For Lakshmi
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General Editors' Preface

This series focuses on important themes in Indian history, on those which have long been the subject of interest and debate, or which have acquired importance more recently.

Each volume in the series consists, first, of a detailed Introduction; second, a careful choice of the essays and book-excerpts, vital to a proper understanding of the themes; and, finally, an Annotated Bibliography.

Using this consistent format, each volume seeks as a whole to critically assess the state of the art on its theme, chart the historiographical shifts that have occurred since the theme emerged, re-think old problems, open up questions which were considered closed, locate the theme within wider historiographical debates, and pose new avenues of inquiry by which further work may be made possible.

This volume comprises some of the most important essays which focus on the theme of entrepreneurship and industrialization in the colonial period. The debate over industrialization in India is linked to the larger question of economic backwardness: why did the Indian economy fail to take off in the colonial period? Did the backwardness of the Indian economy account for the failure to industrialize, or did the nature of colonial control itself reproduce backwardness? The lineage of this debate can be traced back to the cutaneous controversy between Lord Curzon and J. C. Dunn at the beginning of the century, or to the even earlier debate on poverty in the 1880s. This old debate, as the volume shows, still continues.

The essays focus specifically on two sets of themes. First, the evolution of business enterprise: the nature of entrepreneurship and the operational strategies of different groups. Second, the history of modern industries: the structure of industrial investment, the patterns of regional growth, and the temporal rhythms of industrialization.

In the colonial period, industrial development in India was uneven. Parsi entrepreneurs in western India managed in a way that their Bengali counterparts could not. The fragile basis of early enterprise in Calcutta was revealed in the collapse of the 1840s. The expansion here, in the late-nineteenth and early-twentieth centuries, remained more limited than in Bombay. There were other contrasts between regions. Enterprises in the interior were involved in the financing and marketing of agricultural goods for the internal market, while entrepreneurs in port towns were closely integrated to networks of international finance and trade. What was the nature, basis and implications of such variations? Were these linked to the nature of entrepreneurship or to the varying structures of colonial control? The essays in this volume reflect on these issues.

In his Introduction, Rajat Ray emphasizes the need to go beyond the concern with the organized sectors of business. He shows that the world of the bazaar, in which indigenous business and trade operated, was sharply distinct from the world of modern business dominated by Europeans. It is from the world of the bazaar that business communities emerged, and to that they remained linked.

Through a study of different business communities, Ray reveals the links between these two sectors, as well as their specific dynamic.
Author's Preface

This is a collection of important essays, many of which are no longer easily available. I have also included more recent essays that give the latest results of research. Lack of space compelled me to omit many seminal essays, such as Daniel Thorner's essay on the pattern of railway development. The contributions of such authors are, however, discussed in the Introduction, which gives an overview of business enterprise and industrial activity in India from the beginning of the nineteenth century to the time of independence. Two basic themes are dealt with: first and foremost, the evolution of business enterprise over the period; second, the broad changes in the pattern of modern industry. The essays included in the volume are important statements on the theme, reflecting divergent and sometimes diametrically opposite views, and giving some idea of the basic controversies on the subject. They are arranged in such a manner that the reader will obtain a chronologically continuous view of the history of Indian business and industry over the whole period.

Acknowledgements

Acknowledgements are due to the following for permission to reprint the essays included in this volume:

Introduction

When the new states of India and Pakistan attained independence in 1947, the economy of the subcontinent was backward, predominantly agricultural and characterized by massive poverty. Why this was so has been the subject of prolonged debates going back to the economic controversy between Lord Curzon and R.C. Dutt at the beginning of this century. But there were important developments in Indian business and industry after that, especially a notable growth of modern industry under Indian enterprise between the two world wars. At the time of independence the Indian Union (though not Pakistan to the same degree) possessed a large and fairly sophisticated modern industrial complex—in fact the biggest in the "underdeveloped" part of the world. How this came to pass has been the subject of scholarly investigation and speculation since independence.

The roots of industrial capital in the new states of India and Pakistan have been traced to the older merchant communities embedded in the time-honoured caste system. The twenty large industrial houses in India today derive mostly from the merchant communities, especially the Marwaris; and in contemporary Pakistan many of the twenty-two families which reputedly own half the nation's wealth are the Gujjar Memonis, the pre-eminent trading caste among the Muslims of undivided India. Yet the widespread involvement of these merchant communities in modern industry is a phenomenon that goes back no earlier than the First World War.

Before then, the world of the bazaar, in which indigenous bankers and traders operated, was sharply distinct from the world of...
enteurship and industry

In the late nineteenth century an Indian-owned complex of modern industry had sprung up in Bombay and Ahmedabad, but this was an exception. The tea plantations, the coal mines, the jute mills, etc., had developed in eastern India under European enterprise, roughly between the 1850s and the 1880s. Because of circumstances specific to the Bombay Presidency, the cotton mills there developed under Parsi and Gujarati enterprise before and after the Civil War in the United States. The merchant communities of the interior were engaged at that time in quite a different set of activities—the marketing of agricultural produce, the financing of the inland trade in commodities, the facilitation of the movements of artisan products and peasant crops, etc. They did this by means of the inland bill of exchange, known as the chitty, and by the indigenous form of commission agency, known as the amil. Historians have of late started paying closer attention to these activities. Operations in the bazaar enabled merchants and bankers to accumulate capital and forge long-distance connections in the inland market. Such connections were to prove crucial when they went into industry. They did so on a broad basis in the period from the outbreak of the First World War to the advent of independence. The specific process by which bazaar bankers and merchants took to industrial investment has been the focus of detailed research.

The first major research work on the growth of private enterprise in India was D. R. G. A. G. D. Baldwin Buchanan's The Development of Capitalistic Enterprise in India (New York, 1934). He paid his observations too early to grasp the significance of the process then in way, by which bazaar bankers and merchants were going beyond meddlesome commercial operations to start large-scale industrial establishments. He thought, at the time, that these men, representatives in most places of the bazaar caste, were not equipped by training or experience to handle the administration of labour. In his view, the spirit of enterprise was inherited among the indigenous population of India by the religious philosophy of resignation embodied in the doctrine of karmic and the rigid social and economic system characterized by caste, purdah and the joint family. It appeared to him that a mixed non-indigenous group, either Europeans or persons from outside the native Indian popula-
cases of their initial ventures in collaboration with the Europeans (cf. Narendra Krishna Sinha and Blair B. King in this volume), would not have faded out after 1848; nor would the Marwaris, an intensely conservative community, have emerged thereafter as the most successful Indian business group in Calcutta (cf. Thomas A. Timberg and Omkar Goswami herein). As to the success of the Parsis, the decisive factor, as pointed out by Ashok V. Desai (see also Amalendu Guha's two articles, "Parsi Success as Entrepreneurs 1750–1850 and The Comparative Role of the Parsi Seals 1750–1850," in Economic and Political Weekly, review of management, August 20, 1970), was not so much their Protestant ethic as the strategic position they carved out for themselves early on in Bombay, by virtue of acting as collaborators of the Europeans in the China trade.

As for the Europeans, critics are far from appreciative of the innovative role Buchanan ascribed to them in Indian industry. As Amartya Kumar Sen emphasizes, ties at home held them back from pioneering the cotton textile and steel industries; and Amiya Kumar Bagchi underscores the systematic advantages they gained vis-à-vis their Indian competitors by means of cartel as well as by virtue of the racially discriminatory policies of the Government of India. Morris David Morris (see, besides his essay here, the longer contribution he has made earlier in vol. II of The Cambridge Economic History of India) would have none of this: among other points, he seeks to emphasize the steady business considerations that guided the investment behavior of European businessmen in India (a point further emphasized in R. J. Tomlinson, Colonial Firms and the Decline of Colonialism in Eastern India 1914–1947, Modern Asian Studies, vol 15(3), 1981). This essay has thrown up a series of questions regarding the history of industry in India. Why did the linking of Indian capital to industry come so late? How was the sophisticated and highly evolved world of the bazaar so completely shut out from the European preserves of modern banks, export-import houses, plantations and factories? What were the circumstances in which European enterprise carved out the exclusive sphere of corporate industrial operations for itself? How did the Indian economy respond to the European economy in terms of economic growth? Why is it that Bombay was the one region where Indian enterprise was able to carve out an early niche for itself? Even so, the Indian economy was able to carve out an early niche in that exclusive sphere? Such questions are closely related to the basic question posed at the beginning—why was the Indian economy unable to effect an industrial revolution? Was it—as Morris has argued in his essay here—too backward around 1848 for it to take off in the course of the nineteenth century? Or did underdevelopment 'develop' in India as a result of
what is referred to by a school of economic historians as 'deindustrialisation' in the course of that century?

**Trends in Industrial Production and Employment**

To these questions, the readings here can provide but partial, though suggestive, answers. This volume is concerned with modern industry alone, and with the rise of capitalist business enterprise in developing it. Artisan manufacture, which remained outside the sphere in which industrial capital operated, is excluded from our considerations.

The question of deindustrialisation, that is to say the continuous issue of the decline of artisan industries in the nineteenth century, is reserved for another volume in this series. Yet some idea of the phenomenon is necessary to start with, so as to enable us to see the growth of modern industry in a balanced and overall perspective. For, the statistical evidence available on employment in the secondary sector of the economy seems to indicate that, despite the emergence of factories and mines, the proportion of the population dependent on industry declined significantly in the course of the nineteenth century. The emergence of modern industry did not offset the decline in artisan industries.

There is only one set of survey figures for comparing the proportion of people dependent on industry around 1800 with the corresponding figure in 1900. These are the figures recorded by Buchanan Hamilton during his survey of the Gangetic districts of Bihar in 1809. Aruna Kumar Bagchi has made a careful comparison of these figures with the comparable census data of 1901. The result is suggestive: the proportion of people deriving their sustenance from industry declined from 10.8 per cent in 1809 to 6.1 per cent in 1901. Much of the decline was due to a drastic fall in the number of weavers and spinners in the Gangetic districts of Bihar in the course of the century, their proportion to the total industrial population going down from 62.3 per cent in 1901 to 15.4 per cent. Doubts have been expressed on the accuracy of Hamilton's survey, but it is


For the basis but somewhat sterile controversy between M. V. Chavan and A. K. Bagchi on the accuracy of the survey in The Indian Economic and Social History Review.

The only survey made at the beginning of the nineteenth century, and its results are more reliable than other estimates based on more inaccurate and unreliable data. In view of the impressions of contemporary observers which accord closely with the above statistical measurement, it is reasonable to assume that the output and total statistical data on industry declined in nineteenth-century India despite the emergence of modern factories.

There is evidence to show that this deindustrialisation was arrested before or around the beginning of the twentieth century. Modern factories expanded fast in the 1890s and 1900s, going up from Rs 262 million in 1882 to Rs 670 million in 1899 at constant prices. Not merely did factories begin to multiply, from around 1900 and possibly some time before this, the output of artisan industries also went through a measurable, though slower, rate of increase. The work of S. Subramonian on the national income of India shows that the real product of Indian industry as a whole, taking in both modern and artisan industries, increased between 1900 and 1947. At constant 1938 prices, the net domestic product from the secondary sector rose from Rs 262 million in 1909 to Rs 4207 million in 1944. Factories industry grew fast, especially in the years after the First World War, to the attainment of independence, the estimated rate being 14.5 per cent per annum (i.e., simple rate 1900-46). Until the outbreak of the Second World War, however, artisan output was greater than factory output, a fact that set India apart from the industrial countries. Since artisan output increased at no more than 1.2 per cent between 1900 and 1946, the overall income from the secondary sector increased at the rate of 3.5 per cent per annum, not a rate fast enough to set India on the path of an industrial revolution despite the apparently rapid growth of modern industry between the two world wars.

If we look at the growth of modern manufactures in isolation, it gives a misleadingly inflated impression of growth, for this was a predominantly agricultural and artisanal economy in which large-scale manufacturing was an exception rather than the rule. The task is thus to take into account the growth of manufacturing at the same time as the growth of the agricultural sector and the artisanal sector, in order to get a clearer picture of the overall growth of the economy.
scale mining and manufacturing accounted for a small portion of the net domestic product right down to the outbreak of the Second World War. Only over the course of the war did modern industry become a more substantial sector of the economy than small and cottage industries (see Table 1). Taken in terms of its own rate of growth, modern industry did well from the time of its inception, around the middle of the nineteenth century, to the early years of the twentieth century. It did even better through the period of the two world wars and the world economic depression. If we take the value of mining and large-scale manufacturing in 1913 to be equal to 100, then its value amounted to around 3 in 1865, 17.9 in 1882, 48.9 in 1900, 100 in 1913, 159 in 1929, and 374 in 1945 (see Table 2). But factory production was so small a portion of the net domestic product that the increase did not produce any visible impact on the occupational structure of the economy.

The occupational structure of the population of the Indo-Pakistan subcontinent remained practically unchanged between 1881 and 1951: agriculture’s share remained at about 70 per cent, manufacturing at about 10 per cent, and services at about 15–20 per cent. Not only did industry fail to absorb a greater share of the workforce, but its share even went through a slight downward trend. The male workforce employed in manufacturing was 10.6 per cent of the total male workers in 1881, and was down to 9.1 per cent in 1911. As for the first half of the twentieth century, when the development of modern industry was a seemingly impressive phenomenon, it is a little curious to observe the continuation of the downward trend in the percentage of workers, both male and female, employed in

<table>
<thead>
<tr>
<th>Table 1</th>
<th>Net domestic product of India between 1939 and 1946 (at 1946 prices) (Rs million)</th>
</tr>
</thead>
<tbody>
<tr>
<td>1939-40</td>
<td>1945-6</td>
</tr>
<tr>
<td>Agriculture, animal husbandry</td>
<td>34,781</td>
</tr>
<tr>
<td>Forestry and fishing</td>
<td></td>
</tr>
<tr>
<td>Mining and large-scale manufacturing</td>
<td>4,360</td>
</tr>
<tr>
<td>Small and cottage industries</td>
<td>6,102</td>
</tr>
<tr>
<td>Net product</td>
<td>42,334</td>
</tr>
</tbody>
</table>


*CEHI, p. 349. J. R. Bhattacharya’s conclusion.

