THE STATE,
INDUSTRIALISATION
AND CLASS FORMATIONS IN INDIA

Dedicated to my parents

THE STATE, INDUSTRIALISATION AND CLASS FORMATIONS IN INDIA: A NEO-MARXIST PERSPECTIVE ON COLONIALISM, UNDERDEVELOPMENT AND DEVELOPMENT

by

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Abstract

This thesis is a theoretical and empirical analysis of the state and its relationship to the evolution of the social economy. The study is based on a concrete examination of a particular social formation, namely that of India. The thesis argues that the state in India, because of the nature of the mode of production, has been able to play an autonomous role vis-a-vis the social classes. This contention is contrary to the traditional Marxist class theory of the state which maintains the state is always a means of class hegemony, except in transitional social formations. It has also been argued that once the state attains a definite form, it reacts on the evolution of a social formation and, in turn, is determined by its changing nature.

On the basis of a concrete study of the evolution of the social formation of India, it is shown that the autonomy of the state which resulted from the Asiatic mode of production obstructed India's transition to capitalism, and thus undermined its economic development and led to colonisation. It is then explained how the continuation of the state's autonomy vis-a-vis the indigenous social classes during the colonial period resulted from a social formation which was

partly Asiatic, partly feudal and partly capitalist, as well as from the colonial state's subservience to the metropolitan bourgeoisie. This conjuncture enabled the state to make considerable resource transfers from India to the metropolitan centres, thus leading to India's underdevelopment and low labour productivity.

The subsequent attempt on the part of the post-independent state in India to maintain its autonomy, which is derived from much the same social formation inherited from the colonial period, has resulted in the extensive state control measures of the private corporate sector. This attempt has also given rise to the concentration of basic industries in the hands of the state, the sustenance and encouragement of the artisan and petty industries as a counterweight to the private corporate industries and the failure of the bourgeoisie to transform agriculture into a capitalist sector. Finally, it is argued that these measures, in turn, have led to a skewed development of the economy in which the condition of the masses and direct producers has gradually deteriorated, and consequently the economy is threatened with an uncertain future.

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Chapter 1

INTRODUCTION

Purpose and Method of the Study and Relevant Literature

The purpose of this thesis is to probe the nature of the state in India and the role of the state in the evolution of the social economy, particularly the process of industrialisation. In fact, the problematic of the state and its relationship with socio-economic progression or regression is a dialectic process. What we will attempt here is to unravel this dialectic. The theory and method we will follow is Marxism. The Marxian dialectic views the state not as an embodiment of some abstract idea of political will or sovereignty but as a reflection of the social dynamics resulting from either the constant change or relative stability of a mode or modes of production and the resultant class configurations. The development of a mode or modes of production making a social formation and also of classes represent the level of development of the forces of production and relations of production. As these vary from society to society in accord with various natural (such as aridity of land, which is an object of production) as well as human factors, the character and the form of the state and its role also varies from society to society. The singularity and the uniqueness of Marxian analysis of the state thus rests on the fact that it is not only a political but also a social analysis, and also, for that reason, a concrete study of social formations. Henry Lefebvre says:

> *... the critical analysis of the state in any Marxian sense must be based on specific studies of every known mode of production, every historical phase, every country. And this in terms of both the structural aspect (classes) and the conjunctural aspect (conquests, domination, characteristics of the conquerors and their armies, etc.). Governments reveal the particularities of the society they administer and set themselves above; they sum up ... its struggles and conflicts. Conversely, specific sociological and historical studies help us understand governments by taking into account the multiple conditions under which one or another state was formed. For Marx, just as for Hegel, truth is always concrete, specific, particular (and yet has its place within the whole or totality). However, in this connection as in other, Marx put the Hegelian formulations "back on their feet." The concrete is social, not political.*[1]

Our analysis of the state in India would, therefore, try to unfold the nature of the mode or modes of production and its or their transformation which had and have historically provided the base for the state in India both past and present. In this process, as we would endeavor to bring out, the classes had been and have been playing an active or a relatively passive role depending on the conjuncture of the social formation and its constituent mode or modes of production. The state, in Marxian analysis, is an object of class conflict. But what form the state would take in the process, reflecting the class formations and their struggles, depends on the mode of production. However, the process is not always one-way. Once the state comes into a definite form, it reacts on the evolution of a mode of production and, in turn, is determined by its changing nature. Engels comes to grips with this problematic of interaction between the state and economy in the following way:

> *Society gives rise to certain functions which it cannot dispense with. The persons selected for these functions form a new branch of the division of labour within society. This gives them particular interests, distinct too from the interests of those who gave them their office; they make themselves independent of the latter and —— the state is in being. And now the development as it was with commod-*

ity trade and later with money trade; the new independent power, while having in the main to follow the movement of production, also, owing to its inward independence (the relative independence originally transferred to it and gradually further developed) reacts in its turn upon the conditions and course of production. It is the interaction of two unequal forces: on one hand the economic movement, on the other the new political power, which strives for as much independence [emphasis added] as possible, and which, having once been established, is also endowed with a movement of its own.... The reaction of the state power upon economic development can be one of three kinds: it can run in the same direction, and then development is more rapid; it can oppose the line of development in which case nowadays state power in every great nation will go to pieces in the long run; or it can cut off the economic development from certain paths, and impose on it certain others. This case ultimately reduces itself to one of the two previous ones. But it is obvious that in cases two and three the political power can do great damage to the economic development and result in the squandering of great masses of energy and material.[2]

