment.[35]

At the 1930 AITUC Conference much time was devoted to considering whether there should be co-operation with this committee. At the end of the Conference all the key posts on the AITUC Committee came to be held by left-wingers who carried motions calling for an eight hour day, minimum pay legislation and a scheme for unemployment insurance. These measures were backed also by the moderate unions such as the Labour Association of Bombay, Ahmedabad and Jamshedpur. However, the new Committee also carried motions ending India's links with the ILO and declared a ban on co-operation with the Whitley Commission. This proved too much for the moderate unions who broke away to form the All-India Trades Union Federation (AITUF) under the leadership of Joshi. The AITUF hoped that legislation resulting from the Whitley commission as well as the moral pressure of the ILO would bring rapid improvements to labour conditions in India.

The strength of the left-wing agitators was also curbed by government action. Worried by the strike activity of 1928 and 1929, the government arrested the most well known Communist leaders who were then tried in 1930 at the 'Meerut Conspiracy' Trials. The Communist leaders were found guilty of subverting genuine workers' grievances for political purposes controlled by Moscow. The Government of India was now in a stronger position vis-a-vis Whitehall. The Civil Disobedience Campaign of 1931 had provoked even the Labour Administration which authorised the arrest of Congress leaders. The Indian Nationalists had been as ready as the Communists to use workers' disputes to further their cause so another source of agitation was removed. Finally with the formation of the National Government in 1932, the Government of India was no longer under any direct pressure to recognise the activities of trade unions instead being actively encouraged to widen their powers to keep control of the political situation. One result of this was the adoption of the Trades Disputes Bill which barred strike activity in public utilities and created a system of compulsory arbitration, although the findings need not be binding.

Thus, at a time of depression, when wage cuts and retrenchment increased from 1932, the labour force did not have the protection of strong united trade union leadership. This is reflected in the diminution of strike activity from 1929, as seen in Table 8.5 over.

The Government of India liked to claim that the reduction in strike activity was a result of the 'psychological and profound effect of the mass of labour legislation in promoting industrial peace'.[36] This is unlikely. While there were a number of acts promulgated after 1932 as a result of the Royal Commission, much of the implementation was left to individual provincial governments. They lacked the finances to implement such legislation effectively, many having retrenched their factory inspectorate staff in the early 1930s.

The true reasons for the restriction in strike activity were economic. After the prolonged strikes of 1929, few unions had the funds necessary to maintain workers during further industrial action. More crucial was the abundance of labour created by the slump. Even more so than in 1929, employers were able to hire new labour should there be a strike. Employment became increasingly difficult to find and workers were unwilling to jeopardise their positions by calling a strike. It is noticeable that the duration of strikes diminished to one or two days. If a strike lasted any longer, the employer merely declared a lockout and reopened with new staff.

An illustration of the desire to maintain a job at all costs can be seen in the 1932 strike in the Madras and Maharashtra line.

Table 6.5

Industrial Disputes in India

	No. Disputes	No. Men Involved	Working Days Lost
1928	203	507,000	31,647,000
1929	141	531,000	12,165,000
1930	148	196,000	2,261,000
1931	166	203,000	2,408,000
1932	118	128,000	1,922,000
1933	146	165,000	2,169,000
1934	159	221,000	4,776,000
1935	145	114,000	973,000
1936	157	169,000	2,350,000

Source: Bulletin of Industry and Labour No. 62, Industrial Disputes in India 1929-36, (Delhi, 1937), p.2, para 1.

Railway workers were the only industrial workforce other than cotton to have a reasonably powerful union, basically because almost all railwaymen belonged to the same union which gave them some bargaining power. The strike was called after the Railway Board decided to reduce working hours and maintain staffing levels rather than to proceed with dismissals previously agreed upon. Those who had been promised that their jobs would be safeguarded seem to have preferred to fight for their own hours to be maintained rather than to support those who previously would have been dismissed.

The need for a concerted action and for effective arbitration services were highlighted by the generally favourable conditions in Ahmedabad. There were no wage cuts imposed here until 1933 when the

AMA proposed a general cut of 25 per cent. The arbitration board settled a standard rate for piecework for workers and increased working hours so that the agreed wage cuts of three per cent did not seriously diminish real wages. In 1936 the AMA asked for a further cut of 20 per cent. The success of the cotton industry in Ahmedabad had attracted many new manufacturers, some of whom did not join the AMA and who were consequently not bound by the arbitration scheme. They were then able to pay lower wages and operate longer shifts. The Textile Labour Association was able to prolong negotiations for six months and again reduced the level of the cuts to 6.5 per cent. This helps to explain the low level of strike activity in Ahmedabad during the depression. The ATLA represented the majority of the textile workers in the area which gave their threats of strike action real power, providing a strong basis for negotiation.

It was this bargaining power which the Indian labour movement lacked generally. With the split in the AITUC in 1930 Indian workers had no national bargaining body. These splits were reflected in union activity in individual industries. In Bombay, for instance, workers were divided between the BTLA and the GKU and probably even these two unions represented only 50 per cent of textile workers. In Calcutta the jute mill operatives had no union to speak of. Thus both the employers and the government were able to divide the workers, aided by the increasing surplus of labour created during the depression. The workers were left with little alternative but to accept reduced wages and worsening conditions of service or lose their employment. Hence the depression in India was marked by very little strike activity despite a reduction in living standards.

Government Labour Legislation

Throughout the 1920s labour legislation was at a minimum. There were amendments made to the Factory Act and to the Mines Act, mainly concerned with reducing the number of hours worked and progressively elminating the employment of children in general, and of women on night shifts.[37] In complete contrast the 1930s witnessed a whole series of labour legislation. Initially this was the result of the prodding of the Labour Administration in Britain. Mostly it was the gradual acceptance of the recommendations of the 1931 Royal Commission on Labour in India. The depression had an impact in persuading the Central Government that it had to act in the sphere of labour legislation to cover the difficulties of provincial legislation. More negatively, the depression had the effect of delaying some of the legislation through retrenchment in government departments.

The Secretary of State for India during the Labour Administration 1928-31 kept a keen eye on labour developments in India. Wedgewood Benn was as worried as the Government of India officials about the rise of 'communistic' elements in India and was anxious to back the more moderate All-India Trade Union Federation led by Joshi.[38] He felt that the widespread development of trade unions would make the Communists less important. He thought it would help the moderate unionists 'to know that His Majesty's Government, as at present constituted, has a lively sympathy with the growth of trade unionism in India and is by no means satisfied that the workers are always well-treated'.[39] He was also suspicious of the motives of the Government of India, particularly in their apparent reluctance to use what conciliation apparatus existed:

> 'I have an uneasy feeling that when the issue lies between well-to-do manufacturers and unorganised masses of illiterate labour, if an alternative supply is plentiful, the Government is apt to be too much on the side of the employers and when an enquiry is refused, colour is given to this suggestion.'[40]

Such views were not shared by the permanent civil servants in the India Office who were prepared to believe that the Government of India knew best. Hirtzel, the Permanent Under-Secretary wrote:

> 'I do not think that the Secretary of State can interfere advantageously in particular cases, nor ought to do so except where he was good reason to suspect some glaring injustice to labour or some really serious threat to society. He can advise the Government of India that in his opinion the machinery of the [conciliation] Act be invoked on every possible occasion (but they presumably know already that he thinks that): the rest, I think, must be left to them, for they only have the necessary knowledge.'[41]

The Government of India was considering some form of labour legislation as an antidote to the seeming rise of communism among labour activities, although they tried to stress the wider benefits of such legislation. The Viceroy wrote to Wedgewood Benn:

> 'Recent labour problems have, on one hand, convinced us that extremist and communistic elements which have been perverting the course of the labour movement must be firmly checked, but this is not our whole policy, and we are sincerely anxious to devise a measure and method of improving economic conditions of India's workers, which, in addition to being a matter of unquestioned importance, would be the best antidote to communism.'[42]

The Indian authorities agreed to hold an enquiry into labour conditions to make recommendations on necessary legislation. However this did not satisfy Wedgewood Benn. He wanted labour legislation 'as soon as it can wisely be done' and was worried that 'if the

Commission is to make two visits, as has been suggested, and if the Government of India is to wait until the Commission has reported before making proposals, we have to face the difficulty that measures which might remove the causes of genuine complaint in industrial centres may be indefinitely and even dangerously postponed.'[43]

Before the Commission had reported, however, the Labour Administration had given way to the National Government and the new Secretary of State, Hoare, was less interested in labour affairs. The Government of India was then left to implement labour legislation in its own time. The process of putting legislation through the Indian Assembly could be lengthy and the early results of the Commission mostly concerned child labour, a subject upon which most agreed. In 1933 there was an act passed to end the practice of pledging against loans of child labour in the weaving workshops of Amritsar and Ahmedabad. One recommendation to prevent this was compulsory education until 12 years of age. However, the Central Government treated this as a 'transferred' subject, leaving legislation to the individual provinces. By 1937 only Madras had implemented such legislation: a private members bill had been introduced in the Bombay Legislature, but was rejected.[44]

Probably the most important result of the Commission was the consolidated Factory Bill which was presented to the Legislative Assembly in September 1933. This proposed to widen the Factory Act to cover workshops of ten people or over and seasonal factories. In an attempt to cover use of child labour in workshops a new category of 'adolescents', that is those between 15 and 17 years of age, was to be created when enumerating workers. The commission wanted to make it easier for women to work and recommended extending the time they could work in each day over 17 hours. After the Bill passed through the Legislature and Select Committee several important changes were made. The clauses about women working were severely criticised, so the time limit was reduced to 13 hours. More importantly powers of inspection and enforcement were taken from Central Government and given to provincial authorities. Thus where the Commission had wanted a standard set of rules throughout India, the way was left open for different rules in the various provinces, or for those provinces which did not want to act.