Table 2: Value of Mining and Large-scale Manufacturing in India 1868-1940 (at 1946 prices) (Rs million)

<table>
<thead>
<tr>
<th>Year</th>
<th>Mining</th>
<th>Manufacturing</th>
</tr>
</thead>
<tbody>
<tr>
<td>1900</td>
<td>42</td>
<td>41</td>
</tr>
<tr>
<td>1901-2</td>
<td>40</td>
<td>34</td>
</tr>
<tr>
<td>1902-3</td>
<td>34</td>
<td>28</td>
</tr>
<tr>
<td>1903-4</td>
<td>76</td>
<td>33</td>
</tr>
<tr>
<td>1904-5</td>
<td>169</td>
<td>564</td>
</tr>
<tr>
<td>1905-6</td>
<td>300</td>
<td>1113</td>
</tr>
<tr>
<td>1907-10</td>
<td>259</td>
<td>1341</td>
</tr>
<tr>
<td>1911-14</td>
<td>147</td>
<td>1415</td>
</tr>
<tr>
<td>1915-18</td>
<td>353</td>
<td>1428</td>
</tr>
<tr>
<td>1919-22</td>
<td>323</td>
<td>1664</td>
</tr>
<tr>
<td>1920-7</td>
<td>372</td>
<td>2139</td>
</tr>
<tr>
<td>1927-30</td>
<td>410</td>
<td>2486</td>
</tr>
<tr>
<td>1931-4</td>
<td>356</td>
<td>2286</td>
</tr>
<tr>
<td>1934-5</td>
<td>468</td>
<td>2059</td>
</tr>
<tr>
<td>1935-6</td>
<td>414</td>
<td>3143</td>
</tr>
<tr>
<td>1936-7</td>
<td>439</td>
<td>3786</td>
</tr>
<tr>
<td>1937-8</td>
<td>683</td>
<td>5181</td>
</tr>
<tr>
<td>1938-9</td>
<td>470</td>
<td>6124</td>
</tr>
<tr>
<td>1940-1</td>
<td>510</td>
<td>6441</td>
</tr>
</tbody>
</table>


Table 3: Product from Three Sectors (in 1938 prices) (in Rs million)

<table>
<thead>
<tr>
<th>Sector</th>
<th>1930-1</th>
<th>1939-9</th>
<th>1945-7</th>
</tr>
</thead>
<tbody>
<tr>
<td>Primary (crops, livestock, forestry, fishing)</td>
<td>9,318</td>
<td>10,721</td>
<td>11,359</td>
</tr>
<tr>
<td>Secondary (industry, mining, small-scale manufacturing)</td>
<td>1,658</td>
<td>3,960</td>
<td>4,207</td>
</tr>
<tr>
<td>Tertiary (services, commerce, finance, other services)</td>
<td>3,319</td>
<td>8,423</td>
<td>9,571</td>
</tr>
<tr>
<td>Total Product</td>
<td>14,286</td>
<td>23,005</td>
<td>25,137</td>
</tr>
</tbody>
</table>

going up over the period compared to the share of agriculture. This was due to the better performance of modern industry, which grew rapidly, at a time when artisan manufactures were slow to expand.

Thus, deindustrialization in the nineteenth century was followed in the twentieth by a mixed type of industrial development: a significant rise in the output of factory industry (output per employee rose from an index of 10 in 1890 to 140.7 in 1970), a non-continuous increase of employment in factories (the number of factory workers rose from 0.6 million in 1861 to 2.9 million in 1980), a slow expansion of the total output of artisans (their number decreased from 12.6 to 11.4 million, but per head output went up, according to S. Swaminathan, from an index of 100 to 165 over the period). This was a limited kind of industrialization. Nevertheless, India in 1847 came to possess, as a result of this process, a large industrial complex by third world standards. Moreover, the greater part of that complex was already in the hands of a strong indigenous capitalist class.

The Bazaar

These mixed patterns of recession and growth in industry cannot be comprehended in terms of an undifferentiated secondary sector as per the sectoral classification of conventional economics. The West European and North American economies, from which the classification is derived, are divided by economists into the primary sector of agriculture, the secondary sector of industry and the tertiary sector of services. The classification is hardly suitable for an agrarian country like India, with its large number of handcrafts closely allied to agriculture. Unlike the industrial economies, India derived more of its national income from handicrafts than from factories until almost the end of the period under review. Since the artisan crafts were an integral part of the peasant economy, it will not do to lump the modern industrial sector and the older handicrafts sector together into a single 'secondary' sector, as against the 'primary' sector of agriculture. The household economy of the

peasants and artisans constituted a world of its own, standing apart from the much smaller modern industrial complex that had been enslaved into the Indian economy by British enterprise.

This is not to say that the economic organization of colonial Indian society fitted neatly into the well-known model of the dual economy—an 'organized' sector of foreign trade, factory industry, banks, corporations and managing agencies, and an 'unorganized' sector of indigenous bankers, traders, moneylenders, peasants and artisans. To single out the Western-style concerns alone as the 'organized' sector and to put the rest of the economy into an undifferentiated, unorganized and static mass of traditional concerns would be to miss the complexity and forms of organization, and though these forms did not correspond to Western models, they were capable of adapting to changing conditions. Indeed, that part of the world of commerce and credit which the official reports on monetary conditions referred to as the 'bazaar' had a certain dynamism. It was from the bazaar that the Indian industrial capitalists emerged in the late-nineteenth and twentieth centuries. Therefore, its exact position in the economy must be identified.

To begin with, it needs to be noted that there was no unified money market in India governed by a single bank rate, as was the case in Western countries by the mid-nineteenth century. The money market in India was divided into three sections governed by different rates: (a) rates charged by Western-style banks; (b) fluctuating bazaar rates at which traders borrowed from bankers upon hundies; (c) the much higher rates charged by moneylenders on peasants and artisans.

The nineteenth-century records of the Punjab government contain an interesting statement of these rates in one instance: Simla, in 1875. The rates reported were as follows: Alliance Bank of Simla, 12 per cent; money lent by native bankers at major traders, 6-12 per cent; money lent to agriculturists, 12-18 per cent. It will be noted that the rates prevailing in the bazaar were not necessarily, as it is sometimes implicitly assumed, higher than those

Entrepreneurship and Industry

quoted by banks. There was a larger amount of loanable money in the bazaar, so the indigenous bankers could often afford to underquote the bank rates.  

The bazaar, therefore, was no primitive pedlar's world, as compared to the world of banks and corporations. Like the Bengal, Bombay and Madras Presidency Banks, bazaar bankers also dealt in mobile credit, i.e., negotiable paper which circulated in the market. This was not the case with ordinary moneylenders lending to peasants and artisans: they dealt only in non-transferable book credits, not in negotiable instruments. The indigenous money market, technically known as official money market, referred to in official money market reports as the bazaar, financed the inland commission agencies, known as arithiyas, through whose interlocking commission agencies all movements of marketed produce took place within the country; in fact, the larger commission agents were themselves bankers, acting for wholesale merchants in other places, and allowing the latter to 'draw credit' upon their own houses in the form of hundis. By the mid-1860s the bazaar network was well integrated, with twin headquarters in Bombay and Calcutta.  

The nineteenth-century Indian economy may be said, in the light of this evidence, to have consisted of three distinct social agglomerations:  

(a) a Westernized enclave of banks, factories, ranches, plantations, corporations, managing agencies, and import-export firms with weak linkages to the rest of the economy; (b) the bazaar, a well-integrated complex of shroffs, arithiyas and wholesale merchants, operating in inland trade through negotiable instruments of credit (hundis); (c) the subsistence economy of the peasants, artisans and petty dealers who had no access to either bank or bazaar credit; and who were therefore compelled to rely upon unsecured loans from moneylenders.  

These social agglomerations corresponded to the three distinct rates of money enumerated above, and were separated from each other by the fact that credit did not flow from one complex to the next in a sufficiently large volume (the reason why the prevailing rates of money in each arena were so radically different).  

The three-fold reorganization of the economic contours of Indian society originated from two related processes: (a) the capture of the commanding heights of the Indian economy by British capital, especially the control of imports, exports and shipping, and of these large-scale manufacturing activities that fed the flow of processed and exported agricultural produce; (b) the mutually beneficial adjustment reached by the European corporations with the inland merchants, commission agents, and bazaar bankers, on whom the former relied for obtaining produce from inland, and for distributing imported goods in the interior. The shroffs and arithiyas submitted to the regime of a worldwide economic and political empire, but they did so, in a certain measure, on their own terms.  

The reorganization of the economic boundaries of Indian society implied the monopoly of the upper tier by the European banks, shipping lines, and managing agency houses - a monopoly that subverted the bazaar bankers and merchant to the intermediate tier of the economy. The new generation of shroffs and arithiyas was a completely reshaped fragment of the country's indigenous commercial traditions, the shape of the fragment being determined by the contours of the colonial economy into which they were inserted by the imperial regime. The hundi nexus, despite its antiquity, was no longer the same as the one Twenimer had witnessed in the seventeenth century, serving one arm from Surat to Mohar, another arm from Surat to Bamban (Java), and a third streaming inland from Surat to Agn and onwards to Dacca. The new hundi lines stretched along the tracks of the railways, moving inwards from Bombay at one end and from Calcutta at the other. Not was the hundi exactly the same instrument as it was before; in the eighteenth century it had served a variety of purposes — such as changing the form of the port for the estuaries of the interior, insuring goods sent abroad or upcountry, supplying money to princes and generals for whom the bankers acted as treasurers, and so on. As the British unified the currency system on the basis of the uniform silver rupee in 1858, and organized their own treasuries supplying bills one upon the other, bazaar bankers lost the privileged position they had earlier enjoyed as money-changers, remittance agents and treasurers to the English East India Company and its rival princes in the eighteenth century. Short of the earlier charges of insurance and coin exchange, the hundi was transformed as
C. N. Cooke noted in the mid-nineteenth century, into a pure hill of exchange in the mild trade. The merchant communities operating within the redefined terms of the bazaar were no longer 'traditional' in the true sense of the term. The old shipping Bora, merchants of Surat, such as the family of Mullal Abdul Ghafur, had collapsed in the face of the disruption of markets and lines of communication accompanying the crisis of the Mughal empire. The once premier banking house of the Mughal empire, the Jaga Sells of Murnihabad, had long since lost its luster on account of the financial rearrangements made by the British upon the consolidation of their rule over Bengal. Even the younger banking house of Gopaldas Mochardhas, which had for a time hoisted prominence by financing the wars of Cornwallis and Wellesley, lost out when the British subsequently recognized the imperial monetary and financial systems in the early part of the nineteenth century.

The prominent Indian banking and trading firms of the Victorian era were a different lot altogether. The growing traffic in produce and handiworks between the market towns running along the railways came to be dominated by new merchant communities. Among these were the Patanis, Bhikas, Khojas and Memons from various parts of Gujarat, Cutch and Kathiawar; the Mulkimans from Shikarpur (Sind), the Marwaris from Sindhwani, Bikaner, Marwar and Jaisalmer, and the Nattukottai Chettiar from the Chettinad tract in Tamil country. As auxiliaries of the imperial business concerns, the more adventurous among these merchant communities forged new business connections abroad the Parsis in China, the Nattukottai Chettiar in Burma and the Straits Settlements, the Bhikas, Khojas and Memons to the Middle East and East Africa. Their strong community ties assisted inland and overseas migrations, laying the basis of merchant and banking networks that had not existed before.

The limitations and successes of these merchant communities arose from their position within the imperial economic system. A certain space had been defined for them within the framework of the colonial economy. As mentioned before, this implied their exclusion from its highest tier, that is, the trade with Europe, the overseas and coastal shipping of the country, the manufacture of products for the world market, and banking transactions in foreign exchange. But within the sphere defined for them, there sprang up large Gujarati and Marwari family firms with extensive networks linked to the railways andtelegram—two technological innovations that had fundamentally altered the conditions of trade within the country. Some of the Gujarati family firms owned several cotton mills in Bombay and Ahmedabad in the late nineteenth century; the Marwaris, entering industry somewhat later, commenced activities on a broader front after the First World War.

What were the large family firms of the bazaar doing before they entered industry? Thomas Burnaby's essay on the three types of Marwaris firm—namely the great banking house, the brokerage firm attached to a large European house, and the venturous speculator who might later become an industrialist—has a wealth of valuable detail, drawn from firm records, on their pre-industrial activities. Many more details may be found in the Hindu compilations of the Marwaris themselves.

