

# Industrial revolution and Deindustrialization of Indian Economy

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## Abstract

The idea that India suffered deindustrialization during the 19th century has a long pedigree. The image of skilled weavers thrown back on the soil was a powerful metaphor for the economic stagnation Indian nationalists believed was brought on by British rule. However, whether and why deindustrialization actually happened in India remains open to debate. Quantitative evidence on the overall level of economic activity in 18th and 19th century India is scant, let alone evidence on its breakdown between agriculture, industry, and services. Most of the existing assessments of deindustrialization rely on very sparse data on employment and output shares. Data on prices are much more plentiful, and this paper offers a new (price dual) assessment of deindustrialization in 18th and 19th century India supported by newly compiled evidence on relative prices.

A simple model of deindustrialization links relative prices to employment shares. We think the paper sheds new light on whether and when deindustrialization happened, whether it was more or less dramatic in India than elsewhere, and what its likely causes were. The existing literature primarily attributes India's deindustrialization to Britain's productivity gains in textile manufacture and to the world transport revolution. Improved British productivity, first in cottage production and then in factory goods, led to declining world textile prices, making production in India increasingly uneconomic (Roy 2002). These forces were reinforced by declining sea freight rates which served to foster trade and specialization for both Britain and India. As a result, Britain first won over India's export market and eventually took over its domestic market as well. This explanation for deindustrialization was a potent weapon in the Indian nationalists' critique of colonial rule (see e.g. Dutt 1906/1960, Nehru 1947). The historical literature suggests a second explanation for deindustrialization in the economic malaise India suffered following the dissolution of Mughal hegemony in the 18th century. We believe the turmoil associated with this political realignment ultimately led to aggregate supply-side problems for Indian manufacturing, even if producers in some regions benefited from the new order. While deindustrialization is

easy enough to define, an assessment of its short and long run impact on living standards and GDP growth is more contentious and hinges on the root causes of deindustrialization.

*Keywords: Industrial revolution, deindustrialization, GDP, textile manufacture, productivity*

## **Introduction**

If increased openness is the cause, the country enjoys an unambiguous terms of trade improvement as declining world trade barriers raise export prices and lower import prices in the home market. Whether real wages also increase depends on the direction of the terms of trade change and whether the agricultural good dominates workers' budgets. One possibility is that a country deindustrializes because its comparative advantage in the agricultural export sector has been strengthened by productivity advance on the land at home or by increasing openness in the world economy, or both. Under this scenario, GDP increases in the short-run. If productivity advance on the land is the cause, nothing happens to the terms of trade unless the small country assumption is violated, in which case they deteriorate.

India is not an industrial country in the true and modern sense of the term. But by the standards of the 17th and 18th centuries, i.e., before the advent of the Europeans in India, India was the 'industrial workshop' of the world. Further, India's traditional village economy was characterised by the "blending of agriculture and handicrafts". But this internal balance of the village economy had been systematically slaughtered by the British Government. In the process, traditional handicraft industries slipped away, from its pre-eminence and its decline started at the turn of the 18th century and proceeded rapidly almost to the beginning of the 19th century. This process came to be known as 'de-industrialisation'—a term opposite to industrialisation. The use of the word 'de-industrialisation' could be traced to 1940. Its dictionary meaning is 'the reduction or destruction of a nation's industrial capacity'. This term came into prominence in India to describe the 'process of destruction of Indian handicraft industries by competition from the products of British manufacture during the nineteenth century'. Industrialisation is associated with a relative shift in the proportion of national income as well as workforce away from agriculture. In other words, with the progress of industrialisation, proportion of income generated by and the percentage of population dependent on industry should decline.

## Objective

Present paper intends to study de-industrialisation of India in 18<sup>th</sup> century

1. While Britain was being industrialized
2. Destruction of Indian cottage industry

## Process of Deindustrialisation

While estimating the distribution of global output of manufactured goods, P. Bairoch concluded that India's share of manufacturing output in the world was as high as 19.7 p.c. in 1800. In a span of 60 years, it plummeted to 8.6 p.c. (in 1860) and to 1.4 p.c. in 1913. The declining share of industrial output in the world output could be attributed to an absolute decline in manufacturing output per person.