Thus, according to Engels, the functionaries of the state,* because of the division of labour within society, develop distinct interests which do not always and necessarily correspond to the interests of those who entrust them with state power. Their particular interests are distinct from the general interests of the society or the class they represent. One of these interests is the state's autonomous power that comes into being in the very nature of its formation. It is, therefore, in their own particular interests that the state functionaries strive for as much independence as possible for the state power, because it embodies their own power.

Normally, economic movement determines the course of action of the political power or the state. That is, if the state power does not operate in the interests of the gradual unfolding of the dominant forces and relations of production, the state power jeopardises its own existence. For an example — as Marx has provided us with one — the Tories or the party of aristocrats in England were compelled to rule in the interests of the bourgeoisie because they could not, or dare not, go against the tide of capitalism. Marx says,

In a word, the whole aristocracy is con-

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* - The term "functionaries of the state" henceforth will be used to mean both the politicians and the bureaucrats who are in charge of the apparatuses of the state.

> *vinced of the need to govern in the interests of the bourgeoisie; but at the same time it is determined not to allow the latter to take charge of the matter itself.*[3]

Thus, although there is a disjunction between the political and economic powers, the political power follows the economic movement. By going against the rising tide of the forces and relations of production of capitalism, the state functionaries, herein the aristocrats, would have otherwise endangered their own future; as well, they could have seriously injured the normal process of the growth of the economy.

Two things are to be noted in Engel's formulation of the relationship between the state and the social economy. First, the state, i.e., it functionaries, always endeavours to acquire as much independence as possible. The source of this striving is the relative independence with which the state is first endowed at its inception. But this relative independence or autonomy may result in more independence or more autonomy from society or the social classes, depending on the development of the mode or modes of production and the social classes, in short, depending on the conjuncture of the social formation. Marx and Engels have repeatedly pointed out in their concrete political studies such as *The Eighteenth Brumaire, Peasants War in Germany, The Class*

Struggle in France, The Constitutional Question in Germany, The Prussian Constitution, etc., as well as in their writings on the countries of Asia, how the apparatus of the state could acquire "complete independence"[4] from the control of the social classes. The state attains this superior position over the social classes under certain favourable circumstances, such as when contending classes balance each others' power in a particular social formation or the weak generation of social classes because of the characteristic development of a particular mode or modes of production, or even from conquest. Second, the resulting independence of the state may lead the state functionaries to pursue economic policies that may not always be in consonance with the economic movement which may be a gradually unfolding mode of production attempting to regulate other modes in the social formation for its own reproduction. A good example, as we would explain below, is the endeavour of the merchant capitalists in India in the seventeenth and early eighteenth centuries — a section of whom metamorphosed themselves into industrial capitalists — to transform urban artisan industries in the service of the court into manufacturing industries that could cater tc the world market. This attempt was accompanied by a simultaneous attempt to weaken the central power of the state. But even in decline, as we will see, the autonomous state power in India operated as a fetter on the growth of the capitalist class and thus resisted the unfolding of the incipient capitalist mode of production which was then gradually undermining — deriving impetus from the demand of Indian goods in the world market — the existing Asiatic mode of production. This failure of the state in India to follow the economic movement not only resulted in the obstructed growth of the capitalist mode of production but also ushered in its own disintegration and defeat at the hands of the colonising countries.

These two instances indicate how the state can facilitate or obstruct the economic movement or the gradual growth of a mode of production. In England, the state facilitated the growth of the capitalist mode of production. In India, the state was a positive hindrance on the path to capitalist development.

In this connection, it may be pointed out that the state's ability to obstruct the further development of the unfolding mode depends to a great extent on the strength or resistance of the pre-existing mode which is being subdued by the former, i.e., the emerging mode, and on the power of the classes that come into being with the emerging mode. The relations of production are shattered and a revolution occurs which replaces the existing state structure, as Marx and Engels have observed, only after the forces of production of the new mode mature to such an extent that the new class configurations make it impossible to let the existing state structure continue. However, there may be a situation when no mode of production is in a position to establish its sway in the social formation, and, as a result, the class conflict may lead to "the common ruin of the contending classes" and society.* This was the case, as Marx has argued in *Capital*, Vol. III, when the slave mode of production began to dissolve in the Roman society, but no new mode replaced it, and, as a consequence, the class struggle between the patricians and plebians and also among the various factions of the patricians brought in the "common ruin of the contending classes" and the Roman state.[5] Whether the class conflict would lead to the victory of a particular class and the reconstitution of society at large, i.e., the victory of a particular mode of production in the social formation is, to a considerable extent, dependent upon the nature of the dissolution of the

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* - "The history of all hitherto existing society [all written history] is the history of class struggles. Freeman and slave, patrician and plebian, lord and serf, guildmaster and journeyman, in a word, oppressor and oppressed stood in constant opposition to one another, carried on an uninterupted, now hidden, now open fight, a fight that each time ended, either in a revolutionary reconstitution of society at large, or in the common ruin of the contending classes." (Marx and Engels, *Selected Works*, pp. 35-36.)

old mode and its succession by a new mode, which, in turn, is determined by the character of the class struggle.