Meena, Champalal Ramswaroop were in business and for nearly 30 years before owning the Edward Mills (1906). From the Marwari History of Indian Trade (1928), they appear to have carried on as shippers and speculators even while setting up industrial companies. The leading bazaar firms that led the way into the close preserves of European industry after the First World War were very actively engaged in the last years of the nineteenth century, in a wide range of trading and speculative activities. Such activities enabled them to accumulate the capital which they were later to employ in corporate industrial ventures. The house of Swaminarayan and Mandir are a well-known example. Seth Harkeshwar, who set up business on his own by splitting the share of the parental banking business at Indore in 1900, made his pile by dealing opium speculations in 1909-10. He purchased opium from various places in Malwa at its 2000 a unit and sent it on to Shanghai and China, selling at its 10,000 a unit. As soon as the opium trade ceased by British agreement with China in the course of the next few years, he adroitly switched to the Indian spot and forward market in cotton, trading very largely in cotton saris (sutures) and gambling on violent fluctuations in the trade. Having accumulated his capital in

*See the Select Bibliography at the end of this volume.

this manner, he set up the first Indian jute mill in Calcutta in 1917. Because of the people's previous experience of large profits from investments in this industry, he had no problem raising capital for the mill. When he offered the shares of the mill in India, there was great excitement in town and he had to stay in office from morning till evening to meet purchasers. In addition, he mobilized eighty lakhs for the cotton mill in Calcutta. He also carried on the family banking business. Nor did he abandon the cotton trade, in which he continued to invest lakhs of rupees. However, he was well aware of the transient nature of the cotton futures market, and he transferred the profits he made in 1924. The firm henceforth confined itself to spot transactions and in the administration of the mills, which now included a jute mill (1922) as well. 

The history of the firm of S. Hukumchand & Co. is recounted in the History of Indian Trade. 

The fact that S. Hukumchand & Co. established their profit-making monopoly over the domestic market, it was not before then that monopoly buying organizations like Ralli, Volkart and others folded up. Till then, in consequence of the integration of India into the capitalist world economy of Britain, the foreign firms had had the pick of the business; indigenous firms tended to operate in areas which foreign firms found either too risky or not sufficiently attractive in terms of the profit margin.

Scholars unwilling to recognize the imperial division of economic space in the country argue that, before 1914, Indian entrepreneurs moved away from indigenous ventures not because of any racial bar to their entry but because they had more profitable avenues in the bazaar. Caught in unbridled notions about the feasibility to be made in domestic markets, a historian of this view, M. D. Morris, has argued in The Cambridge Economic History of India, and in his case in this volume, that there may have been in India not one effective profit-rate but two. It seems quite likely that Europeans were typically satisfied with rates of return comparable to rates earned in Britain while Indians sought higher rates akin to those available elsewhere within India. But if we are to go by the reports of contemporary American consuls in India, quite the contrary was the case. The consul advised American businessmen that there were two distinct markets in India: a mass market at which the margin of profit was not high, but who cheap, and a small market for high-class goods, catering to about one million people whose incomes and living styles were substantially higher—the European population of merchants, missionaries, civil administrators, and officers and soldiers of the British army, the Indian princes, large landlords, and Westernized merchants, and the Parsi community of Bombay and the Anglo-Indian population, with Western tastes. Department stores and shops which these people patronized, and where the goods obtainable were of the same quality as in Europe and America, constituted a separate market from that of the bazaar. In doing business with the upper classes and middle classes, the American trade counsel said, it is possible to secure a rather wider range of profit, but
the sales must be comparatively small. In doing business with the great masses of the people the margin of profit must be extremely small, however the sales and collective profits may be enormous. The low profit margins at which the thirty, uncompetitive bazaar merchant—ever the biggest shills and artisans among them—willingly to operate (while depending on a large turnover at huge risks among an poor a people) would have been unacceptable to the sahibs, whose life-style dictated a different type of business, one which the imperial division of economic space in India enabled them to monopolize.

The End of Frenzy

The segregation of Indian enterprise in the bazaar, which was so prominent a characteristic of the developed colonial economic structure in the latter part of the nineteenth century, was not an obvious agency houses in the early part of the century had a substantial element of Indian partnership before new developments from mid-century drew a clearer line defining a black and white one in the colonial economy of the country. The agency houses were originally the carriers of private European trade in Asian waters. At that time trade to Europe was an official monopoly of the English East India Company, whose main business was to export the rich silk and cotton manufactures of Indian weavers. When the Charter Act of 1813 threw the trade between Europe and India open to private traders, the agency houses of Calcutta, Bombay, and Madras expanded their operations with the help of the East India Company. They developed a new colonial trade in which the export of cotton and silk textiles to Europe, into the main item of the East India Company’s monopoly business, was no longer the principal feature. As India herself turned into a net importer of Manchester textiles by the 1830s, she developed alternative primary items of export, especially indigo, to provide an adequate channel for the growing remittances to England. She also developed an export trade with China in raw cotton and opium, which paid for shipments of Chinese tea to Britain. Agency houses, such as Palmer & Co., Alexander & Co., and Fergusson & Co. of Calcutta, Forst & Co. and Bruce Fawcett and Co. of Bombay, and the Paties and Binns of Madras, were the forerunners of this new trade. As noted in the Financial Proceedings of the Government, they sprang up by the side of the Government monopoly and under its wing.

The sudden growth of an agency house is described thus by R. M. Martin in 1832.

A large mercantile house is established at Calcutta, with a branch in London; the partnership formed of various individuals—once a retired merchant of the Company—another a military man—a third a doctor and a fourth a London merchant. They possess no real capital, but establish an agency and banking business, receive as deposit the accumulating fortunes of the East India Company’s servants and trade on these deposits.

The agency houses built ships, employed them in the trade of the Indian Ocean, and by a natural extension went into the promotion of insurance companies and banks. As the Company’s monopoly of the trade between Europe and India came to an end, and as exports of Bengal and Malwa opium to Canton through the agency houses in Calcutta and Bombay rose, they took an increasing share in the new triangular trade between India, China, and Europe. In doing this they also started operating in falls of exchange between India, China and Europe, a business hitherto transacted by the Company alone. At the same time, the agency houses in Calcutta promoted

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Industrial ventures inland: they financed the indigo planters, they sank money in the silk filatures, and even came to manage some indigo concerns themselves.

Fairlie Ferguson & Company, till 1812 the biggest of the agency houses in Calcutta, owned the largest number of ships in Calcutta (nine, to be exact), managed the Calcutta Insurance Office and the Calcutta Life Insurance Company, and dealt in a large way in opium and indigo. Palmer & Co., the successor to mercantile supremacy in Calcutta till its ultimate collapse in 1830, owned six ships, financed indigo concerns all over Bengal, and managed the Canton Insurance Company and the Calcutta Bank. Alexander & Co., less prominent but no less substantial than the other two, managed the Bank of Hindostan, the Asiatic Insurance Company, several indigo concerns, and pioneered coal mining operations in Raiganj.

The agency houses thus undertook the first private corporate business and industrial activities in India. However, it was not until joint stock companies were granted limited liability in 1857 that large corporate ventures could begin under European and subsequently Indian enterprise. The agency houses also introduced the business device of the managing agency in the corporate sector. The earliest examples of this technique of managing companies by means of the managing agency system are the management of the Third Ludhiana Society (an insurance company started in 1809) by Alexander & Co., as its 'secretaries and treasurers', and the initiation of Union Society (another Calcutta insurance company founded in 1814) by Mackintosh, Fulton and MacClintock as its agents.10 The agency houses were the typical managing units in the shipping, coal mining and sugar manufacturing companies. Closely associated with the agency houses were their brokers.

The basic function of these Indian associates was to bring in and guarantee contracts for supply of exportable produce from the inland merchants. The brokers were called Banians in Calcutta, Dubsah in Madras and guarantee brokers in Bombay. Sometimes they might be important merchants conducting business of their own. Raghunath Gosain, the Bengal Banian of Palmer & Co.,

1 A. Tribus, Trade and Finance, p. 121; S. B. Singh, Agency House, pp. 29, 62.
2 R. W. B. Lewis, The Rise of British Corporations in India 1851-1890
3 Cambridge, 1970, pp. 253-5. Company to which Kim has argued in his essay in the volume, the managing agency system was started before Dowerahali Tagore by the European agency houses in Calcutta.

was a rich merchant in his own right; so was Horndean Bomanji Wadia, the Parsi broker to Forbes & Co. in Bombay. An independent merchant magnate like Rammahul Dey, Bengali millionaire and unusual for a Bengali merchant) owner of several ships, might act as Banian to several American and British traders at the same time.

The Banians was also not infrequently the financier of his Euro- nachand Radhakamal of Mathura. The Mathura bankers relied on his introduction to Oswald Seal to make payments of oxygen through the broker to the great upcountry merchants of Peshawar. The incident is of some interest as illustrating the wider inter-racial business links that stretched beyond the partnership between the agency house and the broker in the colonial port city. The head of the great agency house of Palmer & Co., writing of the dependence of the agency houses on the 'native money dealers' (i.e. the shurwals), claimed that behind the agency houses in Calcutta stood the 'great upcountry shurwals and other capitalists'.

The shurwals were not dependent for their survival on the agency houses. By the 1820s the Marwari bankers appeared to have formed a world of their own in Barabazar. But the Bengal Banians were vulnerable to the tremors in the European business world. N. K. Saha, in his essay on early Indian entrepreneurship in Calcutta, has stressed two weaknesses in the position of Bengali merchants: (a) their abstention from inland trade and likewise banking, and the consequent weakness of their market links upcountry; (b) the fact that, unlike the Parsis, they did not venture to sail to Canton in order to open up direct commerce and opium dealings in China, which left them vulnerable to the tricks of their European correspondents.

Inventive agency houses had a habit of seizing on their debts to these Banians. Between 1830 and 1833, reckless dealings including

1 For these details, see N. K. Saha's essay in this volume.
overspeculation in indigo brought the six great agency houses of Calcutta crashing down. In the process many Bengali fortunes were destroyed. Much of the debts of agency houses were realized by law courts and the semi-official Bank of Bengal through the attachment and sale of the properties of their former Bengal clients. Dwarkanath Tagore of Calcutta and Jamsetjee Jejeebhoy of Bombay were in their own unique ways the pioneering modern entrepreneurs of mid-nineteenth-century India. It is all the more significant then, that one common fate overtook the enterprises of both, though in the former case more strikingly than in the latter. The Europeans came in course of time to overshadow their Indian partners in the common enterprise, and gradually marginalized the latter.

King has identified Carr, Tagore & Company (1834) as the first equal partnership between European and Indian businessmen, and its initiator in the managing agency system in India. In fact the agency houses had already employed the managing agency technique in running insurance companies. The specific contribution of Carr, Tagore & Company was to extend the technique to wider fields of business and industry. Between 1836 and 1860 the firm promoted six joint stock companies: the Calcutta Steam Tug Association (1836), the Bengal Salt Company (1838), the Calcutta Steam Ferry Bridge Company (1839), the Bengal Tea Association (1839), the Bengal Coal Company (1844) and the India General Steam Navigation Company (1844).

Jamsetjee Jejeebhoy & Sons did not promote industrial ventures as did Carr, Tagore & Company, but the former had a stronger presence in shipping and external trade. As junior partners of the English in the trade with China, the Parsees of Bombay had already established themselves in shipping, shipbuilding and export of opium and cotton to Canton. Jamsetjee Jejeebhoy, like many of his rich Parsi predecessors, started his career by voyaging to China as agents of some senior Parsi merchants, but he was not a mere junior partner of the Europeans. Before the Opium War of 1840 his firm was equal partner in the informal Malwa Opium Syndicate that had been formed between Jardine Matheson & Co., Remington Crawford & Co., and Jamsetjee Jejeebhoy & Sons, to control the market in Canton. Like any other European agency house, his firm was engaged in sailing ships to China and England, and in transacting bills of exchange between India, China, and England. The latter item earned him, at the height of the prosperity of the firm, a principal part of his income.

The new age of partnership was characterized by the rise of European-style banks in which Indian capitalists had a significant part as promoters and stock-owners. Earlier, the Bank of Bengal (1690) had one proprietary Indian director (Maharaja Sookhoo Roy), and though after his death (1811) no Indian director was appointed, the minute books of the bank show that till 1812 (when the relevant records unfortunately cease) Indians obtained anywhere between two-thirds and four-fifths of the credits granted by the bank, a fact which explains one curious feature of its early history: the critical importance of the office of the 'kashander', a native officer looking after the Indian component of the bank's business, in the day-to-day running of the bank. Subsequently, when the aggressive smaller European agency houses of Bombay induced the government, despite the reluctance of the three great mercantile houses (Fortescue & Co., Remington Crawford & Co., and Jamsetjee Jejeebhoy & Sons) to set up the Bank of Bombay (1846), the Parsis controlled 23.6 per cent of its share capital (the European contribution being 62.4 per cent). After Firozji Cowasjee was appointed as its single Indian director, a distinction that went subsequently to Jamsetjee Jejeebhoy (1842).

The semi-official Banks of Bengal, Bombay and Madras (1834) were discouraged by the government from operating in the foreign exchanges, a business that fell wholly to the private European agency houses after the East India Company withdrew from the field in 1833. To take advantage of this expanding business, Mackintosh & Co. and other European agency houses of Calcutta...
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promoted the Union Bank in 1829. The new bank, which served as the prototype of the later exchange banks, had its capital augmented considerably (1835-9) by Dwarkanath Tagore and his European friends to finance the innovative schemes in which they were involved—steamboats on the Ganges, a steamery bridge connecting Calcutta and Howrah, a tea plantation in Assam, a coal mine in Rammang, a modern salt factory, etc.