This may be a process called 'de-industrialisation'. Daniel Thorner defined de-industrialisation as a decline in the proportion of the working population engaged in secondary industry to total working population, or a decline in the proportion of population dependent on secondary industry to total population. But in India, quite the opposite rule worked and the nationalist economists like R. C. Dutt and M. G. Ranade labelled it as the process of 'de-industrialisation' since the bulk of the population found agriculture rather than industry as a means of livelihood. In the West, with the progress of industrialisation, while the percentage of people engaged in the primary sector declined, the people thrown out of employment following the destruction of handicrafts was counterbalanced by greater employment and income-generating effect in modern factory industries. But, in India, handicrafts succumbed before the machine-made goods.

Hence the name 'de-industrialisation'. The views of the nationalist economists got a serious political message during the Swadeshi movement of the early 20<sup>th</sup> century. But another school of thought mainly represented by foreign economists like Morris D. Morris, Daniel and Alice Thorner argued that de-industrialisation was a myth. Before going into this debate, we will trace out the causes that led to the decline of handicraft industries.

**Classification of Industries:**

Following Gadgil, Indian industries can be classified in the following way:

First, is the rural cottage industries essential for the agricultural routine manned by the weaver, goldsmith, carpenter, potter, etc. Such industries provided day- to-day requirements of the villagers. Specialisation in these village industries was a dream and the organisation of production was extremely crude. However, there were some village art industries that catered to the needs of distant places and, sometimes, outside the country. Art and creativeness were of a higher standard for these industries.

Second type of industries is the urban industries representing superior organisation of craftsmanship. The chief industry was the textile handicrafts. Among these, the cotton industry was simply the best. The fortune of these urban handicraft industries spread all over India largely depended on royal patronage.

Third type of handicraft industries were localised in different parts of the country. These industries were neither urban nor rural in the above sense. Because of the nature of the supply of raw materials, one finds concentration of iron industry in Mysore, Chhota Nagpur, Central Provinces. However, methods of production in these industries were crude as well as expensive.

Unfortunately, British industries received utmost care from the foreign ruler at the expense of these industries, though there was an expression of solicitude for the welfare of the Indian masses. It was not the policy of the East India Company to foster these industries.

**Causes of De-Industrialisation:**

Industry that had experienced the onslaught of de-industrialisation most was the cotton textile industry. It was the largest provider of employment after agriculture. India's cotton goods were the best in the world before 1800.

Machine- made textile goods of Britain, however, did the great damage to this Indian industry since 1750. Consequent upon industrial revolution in cotton textile industry there had been massive growth of British imports in India and the domination of British cloth in the Indian market did the havoc; it created large scale unemployment as well as unbelievable drop in wages among the spinners and weavers. Other affected industries were: jute handloom weaving of Bengal, woolen manufactures of Kashmir, silk manufacture of Bengal, hand-paper industry,

glass industry, lac, bangles, etc. Britain experienced 'industrialisation' in the mid-18th century and India experienced 'de-industrialisation' at the same time. The process of de-industrialisation of India began with the gradual disappearance of cotton manufactures from the list of India's exports and the remarkable growth of cotton manufactures in the list of her imports mainly from Britain.

That is why it is said that Britain "inundated the very mother country of cotton with cottons", thereby eclipsing India's traditional handicraft industries. Now we will trace out the causes that brought about the catastrophic decline of these industries.

D. R. Gadgil attributed the decline in handicrafts to three causes. These were:

- (i) Disappearance of the court culture of late Moghul days and old aristocracy,
- (ii) The establishment of an alien rule with the influx of many foreign influences that such a change in the nature of government meant, and
- (iii) The competition from machine-made goods.

#### **Disappearance of court culture:**

The main source or rather the entire source of demand for the products of these handicrafts came from the royal courts, and the urban aristocrats. With the abolition of the royal court, one source of demand for the products of these crafts dried up. However, this had been to some extent counterbalanced by the class of nobles and urban aristocrats who patronized the arts and the handicrafts.