Most labour legislation was, thus, left to the provincial governments. The Governments of Bombay, the Central Provinces and Bihar (in marked contrast to its inactivity in rural legislation, as seen in Chapter Four) were most active in this respect. The Government of Bombay, which had had to face the worst of the labour problems during the depression, established a Labour Office which made intensive studies into the conditions of the Bombay labour force. The legislation which resulted included a Town Planning Act to improve workmen's houses, a revised code of conciliation in labour disputes and a Maternity Amendment Act which extended maternity benefit to eight weeks although it also increased the qualifying length of employment to nine months from 6 months. In the Central Provinces and Bihar legislation was passed on town planning, adulteration of food, first aid in factories, maternity benefit and debt conciliation for industrial workers. In other provinces labour legislation was infrequent and patchy, with most concentrating on rural workers rather than industrial.

In the two other bills the Government of India presented in the mid-1930s resulting from the Commission, the Select Committee and final votes in the Assembly passed the responsibility to the local authorities. The Commission and the Banking Enquiry had pointed to the indebtedness of industrial workers being the prime factor in their low standard of living. Many workers came to the towns to pay off debts accumulated in their villages, only to be burdened by fresh debts in the towns. The Commission blamed the moneylenders 'who enter into contracts which he knows the debtor cannot fulfil, or at best can only fulfil by suffering severe and prolonged hardship. The law should set its face sternly against such contracts [and] should make their enforcement impossible.'[45] In 1935 the Government of India introduced a bill to allow those earning under Rs 100 per person to have their debt reduced through the courts and to cancel any outstanding debt after three years. When the bill was passed in October 1936, again responsibility for legislation was left to the local governments. In the end only the Governments of Bengal and the Central Provinces passed legislation but they concentrated on outlawing molestation in recovery of debts.

The Commission had also pointed to the method of payment as a source of the indebtedness of industrial workers. Often wages were paid up to one month late, forcing the workers to approach moneylenders. In 1936 the Government of India introduced a bill to outlaw this delay after two weeks. However the Assembly led by industrial manufacturers' representatives increased the maximum limit of delay to one month, thus maintaining the status quo and again left the responsibility for legislation to individual local governments.

Finally, under the new constitution of 1935, all responsibility for industrial matters including labour legislation was passed to the local authorities. Thus, the Central Legislature could only establish guidelines which time and time again were ignored. The hopes for central labour legislation of the 1931 Commission were sacrificed to dyarchy as had been the hopes of the earlier Industrial Commission.

While labour legislation on the surface should have improved working conditions in India, the enforcement of legislation was left to the Provincial Governments who lacked the funds to implement the laws fully. The labour legislation which did emerge had little to do with the depression. The Government of India had been forced to accept a Labour Commission by the British Labour Administration. While the National Government took the pressure off the Goverment of India, the very existence of the recommendations exerted a moral pressure for action to be taken. If the legislation is considered in detail, it met only the basic recommendations and then only in a much watered down version. The depression failed to shake the Government of India from its laissez-faire views that working conditions ultimately were the responsibility of the employer and that state intervention should be kept at a minimum.

Conclusion

It seems clear that the industrial labour force suffered as a result of the depression, even as the industrial sector was expanding rapidly. While there may have been a slight rise in real wages in the first two years of the depression, this was halted by wage cuts and redundancies as manufacturers tried to reduce production costs. Those who returned to their villages would have increased competition for scarce agricultural labouring work and depressed wages. Those who remained in the industrial centres were at the mercy of jobbers and grain shopkeepers who extended credit at high rates of interest. Trade unions in India were not developed sufficiently to provide support for the labour force and were involved in bitter internecine struggles which further diminished their power. Only in Ahmedabad did workers have a union strong enough to promote their welfare successfully. Nor did the industrial labour force receive aid from the government. Government authorities were under pressure from manufacturers to limit trade unionism and to slow down the promotion of factory safety and improvement in workers' conditions of work and living. Those working in the field, such as the Officers of the Bombay Labour Office, were isolated and lacked power. The impetus to promote labour issues under the Labour Administration of 1928-31 died with the establishment of a National Government whose twin aims for India were maintaining civil order and keeping the remittances flowing. In neither aim was there room for the promotion of workers' rights. It was not until the boom of the Second World War that the welfare of workers was remembered, and that was within the context of the needs of a war economy.

Notes

1. See, for example, complaints by Bombay Millowners' Association to the Tariff Board in Report of an Inquiry by the Tariff Board into the Indian Cotton Textile Industry, (Delhi, 1932), Vol. II, Evidence. Sir F. Noyce, 'Recent Labour Legislation in India', Journal of the Royal Society of Arts [hereafter JRSA], LXXXIX, No. 4583, 21 March 1941, p.267, although he was challenged in the discussion by the chairman, p.272; Broadcast by G.D. Birla on All-India Radio, November 25, 1945 in which he stated, 'The Indian worker is definitely lacking in method, discipline and regularity. He works in a haphazard manner. he is not taught a regulated life. he has no civic sense', contained in G.D. Birla The Path to Prosperity (Allahabad, 1950), pp.427-8; C. Myers, Labour Problems in the Industrialisation of India, (Cambridge, Mass., 1958), pp.44-47.

2. M.D. Morris, The Emergence of an Industrial Labour Force in India: A Study of the Cotton Mills, 1854-1947, (Berkeley, 1965).

3. R. Kumar, 'Family and Factory: Women in the Bombay Cotton Textile Industry, 1919-1939', Indian Economic and Social History Review- [hereafter IESHR], 20, 1, (1982), pp.82-110; C.P. Simmons, 'Recruiting and Organising an Industrial Labour Force in Central India: the Case of the Coal Mining Industry', IESHR, 13, 4, (1975), pp.455-485; R. das Gupta, 'Factory Labour in Eastern India: Sources of Supply, 1955-1946. Some Preliminary Findings', IESHR, 13, 3, (1975), pp.277-329; R. Chandavarkar, 'Workers' Politics and the Mill Districts in Bombay between the Wars', Modern Asian Studies [hereafter MAS], 15, 3, (1981), pp.603-647; C. Joshi, 'Bonds of Community, ties of religion: Kanpur textile workers in the Early Twentieth Century', IESHR, 22, 3, (1985), pp.251-280.

4. V. Anstey, The Economic Development of India, (London, 1936).

5. A.K. Bagchi, Private Investment in India, (Delhi, 1972).

6. Morris, Cotton Mills, p.172; R. Mukerjee, The Indian Working Class, (Bombay, 1945); V.V. Giri, Labour Problems in Indian Industry, (London, 1960), p.16; R. Singh, Movement of Industrial Wages in India, (Bombay, 1955); S. Sen, Working Class of India 1830-1970, (Calcutta, 1977); A.K. Sen, State and Industrialisation in India, (Delhi, 1983), p.46.

7. The series ends in 1934 due to the change in category of statistics after the Factory Act of that year.

8. Report of the Chief Inspector of Mines, [hereafter Mines Report], 1937, (Calcutta).

9. Statistics of factories subject to the Indian Factories Act, [hereafter Fact. Stats.], 1933, (Calcutta), p.1, para 3; Report of the Tariff Board into the Indian Iron and Steel Industry, [hereafter ITB, Steel], 1934, Vol. I.

10. Report on the Administration of Factories in Bengal [hereafter, Bengal Facts.], 1933, para 2.

11. Fact. Stats., 1934, p.1, para 2; Report on the Administration of Factories in Bombay, [hereafter Bombay Facts.], 1931, para 3.

12. Bombay Facts., 1936, para 3.

13. See, for instance, the accusations against millowners by the Government of Madras in National Archives of India, New Delhi, [hereafter NAI], Government of India, Department of Industries and Labour [hereafter GoI, I & L], File L-1823(7)34, Reply by Government of Madras on question of unemployment in the cotton textile industry.

14. Report of the Royal Commission on Labour in India, [hereafter RCLI], (Delhi, 1931), p.33.

15. Letter to the Consul-General of the Netherlands East Indies, 10th October 1933 in NAI, GoI, I & L, File L-1759(22)33.