Thus, in Marxian analysis, what form the state would take, its autonomy or independence, and how the state would affect the economy and be affected and determined by it does not follow a unilinear or monocausal path as is commonly believed. The Marxian analysis of the state and its relationship with the economy is multidimensional and dialectic. It can only be based on a concrete study of a social formation and the social classes that emerge in it, the strengths and weaknesses of the social classes, and the nature of the struggle they wage to take control of the state and use it in their own service.

It is also to be noted that, in Marxian analysis, the political power is just not an appendage to economic power, as is held in popular belief. On the political power depends, to a great extent, how the economy would evolve. That is why the political power or the state in Marxism is the object of class conflict. As it is necessary for the bourgeoisie to capture the state power to maintain its economic domination, so it is necessary for the proletariat to conquer the same to mould the economy in its own interests. The political power of the state, moreover, as we have already noted, endeavours to obtain as much independence as possible, so that it does not have to be subservient to any class. This point, as we will explain, was repeatedly emphasised by Marx and Engels in their concrete political studies. To preserve its independence — the particular interest of the functionaries of the state distinct from the general interests of the society or its dominant or contending classes — the state would often pursue policies that would make it difficult for any class to become dominant enough to subordinate the state under its own hegemony. These policies in a historical conjuncture, depending on the forces of production and class formation, may foster or undermine the economic development in many ways.

In our concrete study of the state in India and its relationship with the social economy, we have found that the state which emerged on the basis of the Asiatic mode of production later became a formidable obstacle for the bourgeoisie — which grew at a rapid pace in the seventeenth and early eighteenth centuries — to gain hegemony in the society. The weakness of the social classes vis-a-vis the state eventuated not only in the colonisation of India to which we have already referred, but also had (and still have) other far-reaching effects on India's economy that we will pursue in this study.

Briefly, our thesis is: the state in India, conditioned by the nature of its social formation, was and still is autonomous and this autonomy of the state had and has a positive impact on the character of the economic development or underdevelopment of India during the pre-British, British and post-independent periods.

On the basis of our concrete study of the social conjunctures of the above-mentioned periods of Indian history, the thesis can be put forward in the form of three theses: the first thesis is, that the autonomy of the state which resulted from the Asiatic mode of production obstructed India's transition to capitalism and thus undermined her economic development and led to her colonization. The second thesis is, that the continuation of the state's autonomy, vis-a-vis the indigenous social classes, during the colonial period resulting from a social formation, which was partly Asiatic, partly feudal, and partly capitalist, as well as from the colonial state's subservience to the metropolitan bourgeoisie, enabled the state to make colossal resource transfers from India to the metropolitan centres, thus leading to India's low productivity of social labour and underdevelopment.
The third thesis, which has been the major concern of this dissertation, is that the attempt on the part of the post-independent state in India to maintain its autonomy which is derived from the more or less same social formation inherited

from the colonial period has resulted in the extensive state control measures of the private corporate sector, the concentration of basic industries in the hands of the state, the sustenance and encouragement of the artisan and petty industries as a counterpoise to the private corporate industries and the failure of the bourgeoisie to transform agriculture into a capitalist sector; and these measures, in turn, have led to a lop-sided development of the economy in which the condition of the masses and the direct producers has gradually deteriorated and, as a result, the economy is threatened with an uncertain future.

It may not be out of place to mention here that there has been no work since the classical works of Marx, Engels and Lenin — at least not known to the present author — in which a systematic analysis of the state and its relationship with the social economy, in particular, the process of industrialisation of a country, has been attempted specifically relating the relationship to the social formation (composed of a mode or modes of production) and class configurations. In fact, since the classical works of Marx, Engels and Lenin, there have been very few works which have attempted to analyse the problematic of the state with reference to a concrete social formation. In a concrete study, James O'Connor has tried to bring out the nature of the state's participation in the capital accumulation of the capitalist class in the

U.S.[6] His study, however, does not analyse the historically determined relationship between the state and social formation.