But with the gradual extension of the British rule and the decline in royal power all over India, craftsmen gradually pulled down the shutters of their karkhanas. But there is no reason to suppose that the cotton industry as a whole sustained permanent injury on account of shrinkage in demand for Dacca fabric or muslins in the indigenous courts. So, let us enquire the second cause as suggested by Gadgil.

#### **Alien rule and consequent adverse influences:**

The establishment of the British rule affected the existence of the handicrafts, both directly and indirectly. With the virtual elimination of demand for the industry following the disappearance of

noble courts, the industry wished a new source of demand from the European officials and tourists and from the 'baboo's and black Indian 'sahibs'. The European officials, of course, favoured imported manufactures.

Nevertheless, a certain amount of European demand for these handicrafts existed which slackened the rapidity of decline to a smaller degree. However, the story was something different. This European demand sabotaged the artistic quality of Indian handicrafts since they introduced new forms and pattern to suit their tastes which were beyond the craftsmen's comprehension.

Naturally, they assiduously copied these forms and the consequence of this blind imitation was disastrous to indigenous arts. The classic example was the Kashmir Shawl industry. Further, demand for cheaper goods without caring for quality consciousness by European tourists led to the extensive adulteration of the raw materials and extremely hasty workmanship. The consumption habits of the newly educated professional groups—a product of English education — also dealt a crippling blow to these industries. These newly created Indian 'bourgeoisie' not only disdained the products of the indigenous industries but also tried to copy everything European which was considered to be the "hallmark of enlightenment."

Not un-often, their tastes were fixed by stupid rule or convention of the European officials or by the fear of incurring their displeasure. The decay of embroidered shoe industry was hastened by an unwritten order which permitted an Indian to wear patent leather shoes and put off shoes of native make in the presence of the British superior.

The establishment of the British rule was also indirectly responsible for the loss of power of the guilds and other bodies which regulated and supervised the trade. This led to the adulteration of materials, shoddy and slovenly workmanship, resulting in a decline of the artistic and commercial value of the products.

### **Competition from machine-made goods:**

The revolution in technology which gained momentum throughout the 19th century in the wake of the industrial revolution hastened the process of the decline of traditional handicrafts. Whoever says industrial revolution in England says cotton. Oppositely, whoever says 'de-industrialization' in India says textile. The invention of power-loom in Europe completed the decline of this important industry.



India was destined to a position of a supplier of agricultural goods and raw materials to Britain. In terms of quality, though machine-made goods could not compete in quality with the products of the urban weaver, in the matter of lower price and deep respect for goods bearing foreign trademark (i.e., change in tastes) he was hopelessly beaten by machine-made goods.

The other industries which could not make necessary adjustments to withstand the savage onslaught from imported goods were those of paper making, glass manufacture, iron-smelting (in Mysore, Chhota Nagpur and Central Provinces), pottery and other art industries.

### **Tariff policy:**

In addition, R. C. Dutt held that the tariff policy pursued by the British Government as the leading cause or 'the first among equals' towards the decay of handicrafts. This tariff policy came to be known as 'one-way free trade' policy which preached that what was good for England was considered to be good for India. To put her manufacturing industries on a sound footing at home, England pursued the policy of protection through the imposition of import duties. But for India, she preached the gospel of free trade. Alarmed by the consistent and steady growth of Indian cotton industry Lancashire manufacturers were needed to be protected. The British House of Commons passed a resolution in 1877 that the Indian tariffs on British textiles being 'protective' in nature 'are contrary to sound commercial policy and ought to be removed'.

And by 1882, virtually all the import duties were abolished and free trade was won in India. It remained 'free' until 1894. In 1896, the Government started using preferential tariff policy on cash—a policy that cut import duty of British cloth by 3.5 p.c. and raised the same on Indian cloth by the same percentage.

To enrich our argument, we quote from Ramesh Chandra Dutt's classic work: The Economic History of India under British Rule. "The East India Company and the British Parliament, following the selfish commercial policy of a hundred years ago, discouraged Indian manufactures in the early years of British rule in order to encourage the rising manufactures of England. Their fixed policy, pursued during the last decade of the eighteenth century and the first decade of the nineteenth century, was to make India subservient to the industries of Great Britain and to make the Indian producer grow raw material for the looms and manufactories of

England..... Prohibitive tariffs excluded Indian silk and cotton goods from England; English goods were admitted in India free of duty or on payment of a nominal duty.”