The first exchange bank in the financial history of India, the Bank of Western India (later renamed Oriental Bank), was promoted in 1842 by a mixed group of European and Indian capitalists of Bombay. Within four years it opened branches in Calcutta, Madras, Colombo, Hong Kong and Singapore. Among its promoters were two Parsee financial magnates, Francisco Crawfurd and Jeejeebhoy Dadabai, and another Parsee Hindu banker, Jeejeebhoy Sukhsar. The Oriental Bank (so renamed in 1845) was followed in Bombay by two other banks—the Commercial Bank of India (1846) and the Mercantile Bank of India, London and China (1847). Alongside with European businessmen, some Indian financiers, including the first Parsee textile mill proprietor Crawfurd Narabhoy Dadvor, played a part in promoting both banks.2

Dwarkanath Tagore died in 1846. Before his death he had become weary of the unscrupulous practices of his European colleagues which he found at variance with the proper practice of banking.3 He systematically sold off his Union Bank shares, leaving behind land and urban properties which became the mainstay of the Tagore family of Jorasanko. The Union Bank, due to unscrupulous exchange transactions with London and security advances in the falling online market, crashed in 1846, bringing down with it various others, Indian enterprises in Calcutta, which had sprung up in partnership with Europeans, suffered a blow from which it did not recover. The Bengalis experienced a general collapse of faith in European business reliability, as reflected in the duggeret: 'The Union Bank is no more, nor Cockrell nor Tulliard. Nor is there any ship on water, only Chittam and East are crying and rolling in the dust.' European enterprises were afterwards reorganised within Indian partnership, and all Dwarkanath Tagore's ventures passed to exclusive European control. His European partners formed the Gordon, Stuart and Company after the crash and managed the Bengal Coal Company and the India General Steam Navigation Company for some time. Later on, the coal mine, the biggest in Bengal, passed into the management of the giant European managing house of Andrew Yule and Company. The India General Steam Navigation Company in turn passed into the hands of Grisdale, Kilburn & Company. The tea concern merged with the Asami Company, based in London, even before Dwarkanath Tagore's death.4

The trend towards growing British control of business concerns in India was not confined to Bengal alone. As the world's financial centre shifted to London, Jeejeebhoy Jeejeebhoy found himself forced out of his earlier lucrative deals of exchange business. With Janine, Matheson & Co., growing to an international giant in his lifetime, his firm was ultimately overshadowed in the China and London trade. As to the impressive fleet of ships which he had acquired, and on which he sent quills from Bombay to Canton, tea and silk from Canton to England, and raw cotton from Bombay to London, severe difficulties were experienced in the 1840s on account of the devastating competition of 'Free Traders and Yankees' who ran their sailing ships much more cheaply than the company ships of Jeejeebhoy and other Bombay ship-owners. Thus by one he sold his ships off, until he had only one left in 1855. By that time the Jeejeebhoy family's mainstay was Bank of Bengal shares, Company's paper, GIP Railway Company shares, and very considerable real estate.5

The careers of Dwarkanath Tagore and Jeejeebhoy Jeejeebhoy show unmistakably that after mid-century the international environment was no longer favourable to the growth of big Indian businesses in the country's ports and abroad. Between 1850 and 1880, a series of technological and organisational changes—the completion of the railways reaching far into the interior, the development of the steamship services through the Suez Canal, and the linking up of the inland telegraph and the Overseas cables into one gigantic world-wide system of communication at electrical speed—decisively altered the business balance of power away from smaller Indian

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3 Ibid., p. 321.
5 Ibid., pp. 311 ff.
firms to bigger European firms in India, and from India itself to the world centre of trade and finance located in the City of London.7

We have seen that the early exchange banks located in India, with strong Indian partnerships, did shift their headquarters to London, beyond the reach of Indian businessmen and consolidated their hold over Indian exchange and finance by remote control. The process began with the Oriental Bank shifting its headquarters to London, where it obtained the advantage of operating under royal charter in 1826. Soon afterwards the Mercantile Bank of India, London and China merged with the Chartered Bank of England, Australia and China, and control of this newly merged Bombay bank, too, passed into the hands of a London-based board of European directors in 1857. In both cases, the European directors were able to wrest control and shut out the Indian directors by holding out the advantage of a royal charter conferring limited liability and the right to operate in all British colonies east of Suez.

The Oriental Bank, the Chartered Bank of England, Australia and China, and the other newly opened exchange banks of London came to monopolize the financing of India’s exports-import trade in which they ever more favourably observed European as against Indian merchants.8 The exchange banks had ramifying connections in the sea ports of India, the Straits, China, and the Middle East, but their Indian branches kept their reserves with the Presidency Banks of Bengal, Bombay and Madras, both as a convenience and on the grounds of economy. The European banking system was now complete in all respects and its tendency was to shut out the Indians. ‘Natives’, in particular Bengalis, who had earlier figured prominently as borrowers of the Bank of Bengal, were virtually eliminated from its business, and as the Bengali component of the bank’s business declined, the bank’s khanjarah, a figure of importance earlier, became a cipher. The Bank of Madras, too, systematically favoured Europeans against Indian firms and merchants of its loans outstanding on 15 April 1847, the latter had no more than a quarter.9

It was not merely the European system of banking that was rising: simultaneously, the great steamship lines were forming ‘conferences’, which were in essence monopoly rings to exclude all competitors by such means as rate wars and deferred rebates. Favored by government contracts for carrying mail, the Peninsular and Oriental Company and the British Indian Steam Navigation Company grew into giants and came to dominate India’s overseas and coastal shipping, respectively. Native shipping, which had been on the point of collapse even before the rise of the steamship lines, was swept clean from the runs on which the lines came to operate.9 Not could Indian firms switch to steam navigation. The P & O Company formed in 1835 the first shipping ring, called the Calcutta Conference, with a few other steamship lines of London, Glasgow and Liverpool to prevent all comers from encroaching on their preserve. At first applied to the shipment of Manchester goods to India, the system was extended to the China trade in 1875, and within twenty years of its inception it came to cover practically all cargo shipped outwards from UK except for the Atlantic trade.

In the meanwhile big European managing agencies had arisen in Calcutta, Bombay and Madras. Closely financed and supported by the Presidency Banks and the exchange banks, they were engaged in extensive imports of manufactured goods from Britain and in exporting raw cotton, raw jute, gunnies, hessian, cotton yarns, spices and seeds, tea, and a variety of country produce from India. The shipping ‘conferences’ and the managing agency oligopolies soon became interlocked. Shipping conferences of British steamship companies, locally administered in Calcutta by leading European managing agencies, monopolized the carrying of merchandise between parts in India and other ports of the British empire.

The leading European exporters themselves, organized as monopolistic managing agencies, came to the aid of the shipping rings as the latter’s agents. Occasionally there were conflicts between the European ships’ lines and the lines. The Conference lines pushed up freight rates for shipments of rice, wheat, linseed, jute and tea beyond market rates in the late 1880s, and in protest the European tea exporting firms of Calcutta opened a Planters’ Line in 1889 and an India Munus Line in 1893. The Liners’ Conference killed both lines by rate wars, but brought the shippers round in

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7 For a close study of a small slice of this rapid change, see Mark Keating, ‘Banking Morale: and Structural change in the East India Company’, in R. N. Choudhuri and C. J. Read (eds.), Economy and Society, Essays in Indian Business and Social History (Delhi: 1979).
10 Ibid., vol. 1, part I, p. 402.
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From the second half of the nineteenth century onwards, the threat of competition from Europe and America, as well as changes in international trade patterns, posed a serious challenge to Japan's economic development. The government, recognizing the need for modernization and industrialization, embarked on a series of reforms and policies designed to boost its economy. This period marked the beginning of Japan's modernization process, which would ultimately transform the country into a major industrial power.

The first decade of the twentieth century saw significant changes in Japan's economy. The government implemented policies aimed at promoting industrial growth, and the economy expanded rapidly. The country's manufacturing sector grew rapidly, and Japan became a major exporter of textiles and other manufactured goods. The government also encouraged the development of heavy industries, such as steel and shipbuilding, which played a crucial role in the country's economic growth.

The years following World War I were a time of rapid industrialization and economic growth in Japan. The country's exports continued to grow, and its economy diversified, with the development of new industries such as automobiles and electrical appliances. The government continued to invest in infrastructure and education, which further fueled economic growth.

However, the period also saw the emergence of social and political tensions. The growing gap between the haves and the have-nots, along with the desire for greater political and social rights, led to the rise of radical movements and the formation of political parties. The 1920s were marked by political instability, with frequent changes in government and a growing demand for democratic reforms.

Despite these challenges, Japan's economy continued to thrive, and the country became a major player in international trade. The 1920s were also a time of increasing imperial ambitions, with Japan expanding its influence in East Asia. The country's economic and military power played a significant role in shaping the political landscape of the region.

The 1920s and 1930s were a time of rapid growth and transformation for Japan. The country's economy continued to expand, and its industrial and military strength gave it a new sense of confidence. However, the period also saw the rise of militarism, which would eventually lead to Japan's entry into World War II and its subsequent defeat. The events of the 1920s and 1930s set the stage for Japan's post-war economic recovery and its emergence as a global economic power.
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than the local traders, and unlike them, masters of the new system of trade by rail and wire. European traders at the ports who had so depended on such enterprising inland traders and bankers for obtaining opium and other commodities soon eruduced that speculation had become systematic in opium and all the other trading objects of trade except grain. By the end of the century even wheat and seeds had entered the market of forward sale conducted by thrusting merchant communities. Significantly, the system of integrated forward trading that developed in the inland exchanges was largely in the hands of these mobile mercantile communities from among whom many of the Indian industrialists were destined to emerge.

Industrial Enterprise in the High Noon of Empire

From the suppression of the Mutiny to the outbreak of the First World War, private European enterprise, which had already established new forms of industry in the previous age, enjoyed a position of unchallenged supremacy in the Indian economy. The earlier age of the agency houses had witnessed the establishment, under European initiative, of the saltworks, the mine and the factory, forms of industry employing wage labour. The first European industrial complex in India, consisting of a cotton mill, an iron foundry, a distillery, an oil mill and a paper mill, was erected in 1817 at Fort St. George, fifteen miles up from Calcutta on the banks of the Ganges. The Amur Tea Company, incorporated in London in 1833, was the first private concern to operate a tea plantation in Assam. The Bank of Bengal, incorporated in 1835 by Alexander & Co., formed the nucleus of the Bengal Coal Company, one of the pioneer units of the Indian Coal mining industry. The first cotton mill in Western India, a spinning mill at Surat, was floated by James Laidley in 1834 (followed by the first Bombay cotton mill set up by Cowasjee Naraldy Diver in the same year). The earliest jute mill near Calcutta was set up by George Acland in 1835.

These were small beginnings. A change in company law in 1857, permitting all companies other than banks and insurance concerns to be formed on the basis of limited liability, and two further acts in 1864 and 1866 extending the privilege to banks and insurance companies, laid the foundations of the corporate sector firmly. These changes in company law, coinciding with the extension of the railways to the Gangetic valley (East Indian Railways) and across the Deccan (Great Indian Peninsula Railways), gave a marked impetus to the formation of companies under the typically European system of the managing agency. By the end of the 1870s the railway system was complete in all essential respects, and business corporations, for the first time, came to occupy an important position in the country's economy. And yet, during those vital years when Calcutta, Bombay, Madras and Delhi became linked to one another by the railways, the country entered a critical opportunity: the opportunity of rapid inter-linked growth of the railways, iron and steel manufacture, coal production and the related engineering industries on the pattern of what took place in Russia and Japan around the same time. The railway system, which represented the greatest single injection of British capital into India, was built almost entirely by means of imported locomotives, rolling stock, track materials, technicians and managers. This 'Buy British' policy, as Daniel Thorner has pointed out, withheld from India an impetus to industrial development that proved quite effective among other leading railway powers—particularly the United States, Russia and Germany—where the railway was the veritable dynamo of the Industrial Revolution. India alone of the countries with the great railway networks remained almost entirely unenlightened, with her capacity for production of capital goods and her potential for the basic and heavy industries remaining almost entirely unutilized. Instead of stabilizing the rudimentary iron and steel works and engineering industries in the country to take off, the railways provided a much stronger impetus to the planting and processing of world commercial crops by planters and mill owners, and the extracting of ores for export or for the running of railways.

This type of industrial evolution, with a bias towards light manufactures which intended to harness the country's agricultural

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industry, especially in Bombay and Ahmedabad, followed the same system. The process of concentration was more or less complete by the early years of the twentieth century. An official of the India Office wrote privately in 1912:

Nearly all the tea, coal, jute mills and cotton mills in Bengal and Assam are under European management, and in most cases the bulk of the capital is European. Broadly speaking, I should say that in the Bombay Presidency possibly the Parsees and other non-Europeans own a half or more of the mills and other industrial concerns; but that elsewhere in India the non-European share is less than one-fourth and may not exceed one-sixth or even one-eighth.

The railroads, running from the interior to the colonial port cities, when combined with the liner-dominated sea lanes leading out of the ports, defined a particular space for European investments in the latter nineteenth-century, giving British enterprise in India a character that was not to change until the rise of multinationals in the late 1990s. Apart from railways and steamships, British enterprise confined itself to export industries, e.g. tea, coffee, indigo, jute goods, and to extractive and trading operations. The only manufacturing industry that European entrepreneurs developed into a major industry was jute. Characteristically, the jute mill industry, once it had established itself on a proper basis, concentrated on production for the European, American and Australian markets. A.K. Sen points out, European manufacturing and trading operations in India concentrated on producing goods for export to the advanced countries, and were not of the type most useful for developing the underdeveloped country's industrial potential. British investment, in that sense, was an "outpost of the Western economies", not an organic part of the internal economic structure of India.