16. Census of India, 1931, Vol. II, p.3 and p.39.

17. Bengal Facts., 1934, p.16, para 12.

18. Crop and Season Report for Bihar and Orissa in 1933, p.10.

19. See, for instance, Fifth Quinquennial Census of Wages in the Punjab, 1934.

20. RCLI, p.5; Census of India, 1941, Vol. I, Main Report.

21. Facts. Stats., 1934, p.6, para 4.

22. ITB, Steel, 1934, Vol. II, p.566.

23. Bombay Facts., 1936, para 2.

24. K. Mukerji, 'Trend in Real Wages in Cotton Textile Industry in Bombay City and Island from 1900-1951', Artha Vijnana [hereafter AV], 1, 1, 1959, pp.82-92; Trend in Real Wages in Cotton Textile Industry in Ahmedabad 1900-1951, AV, 3, 2, 1960, pp.124-132; 'Trend in Real Wages in Jute Mills in Calcutta, 1900-1951,'AV, 2, 1, 1960, pp.56-57.

25. Data was collected from Factory Reports (annual) for Bengal, Bihar, Bombay and the Punjab; Wage Censuses of the Punjab and the United Provinces; The Textile Labour Inquiry Commission (Bombay, 1940); The Bihar Labour Enquiry Commission (Patna, 1938); Labour Investigation Committee Reports (1946-47) and the Annual Reports of the Chief Inspector of Mines (Calcutta).

26. Mines Report, 1933, p. 7, para 5; Mukerjee, Working Class, p.109.

27. Bengal Facts., 1932, para 8. Refers to decision by Committee of IJMA not to introduce standardisation of wage rates because of the slump.

28. See, wage census data on United Provinces, Punjab and Bombay.

29. Report on an enquiry into Working Class Family Budgets in Bombay City (Bombay Labour Office, 1934), p.30, para 44, and p.18, para 23.

30. Cost of Living Indices for Bombay City, Ahmedabad, Nagpur and Jubbulpore contained in Statistical Abstracts for British India (annual) and for Jharia and Jamshedpur in Cost of Living in Industrial Centres in Bihar (Patna, annual).

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CONCLUSION - ECONOMY AND GOVERNMENT

The India that had emerged by 1939 was markedly different, both economically and politically, from that of 1919. Within this period of long-term structural change, the depression of 1929 was an important phenomenon accelerating many of the changes such as the rise of an indigenous industrial sector based primarily on import-substitution, the development of internal transportation networks and the disengagement of India from the global economy. This laid a strong foundation for the even more rapid development of the Indian economy during the Second World War.

The depression first hit India in early 1929 with the first rapid price reductions for agricultural produce, deepening with the crisis in the international credit market later that year. Thus, the depression was disseminated into the Indian economy through its trading links with the global economy as a primary producer, but, more importantly, its connections with the international money market created by the colonial relationship with Britain. It was the need to maintain a steady flow of sterling remittances to London to meet the 'Home Charges' that forced the Government of India to adopt a severely deflationary monetary policy during the depression. The ultimate consequence of these policies, however, was to decrease the colonial nature of the Indian economy and so weaken the economic rationale of the British presence in India.

One major consequence of the slump was to accelerate the trend towards the disengagement of India from the international economy, first noted by Baker and Tomlinson.[1] This had begun prior to 1929 with the gradual replacement of Indian exports in Asian and African markets by Japanese goods and the decline of British exports to India. The former trend was accelerated by the impact of the more favourable depreciation of the yen compared to that of the rupee in 1931 which made Japanese exports more competitively priced than Indian. For instance, the early 1930s witnessed the end of the traditional trade in Indian cotton yarn to China. The latter trend was accelerated also by the rapid, large increases in the Indian tariff, despite the benefit of imperial preference after the Ottawa Agreement, and by the inability of British goods to compete in the Indian market against Japanese and, increasingly in the 1930s, against German manufactured goods. The removal of Burma from the Indian trade statistics conducted in Chapter One has shown that the decline in British staple exports to India prior to the depression in 1929 was not as marked as formerly assumed. This helps to explain the reaction of near panic by Manchester businessmen and their representatives in Parliament at the prospect of a sudden reduction in trade to India, their principal market, and of their hostile reaction to the rise of Indian business groups. The removal of Burma reveals that the decline in British trade to India during and after the depression, despite the Ottawa Agreement, was more rapid than appears in traditional studies. The disaggregation of Burma also increases awareness of the demand for new imports into India of better quality raw materials (such as long-staple cotton) and chemicals (caustic soda) and machinery. The demand stimulated a further enlargement of the industrial base of India and gave India a more stable foundation for the war economy of the 1939-45 conflict and one less dependent upon imported materials than had been the case in 1914.

One of the most important of recent discussions in the historiography of the depression in India has been on its impact on the commercialisation of agriculture. The study of the Bihari agricultural sector in Chapter Four has shown that within the backward province of Bihar and Orissa the process of commercialisation was still continuing despite the depression. This was because a provincial market was still being created through the expansion of the road network. The railway network in Bihar was particularly poor and, in effect, in the 1930s through the expansion of the road network, Bihar and Orissa was experiencing the commercialisation which other provinces had experienced during the late nineteenth century with the expansion of the railways. While in other provinces the depression was marked by increasing disequilibrium in prices between local markets, in Bihar prices were stabilising towards a provincial norm. As elsewhere, there was a contraction of cash credit in Bihar and Orissa during the slump with the mahajan being replaced by the sugar manager in the network of credit, allowing the practice of dadani (advances on future crops) to spread, though now based largely on credit in kind in the form of seed. While this allowed the rapid expansion of the sugar industry in Bihar in the short-term, it sowed the seeds of future problems. Eager to accept whatever credit was available, dadani encouraged the rapid extension of cultivation far above the demand from the sugar mills and from the mid-1930s cane prices in Bihar began to tumble, despite zoning agreements under the Bihar Cane Control Act. Therefore, income levels in Bihar and Orissa remained at a low level throughout the 1930s.

Throughout India, the spread of dadani marked the diminution of the cash economy. Partly this was the result of attempts by provincial governments to respond to the depression by taking action against moneylenders, since, as we have seen, local authorities did not have the resources, even if they had the inclination, to back price-support schemes or to purchase and store surplus stocks. Such legislation squeezed credit supplies further. It also strengthened the control of traders over rural credit since they were not defined as moneylenders under the terms of the new legislation. While dadani spread, the influence of traditional moneylenders declined.[2] Thus, in the late 1930s, a time of rapid population growth, per capita consumption of consumer goods was declining, as witnessed by the levelling off of demand for cotton textiles and refined sugars.

There were two forces operating during the depression in agrarian areas. Firstly, the road network expansion was widening the national market to a far greater extent than that experienced during the expansion of the railways in the last quarter of the nineteenth century. Mileage of metalled, all-weather trunk roads in India increased from 60,938 miles in 1927-28 to 74,048 miles by 1930-31, while the mileage of unmetalled (largely cold weather roads, therefore those used during the peak agricultural marketing period) roads rose from 144,051 miles to 179,091 miles in the same period. The pace of development slackened after 1931 since Public Works departments were prime targets for retrenchment, but picked up again after 1936 with the implementation of provincial road building programmes funded by the Central Road Development Fund.[3] Meanwhile, the import of heavy goods vehicles, including trucks and buses, rose from 6,343 in 1926-27 to 15,300 by 1929-30.[4] Road transportation received a major boost during the depression because of the increasing uncompetitiveness of railway freight charges. With the Railway Board deeply in deficit, freight charges were raised in 1930, 1932 and 1935. This had a catastrophic effect on railway earnings which fell from Rs 44,23 crores in 1928-29 to Rs 27,30 crores in 1932-33. Freight tonnage declined from 90 million tons to 70 million tons over the same period.[5] The loss of trade suffered by the railway during the depression was never fully recovered until the outbreak of the Second World War. Meanwhile a golden age for road transportation was forecast as early as 1937 by Ainscough, British Trade Commisioner to India, who urged British firms to increase their sales to India in which 'the prospects for the sale of trucks during the next ten years are brighter than anywhere else in the Empire.'[6]

The development of the road network immediately before and during the slump had a differential impact. As we have seen, in the backward province of Bihar and Orissa it was the expansion of the road network which enabled a provincial market to be created for the first time during the early 1930s. In other provinces with a more developed railway network such as Bombay and the Punjab, the road network acted principally as feeder roads to railway branch lines. At the peak of the slump, therefore, these roads were used by traders to reverse the flow of agricultural produce towards the ports for exports. This was the 'panic dumping' by wholesalers noted by Rothermund in Bombay which resulted in the re-emergence of price variations, even in contiguous districts of the same province.[7] Over time the disequilibrium in prices evened out, but still on a downward trend.

The second major trend apparent in rural areas as a result of the slump, therefore, was the reduction in consumption levels by the late 1930s, despite a wider road network and a rising population. Consumption was curtailed during the height of the depression because of reduced incomes and lack of credit. However, the continued depression in prices and failure of cash credit to recover meant that real incomes continued to decline and consumption remained at a low level throughout the 1930s.