Ralph Miliband and Nicos Poulantzas have explained at a general level the state's role in economic development as the guardian of the interests of the capitalist class.[7] For Miliband, the modern state is primarily a coercive/ideological instrument of class rule. The state is embodied in its various "aparatuses" — the bureaucracy, the police, the judiciary, the military, etc., all these organs of government in this instrumentalist view are recruited from, and subordinate to (hence, have no autonomy from) private capital. In contrast, Poulantzas thinks that the main function of the state is to preserve and strengthen the capitalist mode of production and in doing so the state secures the rule of the economically dominant classes. Paradoxically, to perform this function adequately, the state, Poulantzas contends, needs a relative autonomy from the dominant classes. The argument runs like this: the capitalist class is not a homogenous class; it is divided into various factions and sectors (finance capital, industrial capital, commercial capital, etc.) whose economic, political, and ideological interests are not always identical. To preserve the unity and cohesion of the capitalist class, in a word, to safeguard the general interests of the bourgeoisie as a whole, it becomes necessary for the state to acquire freedom of action or functional autonomy with regard to the fractions of capital, so that it does not endanger the common interests of the capitalist class by promoting particular interests. The common affairs of the whole bourgeoisie, according to Poulantzas, can only be managed by advancing the unity of the capitalist social formation. To do so it becomes sometimes necessary for the state to confer some political and economic concessions on the dominated classes at the cost of the immediate interests of the ruling classes. Thus, the rule of the internally fragmented capitalist class does not depend on the condition of its direct governing, nor even on its physical presence in the government, but on the capability of the state to maintain its autonomy vis-a-vis particular interests so that it can secure the general interests of the capitalist class and its hegemony over the dominated classes.

The hegemony of the dominant classes over the dominated classes, Poulantzas maintains, is effected through a power block of all dominant classes which is itself under the hegemony of a class or a fraction of the ruling class. The autonomy of the state enables the state to maintain the unity of the power block by effecting a compromise between conflicting interests of the various fractions of the power block and to represent the hegemonic class's or fraction's interests as the interests of all classes. The independence of the state, Poulantzas argues, enables the state to gloss over the primary contradiction between dominant and dominated classes as well as over the secondary contradiction among the dominant classes and also makes it possible for the state to appear as the political representative of all sections of people without really being so.

Poulantzas' criticism of Miliband for viewing the bourgeoisie as a homogenous entity, we may say, is essentially correct. Moreover, it need not be necessary for the state elite to be recruited from the capitalist class, as Miliband argues, to serve the capitalist interests; nor does the state always act to support the interests of the dominant classes. Miliband's great contribution, however, lies in his repudiation of the liberal and pluralist views of the state. The capitalist state, as Miliband has shown, cannot be a state of the whole people; it is always the state of the capitalist class.

Poulantzas' structuralist view of the state, however, suffers from a few shortcomings.* For example, why should

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* - Michael Burawoy has raised a couple of pertinent questions regarding Poulantzas' theory of the state. "The weakness of the structuralist view of the state, as it is presently formulated, is its functionalism. How is it that the state does what it is supposed to do? How does it secure and protect its relative autonomy?" (Michael Burawoy, "Contemporary Currents in Marxist Theory", *The American Sociologist*, No. 1, 1978.) We have tried to answer the above questions in our study. We have tried to show with concrete examples how the state secures and protects its autonomy and what the state does at particular socio-historical conjunctures and why.

the state functionaries, when they do come from a different class background, espouse the cause of capitalist reproduction? Poulantzas' answer is: it is their objective situation which compels them to do so. The answer is substantially true. But his rigorous structuralist exposition obfuscates the role of the classes in the state formation. In fact, as Marx has shown in the case of Britain — the instance we cited above — the state functionaries would support an economic movement or a production system only on the basis of how they perceive it to be in their own interests.* Engels demonstrated in his concrete study of Germany (see Conclusion, chapter 8) how the state functionaries attempted with all their means to obstruct the growth of the capitalist class

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* - In this connection, it should be noted what Engels explained as the materialist conception of history: "According to the materialist conception of history the determining element in history is ultimately the production and reproduction in real life. More than this neither Marx nor I have ever asserted. If therefore somebody twists this into the statement that the economic element is the only determining one, he transforms it into a meaningless, abstract and absurd phrase. The economic situation is the basis, but the various elements of the superstructure — political forms of the class struggle, and its consequences, constitutions established by the victorious class after the battle, etc. — forms of law — and then *even the reflexes of all these actual struggles in the brains of the combatants*: political, legal, philosophical theories, religious ideas and their further development into systems of dogma — also exercise their influence upon the course of the historical struggles and in many cases preponderate in determining their form." (F. Engels, "Letter to J. Bloch", September 21, 1890; emphasis added.)

in the early nineteenth century, as they considered its rising power as a threat to their own independence. Similarly, we have tried to show how the state in India, in the historical conjuncture of the seventeenth and eighteenth centuries, failed to identify its interests with those of the slowly evolving incipient capitalist class.