In short, the British manufacturers “employed the arm of political injustice to keep down” the Indian handicrafts. The nature of selfish commercial policy can be drawn from the example of cotton and silk goods which could be sold in Britain in 1813 at a price 50-60 p.c. lower than the price of cloth manufactured in England. On the other hand, duties varying between 70 p.c. and 80 p.c. were imposed on Indian textiles simply to drive them out from the British market.

### **Internal causes:**

Some people argue that the weaknesses in the industrial structure itself must also be blamed for this decline of handicraft industries. First, no efforts were made to explore markets for products. India's foreign trade was in the hands of foreigners. This meant that the Indian artisans and producers were at the mercy of foreign merchants so far as sales or demand propagation in overseas markets were concerned. Secondly, guild organisation in India was definitely very weak. Finally, she did not possess a class of industrial entrepreneurs.

### **Effects of De-industrialisation:**

We have attributed the cruel destruction of India's handicraft to many causes. Such de-industrialisation or the so-called ruralisation brought far-reaching changes in the Indian economy. India's traditional village economy had been characterised by Marx as the “blending of agriculture and handicrafts”.

Characteristics of the Indian cooperative or collective villages society were “common possession of land” and “an unalterable division of labour”. Above all, spinning and weaving were carried on by each family as subsidiary industries in the old Indian village economy. Members of each caste including artisans lend their helping hands to agriculturists.

By breaking up the Indian handloom and destroying the spinning wheel, the British ended the “blending of agriculture and handicrafts”. The internal balance of the village economy was snapped. As a result, the artisans were displaced from traditional occupations. Finding no other alternative source of livelihood, the artisans fell back on land.



Such overcrowding of agriculture badly affected its efficiency. Present problems of subdivision and fragmentation of land holdings, over-cultivation or cultivation of inferior and unproductive land, etc., are the direct effects of the British rule. Growing proportion of population dependent on agriculture must not be attributed to colonial logic of overpopulation but to gradual annihilation of handicraft industries. It created a bogey of rural disguised unemployment and underemployment. Over-burdened agriculture failed to generate surplus and consequent shortage of capital resources required for improvements in land and that the pressure on land enticed competition among cultivators to acquire tenancies on grossly unprofitable and high rate of rent.

The rural unemployment and under-employment were rooted to the imbalance in the occupational structure due to such de-industrialisation. This can be substantiated again by considering another data supplied by Daniel and Alice Thorner in their book, *Land and Labour in India*. In 1881, the number of workers engaged in agricultural activities stood at 7.17 crores. The number swelled to 10.02 crores in 1931. As against this, people engaged in industrial activities declined from 2.11 crores to 1.29 crores between 1881 and 1931. Thorners also showed that the number of female workers—mostly as spinners at home—engaged in manufacture, mining and construction declined from 24 p.c. of the working force to 10 p.c. during 1881-1921. Indeed, women spinners who earned their livelihoods were the worst victims of de-industrialisation.

However, a plausible inference of de-industrialisation can be drawn from Thorners' figures. The timing of de-industrialization is controversial. De-industrialisation in India took place at the beginning of the 19th century, as is evident from Aniya Bagchi's employment statistics referred earlier. People released from industry of various kinds found agriculture as the only alternative means of livelihood. Consequently, agricultural sector became overburdened with surplus population. A new proletariat class—landless labourers—emerged on the countryside.

## Conclusion

A modern industrial sector was coming up in India's urban centres under the patronage of the British Government. The creative role of globalisation consequent upon growing economic relationship with Britain did not compensate for the destructive role as de-industrialisation caused not only a relative fall in India's position in the world industries but also an absolute fall

in industry. But the modern industrial sector could not provide employment to as many people as were displaced from traditional handicraft industries.

As the growth of modern industry was on a smaller scale, the effect this had in countering the de-industrialisation was weaker. In the words of Amiya Bagchi: "Thus the process of de-industrialisation proved to be a process of pure immiseriation for the several million persons ...". The reality is the mass deprivation that de-industrialisation process brought about.

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