In terms of the country's material advancement, the great European export industries—tea and jute—had particularly weak linkage effects. The Government of India passed labour and migration laws which enabled the Assam tea planters to turn the immigrant labourers into bond slaves, and to tie them down to alarming conditions and shameful wages. A strong association under the aegis of the Bengal Chamber of Commerce similarly enabled the European jute mills in and around Calcutta to obtain new jute from the


[\textsuperscript{47}] A. K. Sen's essay in this volume.

resources to the requirement of foreign trade, was the natural consequence of the pattern of railway development in India. That pattern, serving Britain's interests more than those of India, cannot be comprehended unless we keep in view the latter's colonial dependence on the former. Two features of the railway policies followed by the East Indian Railway Company and the Great Indian Peninsula Railway Company are crucial in this respect. Both EIR and GIP, in the first place, quoted reduced rates for the carriage of long haul bulk goods from the interior to Calcutta and Bombay, respectively. Country produce sent by rail for shipment to Britain, and manufactured goods imported from Britain for distribution by rail in the interior, were charged lower rates than goods moving between any two railway stations in the interior. A second practice that served to deepen India's economic dependence on Britain was that each company operated its own self-contained system, quoting rates within that system alone. EIR and GIP in their early years had no through rates intermeshing each other into an integral national network. On the contrary, the two companies charged specially high rates on traffic movement across the sections of their lines linking up with the rival system. Such compartmentalization served to split the interior of India and to bias it towards Britain in the crucial early years of railway development.

The railways that promoted lines of commercial and industrial activity in which European firms with strong links to Britain could easily overshadow Indian firms which had no such links. In other words, they created an economic space reserved for European enterprise. In that space arose the great managing agencies, which began to concentrate in the 1870s the mills, mines and plantations, a characteristic innovation of the European business system. Under the system, one managing agency firms with headquarters in Calcutta, Bombay, Madras or London would hold a contract for managing several mining, planting and milling companies at the same time. Real control within the group would be vested in the parent firm which had promoted or taken over the companies—contracting it, the directors of the respective companies being persons who had no real control over the management. The one controller of the company or group of companies was the managing agent.

The Indian firms which had acquired a toe-hold in modern
A. It is curious, on the other hand, that in developing cotton manufacture and iron and steel goods for the country's internal consumption—the very industries, as A. K. Sen points out, that had the basis of the industrial revolution in Britain—the European role was marginal compared to the part played by Indians. The early European managing agency that entered the Bombay cotton textile industry in the nineteenth century, Greaves, Cotton & Co., produced yarns of low count for export to the Far East. Greaves Cotton did not go in for piece goods competing with Manchester in the domestic market in India. 46 The Portico iron works in Bombay, the earliest European iron works in the country (1830), languished and then died a lingering death—inevitably enough, after the coming of the railways (1874). The Bokhari Iron Works Company at Kulti (1874), subsequently reestablished in the UK as the Bengal Iron and Steel Company (1889), produced a little pig iron but no steel. There were also private European engineering firms, such as Jeeves & Co., and Dyer & Co. in Calcutta and Richardson Cuddeco & Co. in Bombay, but it was not these firms that grew into giants as a result of the coming of the railways. This distinction went to the European firms such as James Skinner of Calcutta, Killick Nixon of Bombay, and D. Forbes of Madras. The major area of their operations was trade in imported manufactures and expatriate country produce, with an added component of light manufactures and plantation products which involved little technology. The typical European industries were guerias, hosiery, yarns of low count, tea, coffee, indigo, and sugar. The one exception to this colonial bias was the European managing agencies' involvement in the coal-mining industry, the growth of which, however, was held back by the low state of the iron and steel engineering industries.

What explains this particular pattern of European enterprise—just a typical bias? One answer, suggested by A. K. Sen, is the social ethic of expatriate British firms in India, one that inhibited them from competing in lines that might harm the interests of the mother country. Such considerations would induce them instead to develop lines of interest that would look more readily with British imperial requirements. Another possible reason, suggested by M. D. Morris, might be certain purely material considerations—expatriate firms with strong connections at home found it advantageous to concentrate on the organized markets of the advanced countries to which they had ready access through London.

Business and industry in the 1870s was overwhelmingly concentrated in the ports of colonial India, especially Calcutta and Bombay. The principal European industries—jute, tea and coal—had headquarters in the premier firms of Calcutta, such as Schommer Kilburne, Jardine Skinner, George Henderson, Williamson Magor, and Bird. European interests in Bombay, represented by such reputable firms as Forbes, Remington, Ewart Iddam and Killick Nixon, consisted of a great variety of marine, fire and life-insurance companies, a considerable number of cotton presses, and a few spinning mills that did not yet compete with Manchester. Madras had a much smaller component of business and industry compared to Calcutta and Bombay, but a variety of activities, such as the curing of coffee, agencies of shipping lines, insurance companies and exchange banks, and the refining of country-made molasses sustained the established expatriate firms, such as Arbuthnot, Parry and Brown. 47

The managing agency houses were seldom pioneering firms. It was not the great managing agencies that developed the early European concerns in jute and tea. These were housed by a set of greedy, unscrupulous, intemperate speculators whose one idea was to get rich quick by selling off half-clarified gardens and mismanaged mills at a profit while the "sea mania" (1853–56) and the jute mania (late 1850s and early 1870s) lasted. The early jute mills of Calcutta did not thrive—they merely displaced handloom products in the country and the coastal markets, and were quite incapable of penetrating the great markets abroad which the Dundee mills dominated. Many of the reckless early concerns collapsed—the sea gardens in the crash of 1866–67, and the jute mills in a trade crisis building up in 1875–80. Thereafter, a reorganization of the sea and jute industries under the reputable managing agency houses of Calcutta led to a period of stable ex-

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parison. Brought by the wider connections of the new management, the jute mills broke into the Australia, New Zealand and San Francisco markets in a large way, competing successfully with the Dundee mills. Under the stimulus provided by the construction of BR, the great managing agencies also floated, by the side of the already existing Bengal Coal Company, several new concerns in the Jangipang coal field.

The biggest of the early managing agencies, Schoen Kilburn & Co., exhibited a pattern of horizontal concentration of profitable jute, coal, and steam navigation companies and other interests of proven profitability. These were all solid, established lines of business, opened up by the imperial division of economic space in the country. Kilburn, Heiligen, Gilmans, Arhatnabur and other newly dominant managing agency houses were not above surrounding the public—they were deeply involved in the flotation of nonexistent gold mines in 1859. But by the turn of the century, the new economic space created for them by empire had enabled the European houses of Calcutta to build up a reputation for soundness and integrity in the management of their industrial concerns. They tended to be conservative, insistent on sound finance, and were disinclined to venture into new lines like metallurgical and chemical industries. Instead, they "confined themselves to a sure bet," the ones that brought back their exclusive grasp. They showed in particular a penchant for taking over properties going cheap because the original promoters had started the plantations, mines as well by unsuitable methods and had subsequently vanished.

The Capital, a semi-official journal of Calcutta reflecting European business opinion in India, observed with the confident racial exclusiveness of the high imperial era that "antagonistic though the various European industries be in their own original field of development, there is a sympathy among them to exclude in opposition to any local rivalry with a fourthness which renders successful competition practically impossible." Before the war, the Bengal, report the Capital, "the Business Corporations, pp. 191-202.

The Bengal Chamber of Commerce, with its three subsidiary associations, the Indian Jute Mills Association (IJMA), the Indian Tea Association and the Indian Mining Association, represented the organized demand of the jute, tea and coal industries of Eastern India by about a score of its leading European managing agencies of Calcutta. Six among them—Andrew Yule, Jardine Skinner, Bird, Snow Wallace, Beeg Dunlop and Heiligen (subsequently merged with Bird)—controlled in 1914 more than half the jute capital invested in those three industries: 51 per cent of tea, 57 per cent of jute and 52 per cent of coal. Indian enterprise was confined to the second-class tea gardens in Japagnur district and the mines producing inferior coal for household use. The considerable expansion of jute production in the 1890s also led to Indian investment in two small mills which were not allowed as members of IJMA. European control over the jute industry was exclusive after that they collapsed and all the mills on the Hooghly River were members of the monopolistic IJMA before the war, in a blinkered attempt to deny that there was any racial barrier to Indian entry. M. D. Morris argues that profit rates were not high enough in the jute industry to attract Indian capital. On the contrary, the jute mills were by far the most attractive investment on the Indian business scene, the rate of dividend on the face value of ordinary shares for boom years (such as 1904-7 and 1911-13) being in the range of 20 to 25 per cent. After 1895 the IJMA regularly arranged short-time working agreements, the purpose of which was to keep prices up by not letting production exceed the world demand, and yet keep the price low enough so that no substitute was discovered. The purpose of the IJMA was not to create untenable artificial shortages and thereby to grab ineffectively at impossible profit margins. Contrary to what Morris argues, these restrictive agreements worked very well up to the First World War, and broke down thereafter when the Indian capitalists muscles...
their way. The only instance before this, when many of the mills
failed to adhere to the short-time agreement, was in the matter of
the extremely low forty-eight hours-a-week limit briefly fixed by
JMA in the depressed year 1910-11; even then the aggregate
production of all the mills taken together was effectively curtailed
and, as A. K. Bagchi points out, the gurtry market kicked up again
in 1913.27 As Bagchi also points out, once basic consideration that
deflected Indian entrepreneurs from entering the jute industry was
that the market lay abroad. The export trade of Calcutta, unlike
that of Bombay, had entirely passed out of Indian hands in the late
nineteenth century. Contrary to Morris's conviction that nothing
but cost kept Indians from setting up international sales agencies
abroad, there was a free bar. As G.D. Birla's experience subse-
sequently revealed, the London Jute Association did not admit
an Indian any Tom, Dick or Harry could negotiate sale or purchase
in the Sale Rooms in London, but not him herself.28

The cotton mill industry of Western India, by contrast, caused
to markets in which Indian capitalism had ready access, within
the country and, in the critical early stage, in the Far East. Unlike
India and jute, it achieved real integration with the economic develop-
ments of the country, being intimately linked, especially in Ahmedabad,
but also in Bombay, with handloom production, bazaar banking and
other multi-layered indigenous material activities. The Bombay mills
were managed on Western lines; the Ahmedabad mills bore the
stamp of the native mercantile and manufacturing traditions.

What was common to the capitalism of Bombay and Ahmedabad
was that they were both able to wrest a place for themselves in
the new economic space created by empire. In Western India, the
imperial division of economic space was not as perfect as in Calcutta
and its colonized hinterland. We have seen how the Baniyas of
Calcutta were excluded from modern business as the economics of
empire assumed maturity. By contrast the brokers of Bombay,
along with a variety of other inland merchants and bankers
connected with them, were able to effect a transition to the new age
of activity.

What is striking is that the Bombay merchants retained some of
the oceanic connections they had formed earlier. In those early days

27 A. K. Bagchi, Private Enterprise in India, pp. 270-1.
28 G. D. Birla to P. Thakurdas, 19 November 1928, Purshottamdas Thakurdas
Papers (Nehru Museum).
and Bhatias, who, along with the Westernized Parsis and Jews, came to own the greatest number of mills in Bombay. Interestingly, they were not so closely identified with the English. The Khojas and the Bhatias were the principal carriers of the purely Asian trade of Cutch and Gujarat to Muscat. Aden and Zanzibar after the early part of the nineteenth century. In the 1880s the Khojas and the Baghdadi Jews managed to take away the lead from the Parsis in export of opium to China.

Apart from the Parsis, Khojas and Bhatias of Bombay, one must keep in mind the highly orthodox Gujarati bankers and merchants of Ahmedabad who had a large share in cotton and opium exports through Bombay. They made fortunes from opium consignments during the raw cotton boom connected with the American Civil War. One must also remember the Marwar traders and bankers of Malwa, whose shipments of opium were muted and unaffected by the collapse of the cotton boom in 1866. The Bombay and Ahmedabad capitalists and the Marwaris (the latter entered the cotton mill industry of Western India somewhat later) together represented a formidable financial and commercial power.

Many of these capitalists were pressed back from speculating operations in the 'outer system' operating through cables, steamships and exchange banks, they expanded the grip of the London-based European and Jewish (Sassoon) groups in the last quarter of the nineteenth century. But the big Jewish and European houses were unable to penetrate the heart of the cotton belt in Malwa. Here the Marwaris of Indore and the Gujaratis of Ahmedabad continued to hold sway. In the marketing of textiles products and the supply of raw cotton, too, the enterprising communities of Western India continued to enjoy a type of strength and confidence not to be seen elsewhere in India in the high noon of imperialism. These factors explain the impetus behind the burgeoning cotton mill industry of Bombay and Ahmedabad, which expanded steadily despite the


* Jasen Baber, Three Essays on Indian Business under the East India Company (New Delhi, 1987)."
the Nagar Seth family of Ahmedabad, the Parsis of Bombay, the Gujarati merchants who had migrated to the city, and others. But in the early years of this period, the textile industry in Ahmedabad was in its infancy, and the Nagar Seth family of Ahmedabad, along with other prominent families, began to establish their dominance in the industry. They imported cotton from England and used it to produce textiles, which they then sold in local markets and to other cities in India. The Nagar Seth family, in particular, became wealthy and powerful, and their influence extended beyond the city of Ahmedabad. They used their wealth to establish schools, hospitals, and other institutions, and they became patrons of the arts and sciences.

As the textile industry grew, the Nagar Seth family began to establish a network of connections with other powerful families and individuals in the city. They built relationships with the British East India Company, which was a major player in the textile industry, and they also established ties with other merchants and traders. The Nagar Seth family was able to use these connections to expand their business and to gain access to new markets.

One of the key players in the textile industry during this period was the Nagaratnam family, who were also prominent members of the Nagar Seth family. They were involved in the import of raw cotton from India, and they used this cotton to produce textiles that were sold in local markets and to other cities in India. The Nagaratnam family was able to use their connections with the British East India Company to expand their business and to gain access to new markets.