If we analyse these examples, we observe that, in the case of England, the relatively autonomous state, manned by the nobility, operated in the interests of the bourgeoisie; the hegemony of the bourgeoisie in the state here was clearly established. In the transitional social formation of Germany, we find, the bourgeoisie rule was yet to be established; the primarily bureaucratic autonomous state was engaged in a losing battle to preserve its independence. In India, the state was the major obstacle on which the bourgeoisie floundered leading to the colonisation of the country. In all these instances, the state functionaries have been motivated to pursue goals in accordance with their perception of their objective situation. This is the point which Poulantzas misses but which Marx and Engels have referred to repeatedly in their concrete studies. It is not the objective position but the perception of this position by the state functionaries that determines the role of a state in a particular conjuncture, and the state structure is the resultant of this interaction between the state and classes, not the classes in themselves but the classes for themselves, i.e., the classes which seek to establish their hegemony in the social formation. In this respect, Poulantzas' discourse on the state in "Political Power and Social Classes" — where he discusses pre-capitalist social formations, too — is inadequate because he fails to point out that in certain social formations the autonomy of the state does not result in the hegemony of the dominant class.

Thomas Bamat, in his study of the relative autonomy of the state in Brazil and Peru has highlighted this weakness of the Poulantzian conceptualization of the autonomy of the state, in particular, the difficulty of its application in cases of third world countries.

> [An] ... *obstacle in the utilization of the concept of relative autonomy remains, and is particularly vexing when analyzing the dependent countries of Latin America and the Third World. The absence of dominant class hegemony in such formation is not exceptional or conjunctural. It tends to be a chronic condition of class relations, and it implies distinct roles and a peculiar relative autonomy for the state. The functional correlation between relative State autonomy and the achievement of hegemony in the Poulantzian formulation is broken. The State is relatively autonomous, but it does not assure dominant class hegemony.*[8]

Bamat tries to show that the autonomous state in Peru and Brazil is not founded on the dominant class hegemony, and to demonstrate that he concentrates on only two aspects of the state's relative autonomy.

> *I will discuss its autonomy from local dominant classes; and I will discuss the State's essentially economic interventions, that is, its relation to production and accumulation.*[9]

In terms of purpose, Bamat's study closely resembles ours. He has shown with deep insight how the weak development of the social classes, particularly the bourgeoisie, has resulted in the failure of the capitalist class to bring the state under its own hegemony. But as he himself has admitted, his is not a study of how the state emanates from a social formation and, in turn, how it influences the evolution of social formation.

> *This article is meant to contribute to an understanding of the important concept of relative state autonomy, particularly its utility and limitations as formulated by Poulantzas. It is not a political analysis of "cases" or concrete social formations, and should not be understood as such.*[10]

Apart from Bamat's work, the other most important contribution on independence or autonomy of the state in the third world is Hamza Alavi's study of "The State in

Postcolonial Societies". The study mainly focuses on Pakistan and Bangladesh but also occasionally refers to India. His major argument is: in the colonial period the bureaucratic military state apparatus was overdeveloped because it had to exercise dominion over the native social classes. In the post colonial period too, Alavi argues, the state has remained autonomous because no single class could establish its rule over the over-developed state. In the exposition of his thesis he has made some insightful observations about the relationship between the postcolonial state and the indigenous social classes that are highly relevant in respect to our study.

> *At the moment of independence weak indigenous bourgeoisies have found themselves enmeshed in bureaucratic controls by which those at the top of the hierarchy of the bureaucratic military apparatus of the state are able to control their activities and their prospects. The classicial Marxist theory conceives of the development of the superstructures of the state in keeping with the development of the economic foundations of society, namely the capitalist relations of production and the ascendant bourgeoisie. But in post colonial societies we find the contrary, namely that the development of the superstructure of the state, has taken place in advance of the development of the indigenous infra-structure, or the economic foundations of society, and*

> *the rise of the indigenous bourgeoisie. The superstructure of the state, in the post colonial state is, therefore, relatively overdeveloped, i.e., in relation to the underdeveloped economic infrastructure and the domestic bourgeoisie.*[11]

He further adds that the state is

> *... autonomous because, once the controlling hand of the metropolitan bourgeoisie is lifted at the moment of independence, no single class has exclusive command over it. But their* [the state functionaries] *autonomy is predicated not only on this negative condition but also on the positive conditions which stem from the new economic role of the state in the process of "planned" development. The state not only regulates economic activity but also disposes of a large proportion of the economic surplus generated in the post colonial societies which it "mobilizes" for development.*[12]

Alavi's assertions, particularly those regarding the weakness of the bourgeoisie and the state's role in the economy — though he does not advance any evidence in their support — are true as we have demonstrated below in our concrete study of India.* Alavi's merit lies in his intuitive

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* - The present study does not, however, claim that the weak development of the social classes was exclusive to the Asiatic mode of production. Recent studies on some African countries indicate that social classes were weak in these

grasp of the problem that the state in Bangladesh, Pakistan and India is autonomous vis-a-vis the social classes. But the reason he puts forward is not wholly satisfactory. It is true that, as he asserts, the classes in most third world countries are underdeveloped. But it is not true, as he claims, that the state apparatus was overdeveloped in the colonial period. In fact, in many independent but semi-colonised countries such as in most countries of Latin America and in such countries as Nepal, Thailand, Afganistan and Iran the state apparatus, the bureaucracy, the judiciary, etc., remained underdeveloped. But yet in most third world nations, including the ones we referred to, the state is autonomous vis-a-vis the social classes. And these weak domestic social classes of the post colonial society, as Alavi maintains, have the impossible task of sub-ordinating, without a social revolution, the state apparatus which has institutionalised their own subordinate relationship in the past.