This obviously had major implications for the Indian industrial sector. The gradual withdrawal from the international economy was marked by the rise of new consumer industries and an increased reliance on home demand by traditional industries. During the slump India's last remaining foreign markets for cotton yarn in Asia were lost to Japan, a loss not offset by an increase in piecegoods exports to empire markets under the stimulus of the Ottawa Agreement, so the Indian cotton industry relied more heavily on domestic sales. However, once imports had been replaced by domestic production, supply from Indian industry began to outstrip demand as consumption failed to rise in the late 1930s. Thus, there was no expansion of commercialisation in India based on new products as Aldcroft and Richardson argued for the United Kingdom. Instead, in the late 1930s

Indian industry was still constrained by the low per capita national income and the corresponding failure of consumption to increase. In this situation the rise in population exacerbated the problem by further depressing already low incomes rather than provide a stimulus to increased demand.

The rise of domestic consumer goods industries during the depression did have important long-term effects in the rising economic and political strength of Indian businessmen. At one level, the new domestic industries helped to strengthen the lines of demarcation between Indian and European businessmen. The Europeans largely retained their business operations in the export industries, shipping and its services, and banking. There is evidence of European firms involved in the domestic sector pulling out or slimming operations during the early 1930s - for instance Greaves (cotton), Andrew Yule (paper) and Macneills (coal). Indian entrepreneurs were involved predominantly in consumer goods manufacturing. However, the identification of Indian capital with production for the domestic market and of European capital with manufacture for overseas markets is not, of course, an accurate dichotomy. While it is true that there was some repatriation of European capital during the slump, there is still evidence of new foreign investment; for instance, new ventures by Bata shoes, the Swedish Match Company, Imperial Chemicals and Dunlop. Such ventures were signs of the early development of multinational companies and is comparable with trends in Latin America during the 1930s. Of the traditional European managing agencies in India, there were still signs of involvement in production for the domestic market, in the coal, sugar, cement and paper industries and Binny's retained its major interest in the cotton industry of Madras. Conversely, Indian capital was moving into export-oriented fields previously dominated by European agency houses. Thus, for example, the thirties was a decade of expansion for Walchand Hirachand's Scindia Shipping Line, winning major concessions from P and O, if primarily in the coastal marine, and Indian entrepreneurs were also buying into the tea, coal and jute industries in greater numbers. In jute, however, this may reflect a greater degree of sales of these products to the domestic market. Overall, though, it is clear that Ray and Bagchi were wrong to assert that Indian entrepreneurs were only able to enter areas which did not compete with existing European interests.[8] By the mid-1930s there were clear indications that European businessmen in India were realising the importance to their own interests of co-operating with indigenous business groups. Thus, there was increased incidence of Indian directors of European companies and of Indians gaining higher clerical and administrative posts, previously reserved for Europeans.

Some debate has emerged over why such substantial amounts of new Indian capital should have become available for investment in industry during the 1930s. Rajat Ray, and Bagchi, for example, have argued that the increased spread of protection encouraged Indian entrepreneurs to diversify their interests after tentative initial moves during the 1920s.[9] However, as we have shown, much of the new investment by Indians was not in branches of industry receiving tariff protection. These arguments could be more generally substantiated if the protective element provided by the raising of revenue tariffs was considered, but this would still not be a totally satisfactory explanation because Indian capital was also entering areas which received no such protection such as Birla's investment in non-protected branches of the paper industry.

The view taken by Tomlinson and Baker - that the rise of Indian entrepreneurship was a consequence of the redistribution of investment from rural to urban areas during the slump - is a much more satisfactory argument. This provides a rational profit-maximising motive behind the rise of Indian entrepreneurship in the 1930s. Until the depression, trading, land and moneylending had provided the most secure outlets for profitable investment. However, in the early 1930s land values declined and the traditional credit structures of rural areas were disrupted. The depression was the key element in forcing this change in investment habits in India. Prior to the slump the increased pressure on land created by the rapidly rising population was forcing up land values. This was most notable in the districts of North Bihar in which population density was over 900 per square mile in 1931. Without a slump in the early 1930s, the still increasing population would have sent land values even higher, ensuring a more than adequate return on investment in land. Equally, the rising population faced with land hunger would have created an even greater demand for credit. Thus, the traditional twin pillars of Indian investment, land and moneylending/rural banking, would have been consolidated. It was the crisis of the depression which forced the change in investment habits by destroying the profitability of the twin pillars. Falling incomes led to increased incidence of rent arrears and a subsequent catastrophic fall in land values, and also to a rise in arrears in repayment of old debt and a further squeeze on rural credit. There were no longer profitable outlets for investment in agricultural production and so capital was pushed into the urban-industrial sector. Thus, the depression gave an added impetus to the tentative movement of Indian capital into industry seen in the 1920s.

It is into this framework that we must place Morris' belief that Indian entrepreneurship was shaped by its knowledge of the domestic market gained through earlier experience in trade and banking.[10] The rise of Indian entrepreneurship, like that of British entrepreneurship in India in earlier decades, was based upon family groups evolving into managing agents. Helen Lamb has demonstrated the links between individual segments of the Indian family group, each controlling separate interests in either different industries, or banking, or insurance.[11] This is an important point. While the 1930s witnessed the widening of the interests of India's entrepreneurial families, they did not withdraw totally from their earlier interests. They retained their activities in rural moneylending and indigenous banking, though now on more formal lines, in up-country trading and in retail distribution. These families exercised a business, and indeed a political, patronage over wide areas of Indian society. This was the domestic counterpart of the European managing agencies' links with international finance and trading. However, although Indian entrepreneurs could gain international experience, it was unlikely that Europeans, having failed to establish themselves up-country to any great extent before the 1930s, would do so thereafter. Thus, during the depression, European businesses had to face up to the realities of earlier complacency.

The net effect of these structural changes in the Indian economy was the ultimate loosening of the colonial ties between India and the United Kingdom. Between 1929 and 1931, the Whitehall authorities desperately tried to maintain control over Government of India policy-decisions, culminating in the rupee-sterling crisis of September 1931. However, the consequences of this was the loss of political control in the long-term. Firstly, by denying the Government of India the blanket protection of British trade agreements, Whitehall forced the Indian authorities to accept control over their own trade negotiations and policies. The Government of India tested its strengths in a series of negotiations with Dominion Governments, gaining vital experience that was to strengthen the Indian authorities vis-a-vis Whitehall. There is a marked difference in approach from the diffident negotiations of the Ottawa Agreement and the stronger more skilful negotiations conducted by the Government of India with Britain in the late 1930s. Secondly, there was the role of the gold exports in strengthening India's balance of trade position with Britian. The gold exports resulted in Britain becoming debtor to India. Finally, as we have seen, the depression ended many of the traditional markets for British goods in India. Thus the economic rational for a British presence in India was weakened.

Given the political dimensions of the relationship between India and Britain, it is not surprising that the major focus in many studies has been on government policy during the depression. Bagchi and Ray, for instance, have characterised the years of the slump as a missed opportunity for a major change in government policy.[12] Ray has even suggested that the Government of India should have attempted some form of socialist planning as a response to the depression.[13] It is true that in many countries, the 1930s heralded a major change in the economic thinking which lay behind government policies. Some, particularly, historians of Latin America such as Diaz Alejandro and Furtado, see the slump as a watershed, with an almost revolutionary change in government thinking from laissez-faire attitudes to a deeper commitment to planning for development.[14] Faced with the deep-rooted problems created by a slump which had reverberated throughout the global economy, many governments in Latin America, Europe, and Asia realised that new solutions had to be found. Even among the colonial authorities of Africa, there were signs of a more interventionist government policy.[15] The net effect of these policies was that these economies, with India, withdrew from the international economy, the emphasis now on domestic development to counteract diminishing world trade. There was increased activity at an international level in the form of bilateral trade agreements, restriction schemes, quota bargaining and complex multiple exchange rate systems; but all had an increasingly restrictive effect. Most activity, though, was focussed on the domestic economy, with increased self-sufficiency the goal.

The motives behind these changes in government attitude were highly complex. For many Latin American countries the depression offered the opportunity to limit the domination of the economy by foreign capital and the monopolistic power of foreign owned firms. The Governments of Brazil, Argentina, Uruguay and Chile promulgated legislation establishing minimum proportions of national labour to be employed by foreign owned firms and for share capital to be of domestic origin.[16] In Germany, Italy and Japan, the increased level of government intervention in the economy had militaristic dimensions as their economies were increasingly geared towards war. Even in the more laissez-faire economies of the United States and Great Britain, governments were prepared to back limited experiments in currency management, public works and distressed area schemes, if such ad hoc responses to the crisis could gain them political support.