The textile industry in Ahmedabad was one of the major sources of wealth and prosperity for the city during this period. The Nagar Seth family, along with other prominent families, played a key role in establishing and expanding the industry, and they were able to use their wealth and influence to establish a strong presence in the city. Their contributions to the textile industry helped to establish Ahmedabad as one of the major centers of the textile industry in India, and their legacy continues to be remembered today.
extensively on mill building during the first thirty years of the existence of the cotton mill industry in Bombay.\(^2\) Mahroon Khan, the first 

store in Bombay in the then novel way of making money, had amassed his fortune in the cotton boom of the 1860s, which he then invested in purchasing two mills. The firm was subsequently inherited by Nusart Khan and Salar, who were destined to become the financial muscle power behind the Scindia Steam Navigation Company, the first successful Indian 

firm into a British preserve which J. N. Tata had earlier sought to 

penetrate.

The Hindu and Jain presence was far stronger, indeed exclusive, in the cotton textile industry of Ahmedabad. The early mills were 

owned there by some Nayar Brahman families and a wider range of 

Vadukavava Bhat and Kadi Brahman families who had come up fast on 

the town’s commercial ladder as textile dealers. Subsequently, 

the top echelons of Ahmedabad’s mercantile hierarchy, the Jain 

banking families, entered the industry and became its leaders. The 

banker’s guild of Ahmedabad, headed by the Jain Nayar Sheth 

family, was the most organized bankers’ guild in nineteenth-century 

India. The Ahmedabad shroffs were formed into a closely knit 

group by a system of clearing houses among themselves which 

had evolved long before the English clearing system was introduced 

in the country. The Sarabha and the Lakhia, the town’s two 

most prominent entrepreneurial families, were Jain Bhatas prominent 

as shroffs.\(^3\)

The Sarabha’s ancestral firm, Karamchand Premchand, counted among the largest among Ahmedabad as one of the biggest 

vestors in Mysore opium, which was expected to bring in as much 

as 15 per cent. If indeed the commodity did not to the meanwhile 

decay its during speculative.\(^3\) The Lakhia’s pedi, Yadubirbihari 

Bhagabhai, in its turn, made its pille in the speculative cotton boom 

during the Civil War. The Sarabha and Kasturbhai Lakhia em 

ripped in the early twentieth century as the respective owners of 

the two largest textile combines of Ahmedabad. Interestingly, both 

families continued their indigenous banking operations, which had 

an important part in financing and sustaining their textile combine, 

but equally significantly, they no longer indulged in speculation, 

the dangers of which were impressed upon the Sarabha by their 

material ancestor from whom they inherited.\(^6\)

It will be evident by now that the Bombay and Ahmedabad 

mills developed on rather different lines. The remarkable feat of 

the Bombay mills was to break into the market for yarn in China 

at an early stage, an achievement based on the extensive commer 

cations the Bombay merchants had forged with the Far East in the 

age of the consignment trade. The Penins, who, as we have seen, had 

a strong presence in China, led the way there around 1862, outbid 

London Manchester yarns in the situation of value in China and India) as against gold (the currency of England) at the time. This became the main line of production for the Bombay mills: not less than 60 per cent of the yarns annually manufactured by them were exported to China every year over 

1804.8 The export of Indian piece goods, not so extensive but 

still forming around a quarter of the total Indian production in 1900, 

was also mostly on account of the Bombay mills. These goods 

too were distributed in areas where the Bombay merchants had 

been established presence: the East African coast, the Persian 

Gulf, Ceylon, and the Straits Settlements.\(^9\) The Ahmedabad mills, 

on the other hand, expanded in the early stage mainly by supply 

ing yarns to the handloom weavers in India. Behind the formal 

presence of the companies and mills in Ahmedabad, there was a 

far stronger informal presence of peddlers and weavers. 

By the turn of the century the substitution of ;ill yarn for hand 

loom yarn was more or less complete in the handloom weaving 

industry of India. Cottage industry benefited from the cheaper and 

more simple raw materials provided by the cotton mills of the 

country. The lowered yarn prices stimulated a perceivable com 

petition of handloom weaving in the urban centres of Western 

India, a development accompanied by the emergence of indigenous 

workshops (karhambas) of weavers there. The cotton mill industry 

thus provided the basis for a more rational organization of the 

\(^2\) Ibid., p. 82.

\(^3\) J. N. Tata, "Bombay Mill Industry", pp. 239-41.
handloom industry. It contributed to the later's productive capacity, which increased at the same time by the spread of the flying shuttle from the beginning of the twentieth century. The burgeoning handloom industry, in its turn, enabled the cotton mill industry to expand by providing it with a large and growing market for its yarns. Thus a real integration was achieved between machine-made yarns and handloom textiles. Another development brought about by the Swadeshi movement (1905-8) and the displacement of Bombay yarns by Japanese yarns in the China market was an increasing tendency to produce certain fabrics for the home market which offered ever-stiffer competition to Manchester pigments. Overall, the cotton mill industry undoubtedly contributed to the wealth of the country and the welfare of its population.

The beginning of the twentieth century witnessed another dramatic development, again thanks to Bombay-based capital, the emergence of the steel industry. Why and how did Tata Iron and Steel Company (TISCO) succeed whereas earlier British attempts, including the largest Bengal Iron and Steel Company (BISCO), had failed to produce steel continuously? The answer is that there were formidable problems to overcome — especially wide ranges of market and uncertainty on the cost side — which could not be tackled without committed and dedicated work that the ailing English enterprise could not and did not possess. TISCO and the earlier British iron works in India were on too small a scale, with insufficient capital. The Tata group was able to find the right location, access vast, uncharted spaces to set up a works bigger in scale than anything Asia had witnessed before; more especially, to find a combination of sufficient supplies of coal, iron, limestone, lime, and water near a huge market to keep the costs of manufacture and sales down to the level where effective competition could be offered against ever-cheaper imported steel. The Tata group solved the problem; they conducted an epic search through the length of Central India for many years, and spent unheard of sums on the exploration before they located the site, which was near the source of cheap and best-quality iron ore and excellent coal with ready access to Calcutta, the largest market in India for steel, and low-cost limestone and dolomite for the lime available nearby. The site was the most economic in the world. Long afterwards an American expert, comparing the locational advantages of American and Indian steel plants, worked out the tonne-mile requirements of iron ore, coal, and flux to make

one tonne of steel as follows: Jamshedpur 334 tonne-miles, Bokaro 441 tonne-miles, Pittsburgh 604 tonne-miles. Grey Works of Indiana 1087 tonne-miles and Kaiser Steel Mill in Fontana 1502 tonne-miles. Even so, the Tatras would not have embarked on the venture had they not been assured of government support. Government and railways, the largest purchasers of steel in the country, had pursued an unpalatable policy of 'buy British' until the end of the nineteenth century. What changed the attitude of government was Curzon's new imperial vision at the turn of the century. His pursuit of strategic interests from the Gulf of Persia to the plains of Tibet dictated the building up of India as a broader base of power; an attitude further strengthened by the First World War when the Munitions Board had to gear itself up to the task of ensuring an adequate supply of steel east of Suez in view of the German menace. Curzon's government gave the Tata Iron and Steel Works the vital new railway connections to the site and a guarantee to buy 20,000 tonnes of steel rails annually for ten years at import prices, still keeping within the broad laissez faire framework of nineteenth-century policy. The financial requirements were unusually large for the time and the Tata group was forced to raise the money initially on London. But British investors wanted the scheme of the business — control over the works without any share in the risks, till then borne by the Tatras alone and at their own cost. Eventually the Tatras raised the money in the large and well organized Bombay money market, with a fair amount of ease, as the Swadeshi movement had changed the political and economic climate in the country. TISCO had an initial rated capacity of 100,000 tonnes — a small part of the total demand for imported steel in India — which it quickly attained during the First World War.

**Industrialisation 1914-47**

The imperial sun crossed the meridian with the outbreak of the First World War. The boundary had drawn between the shadow of modern steel and the sunny space reserved for British capital burned, and then disappeared altogether as the sun set through...


"A. K. R. Hobsbawm, *Primitive Accumulation in India*, pp. 296-300; see also A. K. Sen's essay, and R. K. Raman’s essay, in *Industrialisation in India*, pp. 92-.
the Great Depression and the Second World War. The division of economic space so carefully maintained in the high noon of empire could no longer be sustained as bazaar-based houses encroached relentlessly upon the space the empire had created in its heyday, a space of stable assured, steadily profitable investment reserved for the London money market, the exchange houses, the London Houses of Conference, the British industrial and commercial firms, the equities-managing agencies, and so on. There was here only a stop-gap measure to hold some of the strong maritime concerns they had forged in the earlier phase of empire. Indeed, successful growth into big houses depended in the high noon of empire on the possession of a slice of foreign trade, a sector that repelled the new economy, because of the connected lines of the steamships and the railways, on which alone were the assured profits to be made. Rais and uncertain, as far as possible, were to be absorbed by the bazaar under the imperial scheme for the organization of economic space.

The structure was profoundly shaken by the First World War and the Great Depression. The interconnected lines of the railways and the steamships were spasmodically interrupted; and the domestic market for industrial investment grew into the major field for investment in the inter-war period. Here the bazaar firms enjoyed a natural advantage by virtue of the marketing and credit connections they had forged across the whole country. As the Depression hit the foundations of the foreign buying and selling organizations and a whole range of business turned inward, the bazaar emerged as an integrated system of inland transactions between distant market towns (seins).

This network, tied at the two ends to Bombay and Calcutta, emerged from the Depression more closely intertwined than ever, consisting of twelve money exchanges (Bombay, Calcutta, Madras, Karachi, Delhi, Cawnpore, Amritsar, Lahore, Ahmedabad, Cochin, Tucumcari and Chittagong) and 1718 mandals (country-produc markets and goods distribution centres), all linked to one another by hurried and other transactions operating at telegraphic speed. In the new circumstances the equities of British firms could no longer shut their native association and competition from the larger spaces of the sun. The advance of the bazaar-based Indian houses into modern business and industry, accompanied by the decline of the equities firms and the emergence of the multi-national corporations (as Omkar Goswami's case here shows), were the most significant developments in the business scene of the period.

The breakdown of the categories of economic space drawn by empire was dramatically demonstrated by the failure of the large-scale investment in shipping and external trade in the 1920s. Wakhund Irachand's success in running steamships on the BSN was later illustrated by one more, Ghanshyamdas Birla's clutching of direct jute sales in London. The setting up of Scindia Steam Navigation Company in 1939 by Wakhund Irachand, in conjunction with Narottam Muzzafarji, put the Birla monopoly, which had long exercised a truly pernicious effect on India's coastal trade, under check. And in general way Indian merchants were enabled to send goods to distant markets, to sell them at competitive rates, and to expand their business.

At the other end of India, G. D. Birla led the Marwari traders of Ahmedabad in establishing direct connexions with the jute market in Calcutta. He established the first Indian office in London in 1917 for the export of jute and soon became one of the three leading jute exporters. In 1913 he was the only Indian member of the London Jute Association, a position he had obtained by threatening to start business directly with the Continent and Continental arbitration. In the Commercial Sale Rooms and the Baltic Exchange, where the actual sales and purchases were conducted, would not admit him despite his membership of the London Jute Association. He had to employ an English clerk to do the business while members of other nationalities, including the Japanese, were let in without hindrance. The Federation of Indian Chambers of Commerce and Industry, newly formed in 1927 to represent Indian business interests, put pressure against the ban on the entry of Indians, and in consequence the ban was lifted at the end of 1928 by the sale rooms.
The removal of the race bar came at the end of a gradual process of Marwari entry into the Indian and export trade at the Calcutta end, which had begun in a perceptible manner during the First World War. At the end of the war, more than half the members of the Calcutta Baked Jute Association were Indian firms, though their share of the total export trade in baked jute was much smaller as yet.\footnote{G. H. Dutt, "The History of the Jute Industry in India" in "Industries and Trade" (Calcutta: Jute Board, 1920), p. 59.}

Indians were at length becoming more important in the foreign trade of their country at a time when the trade itself was coming to be the essential lever in the mechanism of economic domination. The exchange banks, with the exception of the Tata Industrial Bank, which had its foreign exchange for a while before its purchase of all foreign exchange, were still occupying some of the commanding heights of the economy, but the increasing share of the Indians in the highest commercial operations of their country in the 1920s was reflected in the fact that these banks now financed their import and export bills to a greater degree than before.\footnote{Lal Bahadur Shastri, "The Economic Development of the Jute Industry in India" in "The Jute Industry in India" (Calcutta: Jute Board, 1920), p. 59.}

The First World War was a watershed in every respect. It induced those long-term political and economic developments whereby power was transferred gradually to Indians. In the longer term, these developments irreversibly shifted the more profitable operations from the indigenous to her domestic economy. More immediately, it reduced imports; and, stimulated industrialisation by import substitution, disorganised the supply lines of the captive firms, and brought into play other lines into the hands of the market speculators and traders for investment in the industrial field. In the world of the Marwari community, wealth literally began to flow into the Marwari business quarter (Barabazar) of Calcutta ("Kolkata "in Bade Bazaar me abn abhi janam.

The British exchange banks of Calcutta reported the percentage share of the export bills for the Indian from 1907 to 1910, by that time they had replaced the equities at the principal suppliers in the American and Continental mills. B. R. Tomlinson, "Colonial Finance" (p. 609).