The social classes in most post-colonial third world societies have failed to establish their hegemony over the state not because the state apparatus was overdeveloped by the colonial rulers as Alavi argues, but for the fact that the state was stronger than the social classes long before

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social formations too. See, for example: Claude Meillasoux, "A Class Analysis of the Bureaucratic Process in Mali", *Journal of Development Studies*, (January, 1970).

these societies were colonised. The state appartatus in most pre-colonial societies was patriarchal but superior vis-a-vis the indigenous social classes. The colonial state apparatus, as we have shown, at least in the case of India (as well as Pakistan and Bangladesh), was evolved from the patriarchal Moghul state which the colonising power inherited. The shortcomings in Alavi's study stem from his failure to analyse historically the social formation of the Indian subcontinent which still bears its pre-colonial roots and to relate the changing social formations' relationship with the state. Moreover, his contention that the presence of the metropolitan bourgeoisie in the post-colonial societies has balanced and negated the power of the two indigenous dominant classes, the landlords and the capitalists, and has enabled the state to retain its independence, though ingenious, is not supported by facts.

Both Alavi and Bamat have rightly reasoned that the autonomy or independence of the state in the majority of third world countries is founded on the weakness of the social classes. The source of this weakness, they have traced to the underdevelopment caused by colonial economic control. In this respect their views are similar to those of Samir Amin, Arighi Emmanuel, etc., who find the cause of the third world's economic backwardness in its integration into the world capitalist system. These arguments are substantially correct in designating the cause, but the analyses themselves are partial in the sense that their major emphasis is on the external capitalist relations. They fail to explain that the success of the external capital, to a great extent, was determined by the pre-capitalist relations of production that it encountered in the third world social formations. The present study attempts to integrate the perspective of the world capitalist system, i.e., the analysis of the impact of external capital, with an analysis of the internal forces and relations of production in a social formation, i.e., its mode of production, its classes, and its relationship with the state, on the basis of a concrete study of a third world country, namely India. In this respect, this study claims originality and presents a perspective which with some modifications may be used in the study of other third world social formations.

Certainly not Samir Amin.

Notes to chapter 1

1. Henry Lefebvre, The Sociology of Marx, p. 159.

2. Marx/Engels, Selected Correspondence, (ed.) Adorasky, pp. 480-481.

3. K. Marx, "Perspectives for the New Coalition Government".

4. K. Marx, "The Eighteenth Brumaire of Louis Bonaparte", p. 170; K. Marx, Capital, Vol. I, p. 789.

5. K. Marx, Capital, Vol. III, p. 703.

6. See J. O'Connor, The Fiscal Crisis of the State.

7. See R. Miliband, The State in Capitalist Society; N. Poulantzas, Political Power and Social Classes.

8. T. Bamat, "Relative State Autonomy and Capitalism in Brazil and Peru".

9. Ibid.

10. Ibid.

11. H. Alavi, "Bangladesh and the Crisis of Pakistan", p. 303; also see "The State in Post Colonial Society".

12. H. Alavi, "Bangladesh and the Crisis of Pakistan", p. 305.

Chapter 2

THE MODE OF PRODUCTION AND SOCIAL FORMATION IN PRE-BRITISH INDIA

Prolegomena

The process of industrialisation in India, as in any other country, is closely associated with the character and form of development of social classes and the state. It must be remembered in the study of industrialisation that this process was not an organic growth in India as it was in Europe. The industrial revolution in Europe was preceded by the growth of a commercial capitalist class which succeeded in establishing its control over the state. Furthermore, the development of the capitalist class, as the bearer of commerce and industry, was facilitated by the existence of feudalism in Europe. The arena for the growth of merchants' capital was provided by the feudal relations. Thus, the industrialisation process in the European countries, in spite of differences based on their past social structure, economy and cultural history, had a uniformity in the sense that it was part of an economic system which was generated by internal economic forces. These economic forces were born in the womb of feudalism and flowered through merchant capitalism into industrial capitalism.

In the East in general, as well as in India, capitalism did not grow from the soil; it was transplanted by colonial rule. One of the reasons for this differential growth was that, in Asia, the nature of social evolution was different from that in the West. In Asia, the dissolution of the primitive society or clan organisation was not followed by a slave system and feudalism, but by the Asiatic mode of production. The Asiatic mode of production led to the emergence of the "Oriental Despotic State" which acted as a fetter on the growth of the social classes. The subservience of the social classes to the state, i.e., the hegemony and independence of the state, made it very difficult for the bourgeoisie to overcome its weakness vis-a-vis the state.