It seems clear that the depression did not mark a revolutionary watershed of this nature in India. The slump created massive problems for the Government of India in the shape of balance of payments and currency crises, while it was called upon to deal effectively and promptly with the distress caused by falling prices and incomes in areas heavily dependent upon commercial agriculture for the export market. Faced with such problems the Government of India did pursue some new policies similar to those in other economies, such as renewing bilateral trade agreements and tariff protection, but on a limited and purely ad hoc basis. Largely it fell back on traditional solutions. Yet some members of the government were aware acutely of the need to change official thinking if the Government of India were to combat effectively the crisis created by the depression. Sir George Schuster, the Finance Member, was the most prominent of such officials. In June 1932 he wrote:

> '...I would say briefly that no Government in present economic conditions can afford to carry on with the old

laissez-faire policy. The need for some kind of national planning is being forced on all Governments ... I must confess that I should like to see the Government of India attempting to design something in the nature of a five year economic plan. This may be regarded as a chimerical idea, but I believe that even if it led to no direct practical result it would be good for the country that an attempt should be made.'[17]

In particular, Schuster stressed the political benefits to be gained from a change in government economic policy.[18] However, his ideas were regarded either with outright mistrust or a resigned scepticism. Most believed that the ultimate goal of British rule in India remained the maintenance of law and order. Some recognised that they would have to accept some form of increased government involvment in the economy, but most officials still clung to their basically laissez-faire ideology. Schuster could not even gain support for an economic survey of India as a first stage to improved government planning. Not one provincial government was willing to participate in a general economic census, although the Punjab Government had already made a beginning with its Economic Enquiry Board which was engaged on several local surveys. Dundas, the Secretary to the Government of the North-West Frontier Province, was most explicit that 'such schemes were in the present state of acute financial stringency luxuries which it cannot afford'.[19]

Yet it was precisely this lack of knowledge of the actual extent of distress which was the basis of Schuster's criticisms of existing government policy. How could government, either central or provincial, act effectively if it did not even want to know the full extent of the problem which it had to face? Most of the Provincial Governments used financial stringency as the reason for their inactivity, but it was clear that just as few provincial officials were willing to accept any radical changes in policy. Most concentrated upon the orthodox methods of cutting expenditure to balance the budget at a time of reduced income. Butler, the Governor of the Central Provinces, was scathing in his attacks on Schuster, even when he was trying to pursue purely traditional economic policy:

> '... All these last two years, whilst the financial crisis was developing, the Government of India has been lashing out - the Simon Commission and its needless satellites, the RTC, - the agricultural board - Public Service Commission - Banking Enquiry - New Delhi and its celebrations - profuse Viceregal expenditure - growth of Secretariat - constant conferences at Delhi and Simla - and so on and so on ... if Schuster had known his job properly he would have begun axeing at least a year ago as we did here. Even now there has been little real economy! Only talk.'[20]

Nor could Schuster look for unqualified support from Indian business communities. Both Indian and European commercial organisations called on the Government of India to retrench its expenditure although at the same time, they criticised the cuts in government contracts.[21] Neither group wished economic planning if it was to bring increased government interference in their businesses. Any attempt at labour legislation was met by loud protests that it increased the costs of production and thus reduced profitability. For Indian businessmen, the major change in government policy they desired was the devaluation of the rupee. While the insistence upon maintaining the rupee-sterling exchange rate at 1s 6d, helped to push the Indian business community into the ranks of the Congress Party, they were increasingly unhappy at the left-wing stance of the party. It is very clear that when in 1944 the major Indian business men produced their blueprint for the future economic progress of India, it was aimed at limiting the encroachment of a future nationalist government into their businesses.[22]

Any effort to promote a change in official thinking was bound to be hindered by the stress on orthodox remedies being pushed by Whitehall. The British Treasury was conscious only of the short-term need to maintain the flow of remittances from India and consequently would not tolerate any experiments which would increase government spending in India and possibly lead to a larger budgetary deficit. The principal aim was to balance the Indian budget as soon as possible through increased taxation and reduced expenditure, although it took a bitter battle to get the Cabinet to agree to cuts in service pay and military expenditure. Schuster's ideas were regarded as dangerous heresies and he was forced to pursue policies even more rigorously orthodox than those of the British Government itself. In the end, Schuster was replaced as Finance Member by the rigidly orthodox, Sir James Grigg, who regarded government planning as expensive and unproductive.

At the local level, there was little which the provincial governments could do to meet the basic problems created by the depression. The price declines which reduced the peasants incomes, hit at the base of provincial finances, effectively precluding local authorities from being agents of growth. Instead provincial governments set themselves the task of attempting to alleviate some of the social consequences of the dperession in their areas, a process which gained further impetus with the new Congress Ministries of 1936. From the mid-1930s there was a flurry of legislative activity at a provincial level to deal with the perceived evils of old and accumulated debt, land alienation, and erosion of tenancy rights. Once again the spectre of the moneylender as the root of all the evils of Indian life was raised, despite the warnings to the contrary in the reports of the banking enquiry commissions. However, the provincial governments had little power to enforce their legislation, some tacitly admitting this by making their legislation 'voluntary', hence easily circumvented. The compulsory legislation exacerbated the rural problems by causing credit supplies to dry up as moneylenders refused new loans. The depression highlighted that without an adequate financial base, provincial government was ineffective as an economic force. The use of dyarchy as purely a sop to local Indian support rather than as a force to true power sharing became all too apparent.[23]

Thus, the onus of dealing with the problems initiated by the depression fell upon the Government of India. The impact of the crisis did bring some changes in government policy. The Government of India effectively abandoned free trade, to dabble in import barriers and international and voluntary internal restriction schemes. It was prepared to finance the establishment of Trade Commissions in various centres such as Hamburg and Tokyo and new efforts were made to improve quality control of produce for export. Yet, mostly these were extensions of policies established in the 1920s. Even the Government of India, while pointing out the success of some protected industries in combatting the effects of the depression had to admit that protection was not a new policy. Although the Government may have been forced to abandon certain traditional policies, it did so for harsh pragmatic reasons. Its lauded protectionist policy was hardly an economic policy at all. It provided only tariff protection without any other vestige of government support, such as tax concessions or bounties on exports. In the agrarian sector, the Government of India would promote individual schemes for price support only when forced by concerted political lobbying. Thus, while little was done to help the cultivators of rice and jute, the stronger wheat and tea lobbies secured the support which they had sought.

However, it must be asked, how free was the Government of India to change its economic policies. It was, after all, a colonial authority subservient to Whitehall without the ability for autonomous decision making allowed to the Dominion Governments. If anything, the depression served to highlight the status of India as a colony, not as the pseudo-Dominion the British authorities often referred to.[24] For one brief moment it appeared that the Executive Council would rebel against the high-handed treatment accorded to it over the question of the sterling standard, but it acquiesced, and even Schuster toed the Whitehall line, if arguing against it at every step. In this sense, there is some validity to the arguments of Indian historians that the British authorities used the crisis of the depression to increase the political authority over India in the short-term.[25] However, they ascribe the wrong motives to Whitehall. The British authorities were now more interested in the consequences on Britain of the weakness of India's financial position than in securing political control. India's traditional role as the market for British manufactures had declined too much to be revived.

The policies pursued by the Government of India during the depression are often compared to those of other governments. It is clear that if India had not been governed by a colonial authority, its government would have reacted in a different way. The rupee would probably have been allowed to devalue to its true market level, instead of being linked to sterling and the Government may have pursued a more avowedly interventionist policy. However, how far such policies would have enabled India to recover from the depression more rapidly is debatable. An interesting comparison, and a rather more valid comparison than the usual one with Japan, is with the economy of the Argentine Republic. Nominally independent, the economy was tied to that of Britain through its dependence on the export of meat. At one level, the Government of the Argentine dealt successfully with the depression. Exchange controls and import barriers combined with a national highway construction programme gave a stimulus to import substitution industries. By 1939 the 11 cement plants in the Argentine were producing two million metric tonnes or 50 per cent of the entire production of Latin America.[26] Yet overall per capita income stagnated as the rural economy remained depressed. Partly, this is because the need to maintain meat exports to Britain forced the Argentine Government into a series of unequal treaties with the United Kingdom. As a result of these treaties Argentine had to offer Britain a more favourable exchange rate for the peso than the United States which meant that its industrialists were forced into purchasing higher priced British machinery. Also the Argentine Government had to agree not to construct roads in competition to British railways which were then allowed to charge whatever freight rates they wished.[27] Thus, even this nominally independent government was not free to act as it wished in all sectors of the economy.

In this light, it is arguable the extent to which an independent Indian government would have been free to act. India was also a primary producer and, while its industries did make remarkable progress during the depression, they were limited by the low average per capita income levels. An independent India would have been forced into unequal treaties with its major markets. As it was, the Ottawa Agreements proved more beneficial to India than Britain and while the British Government were able to impose the rupee-sterling link in 1931, from then on the British were in retreat. While the depression did not constitute an economic watershed in Indian history, it could be argued that its effects helped to polarise the political groupings in India. The rupee-sterling link pushed the Indian business community into the Congress camp but the weakness of the British position as revealed by the Ottawa Agreements of the following year, showed the European business community the closeness of the eventual independence. Closer links were forged between the Indian and British business communities, replacing much of their earlier antagonism. This proved the final betrayal for many British politicians.[28]

It is clear that while increased government involvement could have helped India's economy to recover more rapidly, particularly in the agricultural sector, the level of involvement demanded by Bagchi and Ray is unrealistic given the limits of the Government of India as a colonial authority. It should be remembered that in using any surplus to convert its previous high interest loans, the Government of India was increasing its level of indpendence from the London money market and ultimately on the British Government whose arguments during the currency crisis of 1931 had been based on the need to maintain India's credit in London. Thus, the depression ultimately helped the loosening of the colonial ties between India and Britain, paving the way to independence. As pointed out earlier, even if the Government of India had attempted some form of socialist planning as envisaged by Ray, it is highly unlikely that it would have received co-operation from either European or Indian business men and may have hindered the indigenous capital investment which did occur.