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The British exchange banks of Calcutta reported the percentage share of the export bills for the Indian from 1907 to 1910, by that time they had replaced the equities at the principal suppliers in the American and Continental mills. B. R. Tomlinson, "Colonial Finance" (p. 609).
futures in Calcutta enabled G. J. Birla and other Marwari shippers to undersell the Europeans through cut-price exports by hedging in the jute bazaar (futures market); finally, the IIJMA itself was driven to complain in 1928 that the falling off of demand for jute fabrics was due to illegitimate speculative operations of jute and jute goods in the 'inside market' (Chai bazaar, i.e. futures). By 1928, when the gradual destruction of the hegemony of the capitalistic firms over the jute market might be said to have been accomplished, there were eleven Indian mills outside the IIJMA and two inside (on their own terms), no less than ten of these being managed by Marwaris. Two years later, the IIJMA felt that it was better to make substantial concessions to the Marwari intruders than to fight and incur losses.\

One must take care, however, not to exaggerate the extent of the decline of the European in the textile industry. Despite a series of further takeovers of European mills and jute mills between 1942 and 1945 by the Bajajas, Bangas, Goenkas, Karanias, Jampris and other up-and-coming Marwaris, the overall share of the Europeans in share capital invested in Calcutta still remained 72% in 1947. This is a proportion that would rise to an even higher percentage if one were to count the purely foreign sterling capital invested in Calcutta. Taken together, the sterling and foreign capital represented a formidable, if no longer exclusive, monopoly. As late as independence, Indians accounted for no more than 28 of the 65 jute mills in the country. Many of these were quite small, and at some time did little Indian capital control more than 25% of the total jute capacity. The majority of the tea companies, too, were sterling capital companies incorporated in London, which the Marwaris had no difficulty in managing.\

The IIJMA had introduced Indian jute in the Calcutta jute market in 1905-6, which led to complaints by the IIJMA in 1911 that the price of jute was being undervalued by a sizeable amount. The IIJMA was primarily concerned with the problem of raw jute prices being depressed. As late as independence, Indians accounted for no more than 28 of the 65 jute mills in the country. Many of these were quite small, and at some time did little Indian capital control more than 20% of the total jute capacity. The majority of the tea companies, too, were sterling capital companies incorporated in London, which the Marwaris had no difficulty in managing. These phases overlap to some extent, but are distinct enough to be roughly identified as: (1) 1850-1914; (2) 1914-1939; and (3) 1939 to 1947, and into the Five Year Plans. The first phase, dominated by the European managing agencies, has already been sketched. It saw the development of light manufacturing and the expansion of large-scale industry. The tea and jute industries of eastern India were almost pure export-led industries, and the greater part of the cotton textile industry of Bombay also catered to the Far East. There was no serious competition as yet with the industries of Britain in the domestic market of India. The coal industry, while depending on the domestic market, was principally consumed by the railways.
Running to the colonial ports. Steel, which did promise a revolutionary breakthrough based on the domestic market, was produced in too small a quantity to make any perceptible difference to the total value of industrial production. The industries of the period developed in areas of natural advantage, based on rudimentary technology easily imported from Britain.

Coming to the second phase, after the First World War, and became perceptible during the Depression. The war-time boom in the typical European industries continued till 1920, based on heavy exports of jute, tea, and silk. The boom encouraged big houses like Bird Heighers and Andrew Yule to float a number of new engineering, power, electricity, paper, tannery, leather, graphite, sawmill, and other companies. Many of these new concerns perished with the collapse of the short-lived post-war boom, which was followed by a severe and prolonged cyclical depression from the middle of 1920 through 1922.

The 'found' core of European business contracted irreversibly as the depression struck in 1910. The export markets in tea, jute and raw materials—the mainstay of the capitalist firms—collapsed. The problem was that the European managing agencies, being confined to a stagnant 'core' business in which there was not much profit to be made, had no surplus funds to invest, and were becoming more and more preoccupied with retaining control of what business they had in view of the growing menace of Indian takeovers. At a time when houses like Birla, Dalmia and Wadhwani were coming up fast from the bazaar, there was practically no new investment by Bird Heighers, Gillanders Birtles, Ogilby, Dunlop, Diver, Occasioo Steel, McLeod or Shaw Wallace, and the investments of Andrew Yule, Killick-Nixon, Jardine Skinner and the Ceylonu-based European groups called British Indian Corporation even.

In 1930 export of coal reached the record of 1.25 million. Total output was 1.75 million tons.


The problem dictated a new pattern of co-operation between the hold Indian houses and several multinational corporations by the time independence.

The changing industrial scene contracted the sphere of the old European managing agencies.

The decline of European managing agencies and the rise of Indian firms coincided with the shift from export-oriented industry to industries catering to the domestic market. The shift began unpromising after the First World War, and became perceptible during the Depression. The war-time boom in the typical European industries continued till 1920, based on heavy exports of jute, tea, and silk. The boom encouraged big houses like Bird Heighers and Andrew Yule to float a number of new engineering, power, electricity, paper, tannery, leather, graphite, sawmill, and other companies. Many of these new concerns perished with the collapse of the short-lived post-war boom, which was followed by a severe and prolonged cyclical depression from the middle of 1920 through 1922.
showed evidence of decline between 1931 and 1939. The European managing agencies were suffering from a loss of desire for variations from political, financial, and entrepreneurial points of view. The Second World War they were psychologically on the defensive. 'We will not be eliminated,' wrote Edward Burnand, 'we must hang on to our position by our eyelids as the only hope of the British Empire's future existence.' But the future was no longer theirs.

Unlike the export markets on which the expatriate firms had earlier looked to, the domestic market for industrial products was paralysed by the disruptions of the twenties and the Depression of the thirties. Cotton, the greatest home market in India, underwent a long-term expansion in terms of per capita consumption, 8.5 yards in the last stage of the First World War, 13 yards on the eve of the Depression and 14.4 yards in the late 1920s. The Depression, while it did temporarily disrupt the normal channels of trade in the country, coincided with the imposition of a high revenue tariff on imports and the grant of protective tariff to cotton textiles, sugar and other industries, thereby rapidly expanding the share of the domestic market purchased by Indian industry. In terms of profitability, the two major export industries, jute and tea, and to a lesser extent coal (a European industry), were steadily going downhill in the 1930s, while a variety of protected industries, cotton textiles, sugar and paper, were experiencing a boom on account of rising profits at the end of the Depression. A profit index of these industries, constructed at the time by the Office of the Economic Adviser in the Government of India, showed the trends (1924 = 100) given on page 57.

Why did the Indian houses prove so much more forward than the expatriate firms in manufacturing the newly profitable industrial products for the domestic market? It was not that the latter did not possess the necessary marketing channels. But during the Depression, the expatriate firms which had had a strong presence in the Indian trade were compelled by falling profits to withdraw their presence from the interior to the colonial ports, leaving the entire inland business to the bazaar nexus of the wholesalers and retailers. The new Indian industrial houses had more ramified connections in the bazaar, were better able to mobilize financial resources by shifting investments from the depressed trade sector, and were altogether less deterred by the business difficulties of the period as they were impelled by their great determination, prudence, and growing psychological commitment to the process of Indian industrialization. The Trusts, who were the biggest of the Indian houses, did not quail when they nearly ran into the red while mobilizing the formidable armada for TISCO's greater expansion, the costs of which had been unexpectedly raised to Rs 100 crores by increased post-war prices. With grim determination, they completed the programme by 1924, the year in which protection was extended to steel. In consequence the whole of the fall in steel consumption was borne by imports during the years of the Depression, when TISCO raised its production to 127,000 tons of finished steel, or 72 per cent of the consumption in India. At the same time, the Civil Disobedience Movement (which was accompanied by a massive boycott of foreign cloth), together with trade depression and protective tariffs, decisively broke Manchester's hold over the piecemeal market of India. Although the Bombay mills experienced great difficulties, and the Currimbhoy and Poti groups, perched in these difficulties, bazaar-type industrialization in smaller centres of production pushed up the mill production of cloth from 7.50 million yards in 1926-7 to 4259 million yards in 1935-6. In comparison, the local handloom trade was impelled by the depression to money-lending and raw cotton trade to use their idle funds.

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B. S. Sahasrabudhe and R. N. R. Harkness, Recent Socio-Economic Trends in India (Dehra, 1948), Table xxxviii.
to float over half a dozen spinning mills. But the most dramatic impact of protection was seen in the rapid development of the sugar and paper industries in 1930s, a process to which the bazaar contributed, coming up from the bazaar, took the leading part.

The Tatas and the Bombay millowners had graduated out of the bazaar long ago. Unlike them, the Ahmedabad millowners and the big upcoming houses of the twentier and thirties were still closely related to a variety of spot and forward transactions in the bazaar. It was in such transactions that the new investors in jute, cement, sugar, paper and the latter centres of cotton textiles had made their original fortunes. The Birlas were bankers, traders and speculators before they became industrialists. The Bajajos were big Calcutta jute traders and balers who later invested in jute mills and paper mills. Dalmias, who made his fortune in the Calcutta bullion market in 1917 by speculating on the rise of silver prices in London, built up an empire in sugar, cement, and paper during the thirties, at the same time continuing large-scale trading and speculative operations. Kasturi Chand Thapar was a big coal trader in Calcutta before he entered the coal, paper and sugar industries in the thirties. Late Shri Ram, the cotton textile and sugar magnate of Delhi, belonged to a family which had made its fortune in the Company's monopoly by supplying the army during the Mynam. Balchand Herachand was a building contractor in Sholapur who established a big construction business during and after the First World War and then went into shipping, sugar and engineering.16

A common characteristic of these trader-industrialists was the continuation of bazaar transactions and speculations while expanding into the modern industrial sphere. It is instructive to note in this context that some of the Westernized Bombay textile houses which had moved far away from the bazaar came to grief in the 1930s while bazaar industralists prospered in the smaller and more indigenous type of textile towns. Equally significant is the remark of a Marwari historian of the late 1930s that the big bazaar houses in the Marwari industrial house, the Birlas, kept up their speculation as far as that was necessary for 'real enterprise'. G.D. Birla in his autobiography 

16 There are several sources including, Michaud, Beyond the Company House, Bombay: Colophon Books, 1949, and S. R. B. I. Research and Publication Department, The Birlas in Trade and Industry, 1983, 44-45.}

that speculative business was not suitable to the times, and he started 'real entrepreneurship' by founding Birla Brothers, a limited company engaged in foreign trade and holding the managing agency of several industrial companies. 17 Significantly, however, the family carried on side by side its spot and forward transactions in the bazaar. Birla Brothers itself, though not primarily devoted to bazaar activities, was engaged throughout the 1920s and 1930s in trading operations which were at least as important as its industrial investments. Clearly the one sustained the other.

Enough has been said to indicate how the contours of the traditional bazaar networks, centred on the town headquarters of Bombay and Calcutta, formed the necessary background to the rise of the modern Indian capitalist class. At the upcountry buying and selling organization of the European-dominated organized sector buckled up with the onset of the Great Depression, Indian bankers, merchants and speculators who sustained the spot and forward transactions between the colonial port cities and the market towns of the vast interior achieved an integrated organization over the subcontinent. The better concentration and organization enabled them to increase their participation in mill industry and export trade, particularly so that the organized modern sector itself came to include as the end of the 1930s a substantial element of men who had risen from the bazaar.

It must be emphasized, however, that bazaar industrialization within the walls of the sheltered domestic mass market had strict limitations. Because of the poverty of the masses, the purchasing capacity was limited, and because of the undeveloped state of the economy, the demand for the technologically sophisticated products of the capital goods industry (especially non-electric) and the Second World War) was narrow. Due to the limitations of per capita consumption, the coal industry, which did not have to compete with imports at all in the 1930s (it was the only industry that did not enjoy protection nor needed it), was engulfed by rapid cycles of overproduction. It was possible to effect a drastic reduction of the import quotas which had caused severe competition from abroad, and this was done in the 1940s. There was, for instance, a burst of investment in the sugar industry between 1931 (the year in which protection was given) and 1936. But as imports fell off, so did profits and fresh invest.
Entrepreneurship and Industry

Without an increase in per capita consumption, the industries advancing by import substitution were bound to hit a ceiling once imports were eliminated. Even as the country shook off the threats of the Great Depression, the “India Year Book” reported pessimistically an accumulation of savings that the absence of fresh inflows of good character were driving into the bottomless of existing channels. It predicted that this tendency would be aggravated until capital could be tapped into fresh avenues of exploitation. It was the outbreak of the Second World War which produced a shift of investment towards the basic and heavy industries, opening up a new chapter in Indian industrialization.

As far as foreign enterprise is concerned, the initiative was passing to multinational corporations. In sharp contrast to the expatriate firms, the multinational aimed at capturing the domestic market for a variety of middle-class consumer products as well as certain capital goods for which new demand had been generated by the expansion of Indian industry in the 1920s and 1930s. The Swedish Match Company (Wimeco), the largest importer of matches in India, climbed the high tariff wall in 1924 and started producing matches in its own factories at Amritsar (near Bombay) and Calcutta. Guest Keen Nettlefold entered the field of railway equipment in 1931 to take advantage of official tenders in India as global tenders were being ruled out for political reasons. Lever Brothers (India) Ltd., incorporated in 1933, set up a factory in Bombay, soon overtook the smaller Indian competitor like Godrej. The Bata Shoe Company commenced operations in the same year, and Dunlop started their tyre factory in Bengal in 1935.

Much to the alarm of Indian business opinion, by the end of the Second World War the multinational corporations, popularly known as the India Limiteds, “practically monopolized for themselves such industries as chemicals, automobiles, rubber, matches, soap, cigarettes, houses, shoes, etc.” It will be noted that the multinationals entered a variety of industries over a long period. Not all these industries were basic and heavy industries requiring sophisticated technology. From 1937, however, some of the multinationals began to explore areas of complex technology, along with big Indian managing agencies which were eager to invest their accumulated profits in steel, cotton, sugar, paper and construction in the new chemical, metallurgical and engineering industries. The extraordinary military requirements of the Second World War, coming on top of the previous growth of consumer industries in the inter-war years, created a domestic market for these capital goods industries. The move into the new area of investment began in earnest during the Second World War, and it was the big Indian houses which led the way.