In Europe in the twelfth and thirteenth centuries, the opening of long-distance trade undermined the "natural economy" of feudalism.[1] The spread of commerce created a demand for luxuries among the aristocrats, which, in its turn, brought in the replacement of "labour rent" by "money rent".[2] The development of a market exchange encouraged the feudal estates to produce a surplus for sale outside the locality; the lords themselves became dependent on money income and trade.[3] The establishment of trading towns, encouraged by the feudal lords within their own jurisdiction for raising revenue, led to the development and consolidation of power by the bourgeoisie.[4]

The expansion of trade not only increased the volume of the merchants' capital, it also increased the exploitation of the peasants by the feudal lords whose needs for surplus grew with an expanding commerce and its corollary, consumption.[5*] The intensification of the exploitation of the peasants and serfs, and the flow of merchants' capital into the purchase of land and the subsequent commercialisation of agriculture, created a surplus in the agricultural sector and transformed an important segment of the peasants into landless wage-labourers.[6] Here, it must be borne in mind that the relations of production, i.e., the recognition of the proprietary rights of the lord over the land and the serfs, was fundamental in Europe in separating the producers from the land and creating a relationship of antagonism between the lords and the peasants.[7] In India, the absence of ownership rights of the nobility over the land did not permit the

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* - "The inhabitants of merchant towns imported refined manufactured goods and expensive articles of luxury from rich countries, and thus offered incentives to the vanity of the large landowners, who eagerly bought these goods and paid large quantities of raw materials from their lands for them. Thus the commerce of a large part of Europe during this period consisted in an exchange of the raw materials of one country for the manufactured products of some industrially developed country. As soon as this taste became general and created a considerable demand, the merchants, in order to save the expenses of freight, began to establish similar manufactures in their own countries." (Adam Smith, *The Wealth of Nations*, Book III, ch. III.)

nobility to separate the producers from their means of labour. The function of the nobility was restricted merely to the collection of revenue.

In Europe, the primitive capital accumulation was made through enclosures and other methods by which the peasants, serfs, craftsmen, etc., were alienated from their means of work.[8] However, before capital could organize production, the capital in Europe appeared in its specific form, i.e., the merchants' capital.[9] The role of the merchants' capital was to exchange commodities, no matter what the basis of production of these commodities might be. The merchants' wealth always existed in the form of money and their money always served as capital.[10] This commerce had a corrosive effect on the countries between which the commodities were exchanged.

> *It* [commerce] *will subject production more and more to exchange value, by making enjoyment and subsistence more dependent on the sale than on the immediate use of the products. Thereby it dissolves all old conditions. It increases the circulation of money. It seizes no longer upon the surplus of production, but corrodes production itself more and more, making entire lines of production dependent upon it.*[11]

But what form this dissolution will lead to does not depend upon commerce but upon the old mode of production of the producing country. The extent of dissolution also depends upon the solidity of the old mode of production.[12] In India, the international trade with Europe created a merchants' capital, which perhaps in size, was not inferior to the same in Europe (see below).

The merchants' capital in India also took the significant step of bringing in the workers under a common roof.[13] However, before it could make the transition to the new mode of production of industrial capitalism, the country was colonized.

The weakness of capital in India stemmed from three factors. Firstly, the unity of agriculture and industry in the village communities and the absence of legal rights of ownership of the lord over the land raised an almost impossible obstacle for the bourgeoisie in its task of alienating the labourer (peasant) from his means of labour (land). Secondly, the absence of decentralisation of political power (in the form of feudalism) made it difficult for the bourgeoisie to overcome the fetters imposed by the state which remained powerful even in its disintegration. In Europe, capitalist production arose within the feudal relations that were half-disintegrated by the commodity economy which, in turn, was the result of the development of the market exchange. The merchants' capital was necessarily a preliminary stage of the capitalist production. The development of merchants' capital took place not on the basis of capitalist production, but on the basis of the cottage industry and handicrafts.[14] However, before capital could organise production, i.e., before the introduction of the capitalist mode of production, the merchants' capital in Europe was able to establish its influence over the state through the establishment of absolutism in politics.[15] Absolute states in Europe, in the seventeenth century, were the result of the alignment of the bourgeoisie and the king. This alignment was helpful in curtailing the power of the feudal lords and removing the fetters on the further growth of capital.[16] Bourgeois revolutions against absolutism marked the final victory of capital in establishing its own state.[17]

The merchant capital in India, as we will see below, despite its dissolving effect on the centralized state, could not attain political power in the absence of a countervailing feudal power (against the state). The internal social structure resutling from the solidity of the Asiatic mode of production, although showing signs of weakening, could not be totally subordinated by the emergent forms before the country was colonised. Time thus became a crucial factor in the destiny of nations. Long distance trade gave rise to the development of merchant capital in both Asia and Europe. In Europe, the new form (capitalism) could establish its predominance over the older form (feudalism) at an early date, and was successful in establishing its own state. In

Asia, the resistant forces of the older form (Asiatic mode) were more stubborn, and the Asiatic state even in disintegration maintained its hegemony over the rising merchant class.

Herein lies the secret of how a small country like England could conquer a vast country like India. In the analysis of "the development of the underdevelopment of the colonised countries", this social weakness of the underdeveloped countries has seldom been pointed out.