It is not enough, though, to consider government policy purely within the context of the Indian economy. It must be remembered that the actions of India's businessmen and statesmen had an impact outwith national boundaries. The policy of protection and the general increase of revenue duties by India exacerbated the impact of the depression upon other primary producers; most notably the restriction of sugar imports had serious repercussions on the Javanese economy. Traditionally India had been a centre of the intra-Asian trading bloc and its withdrawal left a gap not wholly filled by Japan.[29] India's actions also affected several of the dependent British colonies. The depression, in short, changed India's international economic relations as much as the character of the Indian economy itself.

At the time, however, like most other governments, the Indian authorities were rarely concerned with external relationships except when they impinged on the domestic economy. Faced with the depression, the Government of India resorted to ad hoc measures. While many of these measures became permanent features of government policy, there was no coherent strategy for relief, and certainly no ideological commitment to involvement in the economy. To cope with the depression, rigidly the Government of India stuck to its traditional pragmatic role. Most officials did not see the slump as a reason for pursuing bold new initiatives in policy and so missed the opportunity to play a truly effective role in the recovery. This reflected the nature of the Government of India as a colonial authority, but it is debatable, given the underlying underdevelopment of the Indian economy, if an independent Indian government could have induced a more rapid recovery.

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18. Schuster was aware that the economic policy being forced on Delhi by Whitehall was losing the government the support of the Indian business community. He advised that 'England can continue political control in India and retain India as a friendly member of the British Empire provided that one allows her to run her own economic policy. The whole of the Congress Movement would have no force if it had not been for the hostility on economic grounds which brought in all the commerical classes'. Memo, Schuster, 22/5/80 in NAI, GoI Department of Industries and Labour, File 15-1-F (1936) I & L.

19. Letter, Secretary of Government, North-West Frontier Province, in NAI, GoI, Finance Department, File 15(14)F of 1936.

20. Butler to Brown, 9/10/31 in India Office Library, Eur. Mss. E.253.3.

21. Report of the Bombay Chamber of Commerce, 1932, p.XXVII; Report of Federation of Indian Chambers of Commerce and India, 1932, Chairman's Speech.

22. Sir P. Thakurdas (et al), A Brief Memorandum Outlining a Plan of Economic Development for India, (Bombay, 1944).

23. J. Gallagher and A. Seal, 'Britain and India between the Wars', MAS 15, 3, (1981), pp.387-414.

24. As in negotiations at Ottawa for instance, in BPP, Cmd 4514 of 1932.

25. B. Chatterji, 'Business and Politics in the 1930s: Lancashire and the Making of the Indo-British Trade Agreement, 1939', MAS, 15, 3, (1981), pp.527-573.

26. Glade, Latin American Economies, p.324.

27. Glade, p.325.

28. Sir J. Grigg, address to Bengal National Chamber of Commerce, 1935, in NAI, GoI, FD, File 17(65)F of 1935.

29. B.N. Ganguli, India's Economic Relations with Far Eastern and Pacific Countries in the Present Century, (Calcutta, 1937).

16. W.P. Glade, The Latin American Economies: A Study of their Industrial Evolution, (New York, 1969), pp.310-15.

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26. Glade, Latin American Economies, p.324.

27. Glade, p.325.

28. Sir J. Grigg, address to Bengal National Chamber of Commerce, 1935, in NAI, GoI, FD, File 17(65)F of 1935.

29. B.N. Ganguli, India's Economic Relations with Far Eastern and Pacific Countries in the Present Century, (Calcutta, 1937).

LIST OF APPENDICES

Appendix 1: Merchandise Trade of Burma (Rs Lakhs)

Foreign Trade	1925-26	1926-27	1927-28	1928-29	1929-30	1930-31	1931-32
Imports	22,66	23,36	26,07	21,04	21,41	16,46	10,50
Exports of Burmese Merch.	48,70	39,66	41,46	33,57	39,40	32,17	22,83
Exports of Foreign Merch.		10	11	14	9	11	11
Total Exports	48,70	39,76	41,57	33,71	39,49	32,28	22,94
Total Foreign Trade	71,36	63,12	67,64	54,75	60,90	48,74	33,44
Coasting Trade with India Imports							
Of Indian Merchandise	16,89	16,18	17,24	15,44	15,31	12,55	10,94
Of Foreign Merchandise	1,69	1,82	1,87	1,93	1,97	1,57	1,33
Total Imports	18,58	18,00	19,11	17,37	17,28	14,12	12,27
Exports of Burmese Merchandise	29,62	27,31	33,03	33,17	30,18	23,16	22,05
Exports of Foreign Merchandise	1,22	1,29	1,12	1,21	1,49	1,24	97
Total Exports	30,84	28,60	34,15	34,38	31,67	24,40	23,02
Total Coasting Trade	49,42	46,60	53,26	51,75	48,95	38,52	35,29

Appendix 1 (Cont'd.): Merchandise Trade of Burma (Rs Lakhs)

Foreign Trade	1932-33	1933-34	1934-35	1935-36	1936-37	1937-38[a]	1938-39[a]
Imports	10,70	8,56	9,84	10,87	10,85		
Exports of Burmese Merch.	19,13	17,34	17,33	19,96	21,10		
Exports of Foreign Merch.	8	9	8	9	8		
Total Exports	19,21	17,43	17,41	20,05	21,18		
Total Foreign Trade	29,92	25,99	27,25	30,92	32,03		
Coasting Trade with India Imports							
Of Indian Merchandise	8,77	8,42	9,65	8,95	9,93	10,37	10,03
Of Foreign Merchandise	82	89	95	98	1,00	92	1,07
Total Imports	9,59	9,31	10,60	9,93	10,93	11,29	11,10
Exports of Burmese Merchandise	26,21	29,01	32,88	33,76	34,43		
Exports of Foreign Merchandise	86	48	44	33	49		
Total Exports	27,07	29,49	33,32	34,09	34,92	25,96	24,35
Total Coasting Trade	36,66	38,80	43,92	44,02	45,85	37,25	35,45

Note a: In the years 1937-38 and 1938-39, after the separation of Burma, the coasting trade was classed as foreign trade.

Source: Calculated from: Trade Review of India (Calcutta, annual)
Statistical Abstract for British India in the years 1929-30 to 1936-37, Table 252, pp.686-691.

Appendix 2: Composition of Indian Exports. Venkatasubbiah's Series.

	Average 1910-11 to 1913-14		Average 1914-15 to 1918-19		Average 1919-20 to 1923-24		Average 1924-25 to 1928-29		Average 1929-30 to 1934-35		Average 1935-36 to 1939-40	
	A	B	A	B	A	B	A	B	A	B	A	B
Raw Cotton	337.4	14.8	336.3	15.6	647.4	22.6	717.6	21.0	360.5	19.4	322.3	17.8
Manufactured Cotton 3	112.8	4.9	117.3	5.4	170.7	6.0	96.3	2.8	43.2	2.3	63.4	3.5
Rice 2	278.1	12.2	190.8	8.8	246.5	8.6	339.6	9.9	183.2	9.8	63.0	3.5
Wheat	142.8	6.2	103.3	4.8	36.7	1.3	59.2	1.7	4.1	0.2	18.8	1.0
Hides/Skins - Raw	104.6	4.6	98.7	4.6	94.4	3.3	78.5	2.3	45.1	2.4	43.1	2.4
Hides/Skins - Dressed	43.5	1.9	71.5	3.3	61.2	2.1	79.8	2.3	58.5	3.1	60.2	3.3
Raw Jute	239.8	10.5	128.0	6.0	195.3	6.8	313.6	9.1	138.0	7.4	152.8	8.5
Manufactured Jute 4	210.3	9.2	401.9	18.6	431.6	15.1	554.5	16.2	284.0	15.4	311.0	17.2
Seeds 1	254.0	11.1	121.7	5.6	230.4	8.0	273.7	8.0	157.4	8.4	140.0	7.7
Tea	134.1	5.9	175.5	8.1	209.3	7.3	297.3	8.7	210.2	11.3	227.7	12.6
Other	425.6	18.7	415.0	19.2	539.9	18.9	610.3	18.0	377.5	20.3	406.2	22.5
Total	2,283.0		2,160.0		2,863.4		3,420.4		1,861.7		1,800.5	

A - Value in millions of rupees.
B - Percentage to total value.