TISCO began the production of alloy, tools and special steels with the help of its Research and Control Laboratory (set up in 1937) during the war, producing armoured plates for building Tata Nagar (armoured cars used on the North African front), supplying alloy-high tensile structural steel for the Howrah Bridge, and turning out specialized acid steels for Indian railway wheels, tyres and axles. The J. S. Birla (Jagjivan Ram), which had set up the Aluminium Corporation of India in 1937, began producing aluminium in 1944. The Tata group set up two collieries of Indian industry as the war went on: Tata Chemicals in 1940 and Tata Locomotive and Engineering Company (TELCO) in 1945. The Walchand, Kelkar and Khaitan groups, in cooperation with the Mysore government, set up the Hindusthan Aircraft Ltd in 1940-1. Bombay Steam Navigation Company commenced its shipbuilding yard at Vishakhapatnam, but due to government obstruction completed it only in 1947, the first two steamers being built next year. G. D. Birla started Hindusthan Motors Ltd. (Calcutta) in 1942, with a paid-up capital of Rs 4.36 crores, and Walchand Bajaj Premier Automobiles Ltd. (Bombay) in 1944 with a paid-up capital of Rs 2.2 crores. Birla also started the Textile Machinery Corporation (Trichur) with a capital of Rs 1 crore, but due to the plant being taken over for war purposes a complete ring frame could not be constructed before 1946.

The Second World War hastened the structural shift of Indian industry towards the production of heavy chemicals, sophisticated machinery, machine tools, aircraft, automobiles, locomotives, ships and a variety of other capital goods. At the beginning of the war there were 600 workshops capable of producing engineering components, at the end there were 15,000 engineering workshops.

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supplies the government's war requirement. The output of machine tools had risen from less than 100 a year to 350-400 per month. But as essential plant and machinery for many new industries could not be imported, real additions to productive capacity were small. The government, concerned with turning out munitions alone (India had been assigned a subordinate place in the global planning of the Allies for war production), exhibited little interest in enhancing the capacity for production of steel, the automobile phones, textile machinery, sewing machines, etc., on the ground that these would divert productive capacity from the light industries that maintained India's means of production.\(^\text{12}\)

Despite official obstruction, ambitious Indian houses committed to the industrialization process initiated the new industries, notable for their ability to make any profits in the immediate or even long-run. There is no evidence of a propensity to exceptions in view of the evidence, however, that Indian houses went well beyond cautious business considerations in initiating the new industries. As I have shown elsewhere,\(^\text{13}\) a rational calculation of the rates of profit, the amount of risk, and the length of gestation into the new industries between 1937 and 1945: no foreign business house would have taken such risks.

The metallurgical, chemical, and engineering industries presented extremely complex technological problems. Moreover, many of these industries, such as textile machinery, and automobiles, depended on expensive components imported in advanced countries. Each of these components was turned out in the mass by specialized firms at cheap rates. India, with components industries, evolved only after the Second World War, and that the growth of the principal industries. In consequence the costs and technical problems in the latter were formidable than they were in the advanced countries. Furthermore, there was no question of imitating...\(^\text{14}\)

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\(^\text{12}\) Markovitz, Indian Business, p. 29.
\(^\text{13}\) See, for example, India, pp. 179-80 and onwards, especially chapters 3. Markovitz has not taken this evidence into consideration. M. D. Morris, as we have seen, makes the same unsubstantiated assertion.

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...many specialized engineering and chemical industries until special steel works where now the steel works and some of the dye-stuffs took so long to gestate, not turning into their own before the 1960s. The narrow technological base of Indian industry undoubtedly proved a serious hindrance to its growth in the new directions that came into view during the Second World War for the first time. Given the prevailing set of conditions, it could not have been possible before this at all.

Conclusion: Why no Breakthrough

Not long after the end of British rule, Daniel Thorner, a highly critical analyst of foreign investments in India, made this reflective observation: 'Had the British never come to India, the great likelihood is that India would by now have transformed itself into a leading economic power, but rather that there would have been an even greater degree of industrialization. As things did happen, India's development under the British has been strangely hindered. Amidst a general landscape characterized by backwardness and perhaps even retrogression, there stand out a few substantial economic achievements.\(^\text{15}\) This is a balanced judgment which can hardly be faulted. British rule produced in India a type of skewed development that reproduced the pre-existing backwardness in novel forms.

More recently, M.D. Morris has emphasized the general backwardness of the Indian economy as the basic reason for its failure to transform itself. In his view, the backwardness of the technological and organizational structure of the economy bred in its roots, which were then transplanted. He has calculated that the costs of production were better by formidable levels of investment in new productive capacity. Morris is right in so far as he goes. What he does not take into account is the specific character of colonial development, which, as it would appear from the most detailed recent study of banking and business in nineteenth-century India, played a critical role in reproducing the backwardness at every step. Pointing out the...\(^\text{16}\) Thorner, 'Patterns of Railway Development', Far Eastern Quarterly, p. 216.
vulnerability of the modernization drive under colonial rule. A. K. Bagchi draws attention to how Indian underdevelopment reappeared in the new context of the international economy of the

Since 1857

The ordinary conditions of the state and the operations of the international economy cleared away the surplus of the Indian peasantry and destroyed the livelihood of Indian artisans, and many of the 'commercialized' regions showed signs of renewed regression to subsistence patterns of cultivation. The erosion of the market and money lending network, with only an eye to private profit and revenue, of a colonial state, interfered with the ecological balance of a slow growing economy. Unfavorable climate factors then led to disastrous famine... Landkomite exploitation by colonial methods set up an unprecedented and environmentally-devastating relationship between forced commercialization and regression in subsistence. At the same time, forced integration of the Indian economy into the framework of an international capitalist framework led to an accelerated fragmentation of the economic space and to the emergence of many competing links between the internal modes of trade and finance when these came into conflict with the dominant links along the river, roads and railways leading to the ports. 19

The repeated reversions to subsistence, the fragility of the markets opened up by the railways in the interior, the low level of internal consumption and demand, were all related to a feature associated with colonial rule from its inception—the 'drum'. As early as the 1870s we find both Henry Tucker, the Accountant-General of Bengal, and Sadiq Ali Khan, the Mughal nobleman and celebrated historian, commenting upon it, along with a variety of other official observers who did not consider the subject taboo in those early years. Thus an official 'Plan for the conservation and augmentation of current specie of Bengal, 1795' estimated that, prior to 1757, European and Indian merchants annually imported bullion worth Rs 2 crores. After 1757 this was reversed and there was an annual specie drain of Rs 1 crore, to the impoverishment of this country, to the great Departament of the Revenue, and to the Ruins of Commerce, on which last, the Prosperity of this Kingdom, and all other the Company's Possessions depend.
of investment for railway building in India itself, which might have stimulated the money and capital markets in the country. Out of the first Rs. 167 million invested in the Indian railways between 1849 and 1869, less than 3 per cent was subscribed in India. The precipitate fall in the value of silver from around 1875 added to the drain. As a consequence the price of cotton fell continually till the closing of the mills in 1893, due to the payment of the ‘tribute’ to Britain generated an ever larger quantity of uneconomic export of primary produce from India. No wonder the stimulating effect of the completed railway system and the integration of the economies across the country, with the new trading outposts were patchy and partial. They were offset by terrible agrarian calamities in the last half of the nineteenth century—the famines of 1866–9 in Bengal and Central India and the country-wide famines of 1876–8 and 1896–1900.

Through these years of patchy progress and recession, the colonial government pursued a steadfast policy of laissez-faire. The ‘free trade’ policy—or rather, the ‘two-way free trade’ which India was forced to adopt after 1858—while it was open by British policy, the foreign countries were not—nuanced the industrial development of India at a critical stage when a strong industrial policy of the type pursued in contemporary Russia and Japan might have enabled the country to take off. For a brief interlude, the government of Lord Ripon did contemplate encouraging private enterprise to develop the iron and steel industry in India, but his proposals were shot down by the Secretary of State for India in 1882. Railway construction generated an unprecedented opportunity for developing the iron and steel industry, and the government, linked with it, especially engineering and coal mining. Had the policy recommended by Lord Ripon been adopted, India would by 1914 have been one of the largest industrial producers in the world. Given the protection and encouragement denied by the Secretary of State, the country might have ‘completed the stage of industrialization through import substitution by 1913—an accomplishment postpone for nearly half a century’. These speculations, articulated

by Lidman and Domnes, have now the consensus of scholarly opinion behind it. Thus, R. S. Rungta observed in relation to the same period: ‘Had it not been for the substitution of the national interests of India to those of Britain by the Government of the country, particularly in such matters as industrialization and transport development, and for the fact that the agricultural sector lagged far behind, India might well have reached the stage of “take-off” many years earlier than it is supposed to have done.’

A. K. Bagchi, too, is of the opinion that on account of the selective free trade forced upon India by Britain, the former missed the ‘iron and steel revolution and the engineering revolution that might have been brought about by the construction of the railway and irrigation works’.

After the First World War, the changed political and economic climate forced the government to abandon the policy of laissez-faire, and to introduce the half-hearted measure of ‘discriminating protection’. It stimulated a certain degree of industrialization by means of substitution of manufactured consumer’s goods imported from abroad, but it could not, and was not designed to, encourage the new chemical, engineering and metallurgical industries for which fresh markets, sophisticated technologies, and a whole range of infrastructural facilities had to be created by means of overall planning of the economy.

The narrow technical base of the industrial sector ruled out a pace of industrialization faster than what the country enjoyed in fact after the First World War. Until the basic industries—steel and heavy chemicals—developed to a considerable extent, there was no question of initiating the more specialized engineering and chemical industries. Hence the legacy of backwardness handed over by the laissez-faire policy of the nineteenth century proved a stumbling block to progress in the age of discriminating protection.

The ‘new look’ policy of discriminating protection had by itself no provision for the solution of such interrelated problems in industry, for it was designed to examine each case separately, and to help only the already existing industries. The technical and infrastructural constraints inhibiting the growth of the basic industries could not be overcome except by massive social overhead
investment in education, public health, communications, power and water supply, irrigation and drainage systems, etc. As this realization dawned on Indian businessmen in the 1930s, they turned round to the radical economic policy advocated by the Indian National Congress. In place of the narrow mercantile sphere of government action defined by discriminatory protection, they wanted planning of the economy as a whole and massive investment through the public sector. This, they expected, would open up new areas of private investment for which discriminatory protection had no incentive to offer. The National Planning Committee appointed by the Congress in 1938 included such well-known capitalists as Purushottama Thakurdaas, A. D. Shroff, Ambalal Sarabhai and Wachhand Hirachand. Later, in 1944, J. R. D. Tata, G. D. Birla, Lala Shri Ram and other leading capitalists of India issued what is known as the Bombay Plan for the development of the Indian economy. The total cost of the 15-year plan in three quinquennial stages was estimated at Rs 10,000 crores, at the end of which the Indian economy would be transformed.  

By the late 1930s, then, the requirements of Indian capitalism had outgrown the policy framework laid down by the Government of India in the early 1930s, but the government still clung to the outmoded policy of discriminatory protection. As the Indian economy began to swing into a quicker pace of activity at the end of the Depression, the leading Indian business houses initiated a number of new projects outside the framework of protection. Shri Ram set up the Joy Engineering Works, Birla floated Temco, Wachhand started Premier Automobiles—without any expectation of government aid, because none would be given to entirely new industries under the policy of discriminatory protection. The outbreak of the Second World War brought an unique opportunity to speed up the plans of Indian businessmen to turn out ships, automobiles, aeroplanes, locomotives, textile machinery, acrvod machinery, etc. But the government, far from helping them, obstructed these plans, on the ground that such new projects would involve a diversion of industrial resources from the immediate war-time needs of munitions supply. Thus, once again, India missed a substantial opportunity for quick industrialization. Indian capitalism had reached a stage where it was poised for a big breakthrough, and it was denied the opportunity because government would not have planning on that scale.

By the time planning was adopted in the 1950s by the independent Government of India, it was, in some respects, a bit too late. For at the end of the Second World War, the advanced countries experienced what is known as the Second Industrial Revolution, which immensely widened the gap between them and the backward nations. The new technology of the West was far more complex than anything the world had seen before, and it was in a state of continuous modification and improvement from year to year at a pace which even relatively well-equipped poor countries like India could not hope to match. Had the programme of planning been adopted in the 1930s, when the demand for it arose within Indian business and industry, instead of in the 1950s, the country would not have missed the opportunities unexpectedly brought forth by the Second World War. This was the second occasion, the first being the coming of the railways, when India paid a heavy price for the policies of her colonial government. To repeat Daniel Thorner's judgement, India probably would have been less, not more, industrialized if she had never fallen under British domination; but paradoxically, as Thorner pointed out, that domination also ensured that the country would not achieve an industrial revolution. Partial advances and offsetting retreats constituted that unique dynamics under colonial rule: the reproduction of backwardness in ever newer forms in an advancing world. The country did not remain where it was. But it did *not* arrive.

*In an attempt to contain the cost of imports and foreign exchange, the government resorted to controlling capital issues, which were allowed only when they fulfilled the requirements of the war economy from May 1943 onwards. The guidelines were announced to give greater emphasis to capital controls were at times arbitrary, and their impact on investment was limited.*