1 - Essential, non-essential and seeds other than oilseeds.
2 - 'not in husk' only.
3 - Includes twist and yarn.
4 - Includes twist and yarn.

Source: H. Venkatasubbiah, Foreign Trade of India, 1900-1940: A Statistical Analysis (Bombay, 1946) Table B, p.29.

Appendix 3: Composition of Indian Imports. Venkatasubbiah's Series.

	Average 1910-11 to 1913-14		Average 1914-15 to 1918-19		Average 1919-20 to 1923-24		Average 1924-25 to 1928-29		Average 1929-30 to 1934-35		Average 1935-36 to 1939-40	
	A	B	A	B	A	B	A	B	A	B	A	B
Cotton Manufactures 1	553.8	36.2	524.0	35.5	711.5	28.0	683.0	28.3	283.7	18.6	164.8	11.0
Metals - Manufactured 2	153.5	10.0	114.2	7.7	395.2	15.6	245.4	10.2	166.0	10.9	186.0	12.4
Metals	165.7	10.8	124.0	8.4	278.8	11.0	261.8	10.8	133.1	8.8	113.4	7.6
Oils - Minerals	38.7	2.5	40.2	2.7	80.3	3.1	98.9	4.1	81.9	5.4	122.2	8.1
Sugar	135.9	8.9	147.0	9.9	199.4	7.8	172.2	7.1	69.9	4.6	12.2	0.8
Silk Manufactures	28.9	1.9	28.2	1.9	42.2	1.6	34.6	1.4	27.3	1.8	16.8	1.1
Woollen Manufactures	33.2	2.2	18.2	1.2	24.6	1.0	42.8	1.8	25.7	1.7	23.0	1.5
Other	420.8	27.5	483.2	32.7	808.4	31.9	875.5	36.3	732.9	48.2	863.8	37.5
Total	1,530.5		1,479.0		2,540.4		2,414.2		1,520.5		1,502.2	

A - Value in millions of rupees.
B - Percentage to total value.

1 - Includes twist and yarn.
2 - Includes hardware, machinery and millwork and railway plant and rolling stock.

Source: H. Venkatasubbiah, Foreign Trade of India, 1900-1940: A Statistical Analysis (Bombay, 1946), Table A, p.28.

Appendix 4: Revenue and Expenditure of the Government of Bihar and Orissa (Rs 000)

A REVENUE	1928-29	1929-30	1930-31	1931-32	1932-33	1933-34	1934-35	1935-36
Land Revenue	1,73,66	1,77,83	1,80,03	1,76,09	1,80,85	1,77,02	1,82,67	1,79,11
Excise	1,92,00	1,92,77	1,42,09	1,22,07	1,20,00	1,23,78	1,39,38	1,43,63
Stamps	1,11,50	1,10,50	1,07,80	1,05,73	1,06,57	1,06,47	1,13,24	1,16,87
Forest	10,66	9,92	8,13	6,41	6,18	6,84	8,11	8,36
Registration	17,25	16,75	14,53	13,29	12,66	12,58	14,28	14,29
Irrigation	17,47	15,78	17,67	21,41	22,92	20,70	24,82	22,36
Miscellaneous	52,27	65,04	57,33	74,47 [a]	56,65	49,17 [b]	63,40 [b]	69,34 [b]
Total	5,74,81	5,88,59	5,27,58	5,19,47	5,05,83	4,96,56	5,45,90	5,53,96
Advances Pro. Loans Fund	-	-	-	-	-	5,60	76,12	37,56
Repayments Local Govt. Loan	22,70	13,21	7,11	6,91	8,95	5,76	10,33	17,08
Central Road Dev. Fund	-	-	4,30	1,25	6,81	3,11	-	8,43
Grand Total	6,18,99	6,23,29	5,51,26	5,44,41	5,38,03	5,32,99	6,63,10	6,44,27

a - Includes Rs 20 lakhs transferred from Famine Relief Fund
b - Includes Bihar's share of jute export duty.

Appendix 4 (Cont'd.): Revenue and Expenditure of the Government of Bihar and Orissa (Rs 000)

B EXPENDITURE	1928-29	1929-30	1930-31	1931-32	1932-33	1933-34	1934-35	1935-36
Land Revenue	28,32	26,61	25,22	22,17	19,57	14,62	16,20	14,77
Irrigation	25,07	23,12	25,70	26,13	24,55	24,08	25,57	24,05
General Admin.	73,70	74,79	75,34	70,53	66,10	68,67	71,71	74,45
Justice	41,98	41,09	42,40	39,52	37,31	37,77	38,13	40,09
Jails/Police	1,05,40	1,05,44	1,13,29	1,01,82	1,02,29	1,01,47	1,01,63	1,04,08
Education	87,53	92,18	92,28	86,07	77,58	81,51	81,77	85,11
Medical/Public Health	43,99	52,43	43,62	34,31	33,21	36,51	36,68	39,54
Agriculture	15,33	16,07	15,71	14,46	12,73	13,29	14,05	16,09
Industry	10,24	11,49	10,80	8,31	8,00	7,91	8,14	9,87
Civil Works	78,85	86,71	81,00	57,09	43,02	38,47	44,96	54,85
Miscellaneous	82,19	81,42	80,77	82,13	76,12	80,52	87,23	98,05
Total	5,92,60	6,11,35	6,06,13	5,42,54	5,00,48	5,04,82	5,26,07	5,60,95
Repayment Advance Pro. Loan Fund	12,64	45	48	51	60	66	69	5,71
Loans by Loc. Government	14,28	14,57	3,42	6,40	2,05	12,35	87,69 [a]	21,57
Grand Total	6,38,67	6,53,24	6,18,44	5,84,39	5,23,89	5,44,33	6,68,89	6,44,38
Balance	-19,68	-29,95	-67,18	-39,98	+14,14	-11,34	- 5,79	-11

a: Loans resulting from earthquake damage.

Source: Bihar and Orissa Administration Report (Patna, annual).

Appendix 5: Revenue and Expenditure of the Government of the Central Provinces (Rs 000)

A REVENUE

	1927-28	1928-29	1929-30	1930-31	1931-32	1932-33	1933-34	1934-35	1935-36
Land Revenue	2,45,25	2,19,30	2,04,99	2,18,59	2,10,63	2,44,66	2,24,16	2,34,78	2,44,55
Excise	1,20,67	1,22,75	1,25,44	86,27	65,55	57,60	57,03	58,80	60,21
Stamps	65,19	69,71	67,18	59,18	55,54	57,22	58,02	53,62	51,99
Forest	50,78	54,46	59,97	51,11	44,47	42,90	44,06	47,91	49,39
Registration	6,57	7,29	6,99	5,34	4,79	5,09	5,03	4,90	4,84
Miscellaneous	49,25	59,98	60,78	46,72	37,28	43,01	41,80	42,45	49,88
Total	5,37,71	5,33,49	5,25,35	4,67,21	4,18,26	4,50,48	4,30,10	4,42,46	4,60,86
Advances Pro. Loans Fund	18,51	36,56	73,12	1,00,71	83,13	32,90	61,09	34,79	38,36
Repayment Local Govt. Loan	8,92	28,83	15,41	17,99	18,84	23,56	37,10	18,62	20,73
Central Road Dev. Fund	-	-	-	4,50	1,25	5,11	2,69	4,81	6,15
Grand Total	6,65,16	6,57,22	7,06,34	6,15,39	5,60,28	5,50,26	5,89,90	5,16,18	5,46,62

Appendix 5 (Cont'd.): Revenue and Expenditure of the Government of the Central Provinces (Rs 000)

B EXPENDITURE

	1927-28	1928-29	1929-30	1930-31	1931-32	1932-33	1933-34	1934-35	1935-36
Land Revenue	28,73	29,22	28,91	28,67	22,36	18,89	17,98	18,12	18,59
Registration	2,21	2,20	2,22	2,16	1,95	1,73	1,87	1,89	1,93
General Admin.	66,52	66,92	67,27	68,42	65,17	61,43	62,42	62,77	65,21
Justice	31,51	31,68	31,75	30,89	28,35	24,96	25,68	25,33	26,30
Jails/Police	68,78	69,89	70,50	73,24	67,30	64,49	65,37	65,96	67,50
Education	54,28	64,93	56,79	56,97	50,32	46,77	48,91	48,55	50,67
Medical/Public Health	18,35	23,35	21,12	19,12	17,08	14,41	15,74	16,80	17,89
Agriculture	18,70	18,62	18,50	18,05	15,88	14,14	14,49	14,78	15,10
Industry	2,62	3,04	3,01	2,65	2,37	2,17	2,11	2,30	2,75
Civil Works	1,17,86	96,57	88,21	83,09	64,61	52,27	52,86	56,72	67,51
Expenditure in England	18,42	18,94	21,35	19,63	19,61	18,66	19,52	19,76	19,27
Miscellaneous	1,17,55	1,27,00	1,38,02	1,23,08	1,15,41	1,30,23	1,31,80	1,32,03	1,28,83
Total	5,45,53	5,52,36	5,47,65	5,25,97	4,70,41	4,50,15	4,58,75	4,65,01	4,81,55
Repayment Advance									
Pro. Loan Fund	11,55	9,86	83,32	13,99	18,34	32,61	44,13	31,11	28,87
Loans by Loc. Government	9,99	40,32	54,60	25,18	25,53	21,09	18,94	12,31	10,88
Grand Total	6,30,26	7,08,90	8,29,26	6,16,72	5,61,70	5,44,18	5,95,54	5,16,59	5,43,92
Balance	+34,90	-51,68	-1,22,92	- 1,33	- 1,42	+ 6,08	- 5,64	-41	+ 2,70

Source: Administration Reports for the Central Provinces and Berar. (Nagpur, annual)

Appendix 6: Revenue and Expenditure of the Government of Madras (Rs 000)

A REVENUE

	1927-28	1928-29	1929-30	1930-31	1931-32	1932-33	1933-34	1934-35	1935-36
Land Revenue	7,54,35	7,54,41	7,52,76	7,18,10	7,71,65	7,48,72	6,93,34	7,15,40	7,41,20
Excise	5,34,37	5,58,76	5,92,26	5,24,27	4,25,80	4,26,97	4,28,82	4,23,11	4,08,00
Stamps	2,50,11	2,51,15	2,50,91	2,34,71	2,34,92	2,41,57	2,28,10	2,16,09	2,08,17
Forest	53,44	61,55	63,56	53,19	45,83	49,71	41,58	44,34	44,96
Registration	39,05	34,12	35,57	31,30	30,73	33,49	31,14	31,92	31,15
Miscellaneous a	68,54	93,11	1,13,81	1,22,75	1,21,46	1,39,78	1,27,29	1,31,73	1,54,77
Total	16,99,86	17,53,10	18,08,87	16,84,32	16,29,87	16,40,24	15,50,27	15,62,59	15,88,25
Advances Pro. Loans Fund	1,60,00	1,37,85	96,00	1,00,00	47,00	1,50,23	-	-	-
Repayment Local Govt. Loan	36,79	36,87	50,36	37,36	53,13	45,22	50,11	47,50	37,25
Central Road Dev. Fund	-	-	-	19,40	6,00	23,18	13,03	13,46	15,87
Grand Total	19,54,03	20,18,43	20,84,13	19,79,56	18,64,42	19,57,24	16,82,41	16,63,63	16,96,56

a. Includes taxes on income.

Appendix 6 (Cont'd.): Revenue and Expenditure of the Government of Madras (Rs 000)

B EXPENDITURE

	1927-28	1928-29	1929-30	1930-31	1931-32	1932-33	1933-34	1934-35	1935-36
Land Revenue	39,80	31,28	28,80	29,04	25,96	20,15	20,15	20,09	19,23
Registration	26,33	27,03	29,08	29,59	28,29	26,77	28,72	29,27	29,65
General Admin.	2,29,19	2,44,73	2,80,70	2,83,94	2,72,90	2,62,93	2,72,12	2,75,47	2,76,21
Justice	96,52	97,17	98,09	1,01,25	97,31	90,71	95,77	96,51	96,92
Jails/Police	2,22,93	2,26,69	2,33,42	2,12,71	1,96,77	1,86,64	1,85,86	1,87,38	1,91,59
Education	2,20,97	2,62,84	2,64,26	3,00,18	2,42,00	2,43,33	2,49,04	2,53,04	2,55,18
Medical/Public Health	96,48	1,13,96	1,24,29	1,32,75	11,16,64	1,07,85	1,11,83	1,14,13	1,17,28
Agriculture	34,80	38,57	42,34	45,19	40,31	36,32	37,94	39,36	40,73
Industry	20,19	22,09	27,13	23,13	17,05	15,27	15,36	22,48	22,60
Civil Works	1,57,11	1,63,58	1,86,28	2,36,51	1,87,84	1,54,82	1,39,91	1,26,58	1,28,34
Miscellaneous	3,53,80	3,86,02	3,70,39	3,95,39	3,99,40	4,18,24	3,84,72	3,87,35	4,05,56
Total	14,98,12	16,13,96	16,84,78	17,89,68	16,24,47	15,63,03	15,44,02	15,51,46	15,83,39
Repayment Advance									
Pro. Loan Fund	40,21	45,66	2,51,60	96,85	30,35	27,72	33,95	26,64	28,02
Loans by Loc. Government	86,37	60,73	60,75	71,87	34,99	34,24	34,52	30,98	32,02
Grand Total	17,69,50	18,80,90	21,79,33	21,87,54	19,58,03	17,85,46	17,20,99	16,84,25	17,55,44
Balance	+1,84,53	+1,37,53	- 95,20	-2,07,98	- 93,61	+ 1,71,78	- 38,58	- 20,62	- 58,88

Source: Administration Reports of the Government of Madras (Madras, annual)

Appendix 7: Revenue and Expenditure of the Government of Bengal (Rs 000)

A REVENUE

	1927-28	1928-29	1929-30	1930-31	1931-32	1932-33	1933-34	1934-35	1935-36
Land Revenue	3,15,12	3,26,76	3,24,74	3,08,93	3,06,22	3,00,06	3,21,14	3,43,85	3,43,29
Excise	2,24,30	2,24,70	2,26,25	1,80,16	1,56,00	1,40,32	1,34,06	1,36,66	1,33,73
Stamps	3,46,51	3,54,87	3,91,97	3,12,94	2,71,09	3,13,01	2,87,14	2,86,03	2,95,94
Forest	33,49	31,81	30,52	23,12	16,94	15,12	15,03	17,82	20,10
Registration	40,17	39,94	31,69	23,72	19,33	18,47	19,67	22,43	23,70
Scheduled Taxes	19,46	16,98	16,29	13,00	13,04	11,31		13,77	14,71
Miscellaneous	1,01,94	1,00,35	1,14,41	1,04,47	1,18,20	1,37,36	1,17,52	2,82,17	3,16,00
Total	10,81,29	10,951,61	11,35,87	9,66,34	9,00,82	9,35,65	9,05,78	11,02,73	11,47,47
Advances Pro. Loans Fund	24,20	32,75	16,00	50,20	2,09,61	1,14,85	1,76,08	30,26	24,73
Repayment Local Govt. Loan	8,59	26,88	11,28	6,35	11,69	20,70	11,77	9,09	16,19
Central Road Dev. Fund	-	-	-	19,30	6,00	22,55	12,49	13,21	14,13
Grand Total	11,15,64	11,66,12	11,78,10	10,57,90	11,44,07	11,10,56	11,14,58	11,65,38	12,33,81

Appendix 7 (Cont'd.): Revenue and Expenditure of the Government of Bengal (Rs 000)

B EXPENDITURE

	1927-28	1928-29	1929-30	1930-31	1931-32	1932-33	1933-34	1934-35	1935-36
Land Revenue	38,44	46,71	45,10	45,37	41,32	37,77	37,34	39,03	36,79
Registration	20,70	20,24	22,13	19,15	18,94	17,47	17,51	17,70	15,42
General Admin.	1,17,47	1,20,52		1,25,20	1,23,31	1,17,12	1,21,54	1,21,47	1,29,21
Justice	1,08,48	1,06,46	1,07,01	1,06,20	1,01,67	94,14	95,56	94,57	57,07
Jails/Police	2,19,34	2,28,07	2,43,61	2,65,27	2,57,29	2,59,39	2,66,20	2,68,30	2,73,12
Education	1,37,87	1,40,27	1,43,65	1,41,81	1,33,80	1,26,47	1,26,49	1,27,58	1,30,40
Medical/Public Health	83,16	87,43	91,14	90,11	89,76	85,19	86,15	84,23	85,18
Agriculture	22,02	25,14	25,32	25,65	25,38	23,42	23,75	23,53	23,75
Industry	11,45	12,07	12,33	12,19	11,63	10,96	11,67	11,84	14,83
Civil Works	1,05,81	1,12,16	1,19,86	1,22,77	97,31	77,31	77,66	81,49	91,19
Expenditure in England	40,29	37,90	41,21	41,16	46,45	39,40	39,92	44,40	42,11
Miscellaneous	1,75,97	1,77,95	1,99,98	1,84,60	1,79,61	1,91,90	1,88,42	2,02,37	2,31,24
Total	10,81,00	11,15,20	11,78,67	11,79,48	11,26,47	10,80,54	10,92,21	11,16,51	11,73,31
Repayment Advance									
Pro. Loan Fund	5,90	21,24	6,79	7,23	7,75	8,66	38	40	10,86
Loans by Lcc. Government	7,99	17,20	13,37	13,79	17,99	4,74	3,85	14,56	14,43
Grand Total	10,95,26	11,62,51	12,06,41	12,13,01	11,70,96	11,11,34	11,14,33	11,48,79	12,22,84
Balance	+20,38	+ 3,81	-28,31	-1,55,11	-26,89	- 78	+ 2	+16,59	+10,97

Source: Administration Report of the Province of Bengal (Calcutta, annual)

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