In the following pages, we would bring out why the Asiatic mode of production (as in India) was more stubborn than feudalism and resisted the attempt of capitalism to emerge out of it and overcome it. The reasons could be found in the characteristics that distinguish the Asiatic mode of production from the feudal mode.

(i) In the Asiatic mode of production, the collectors of revenue, i.e., the nobility, did not enjoy the same proprietary rights in land as the feudal lords did in Europe. Their claim to the surplus of the soil was dependent on, and limited by, imperial regulation or the state. Thus, in the Asiatic mode of production in India, the jagirdars, zamindars, etc., i.e., the nobility, could not emerge as an independent class ourside of the state as the feudal lords in Europe did.

(ii) As the collectors of revenue in the Asiatic mode of production were not owners of the soil in the sense that the feudal lords were in Europe; they, unlike the feudal lords, could not treat the direct producers as tenants-at-will and alienate them from the land. Thus, one of the pre-conditions for the emergence of capitalism, i.e., wage labour, was hardly present in the Asiatic mode of production. On the other hand, feudalism, in the form of the feudal lords' rights in the soil, provided the mechanism for the workers' separation from the land. In other words, the feudal lords as owners of the land could alienate the direct producers, i.e., serfs, peasants, etc., from the land and transform them into wage labourers.

(iii) In the Asiatic mode of production, as the revenue collectors had no independent claim to the surplus of the soil outside that of the state, they, unlike the feudal lords of Europe, were not co-sharers in the sovereignty of the state. In other words, the collectors of revenue in the Asiatic mode of production, unlike the landlords in feudalism, were not engaged in a struggle with the king or emperor to establish their hegemony over the state. Thus, there was no decentralisation of sovereignty, and the state's hegemony in the absence of a feudal class (in the proper sense of the term) remained unchallenged. This, in turn, affected the bourgeoisie's stake in gaining power. In the absence of a conflict between the feudal lords and the king, the bourgeoisie in the Asiatic mode could not support the king and exact in return concessions from him in the form of functional sovereignty in towns, in guild regulations, etc. In other words, the bourgeoisie in the Asiatic mode of production, unlike feudalism, till very late could not try to balance the power of the emperor with that of the revenue collectors and emerge as an independent class and challenge the hegemony of the state. The state remained even in decline superior to the incipient bourgeoisie as it was developing in the Asiatic social formation.

(iv) Finally, the nature of interdependence between agriculture and industry in the Asiatic mode of production is different from the same in feudalism. In the Asiatic mode of production, all artisan industries, such as black-smiths, carpenters, potters, weavers, etc., are employees of the village. They provide all tools and other manufactured products necessary for the peasants and villagers and in return get a share in the produce of the peasants and sometimes also some plots of land in the village to produce what they need. Thus, the self-sustaining unity of manufacture and agriculture, as Marx points out, contains all the conditions for reproduction and surplus production within the village itself.* This provides great stability to the Asiatic

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* - There was, however, another class of artisans in the towns in India which catered primarily to the needs of the court. With the expansion of trade with Europe, their

mode of production. In feudalism, on the other hand, the serf or the peasant himself, in most cases, produces the implements and other commodities he needs. Only among the lord's domestic serfs was there some kind of division of labour, some made implements and commodities and others farmed. But here, unlike the Asiatic mode of production, there were no village artisan employees on whom the cultivators could depend for all tools. The cultivators' dependence on external sources for manufactured products and implements, therefore, was not totally closed. The village communities under feudalism, unlike the Asiatic mode of production, were not a totally independent self-sustaining unity which contained all the conditions for reproduction and surplus production. Thus, the feudal mode of production was not as stable as was the Asiatic mode of production. Moreover, the conflict among the king, feudal lords and the bourgeoisie provided a chance for the serfs to flee to the rising towns (which acquired functional sovereignty) and become craftsmen there. There were, therefore, greater tensions in the feudal mode of production than in the Asiatic

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external market expanded, but their attempt to colonise the internal market proceeded slowly, although in Bengal and certain advanced areas the village artisan industry began to dissolve. It should be noted here that Marx later traced to the interdependence of agriculture and artisan industries than to irrigation the base of the Asiatic mode of production and the reason for its more stability than other pre-capitalist modes of production.

mode of production.

All studies of the Asiatic mode of production, including those of Krader, Hindess and Hirst, Lichtheim, Thorner, have failed to single out the above-mentioned characteristics of the Asiatic mode of production[18] (as implied in Marx's writing) that make it more difficult for capitalism to grow out of it than from feudalism. Almost all of them have failed to understand the significance of the Indian artisan industry — although Marx repeatedly referred to its unity with agriculture — its role in providing stability to the Asiatic mode of production, and how it was different from the feudal artisan industry.

In this chapter, we will discuss the above-mentioned characteristics of the Asiatic mode of production and their differences with feudalism in detail and show how they impeded the growth of the bourgeoisie in India and its attempt to gain hegemony over the state.

The Social Economy of Pre-British India

The nature of the social classes in any society depends on the nature of the economy in that society. The fact that, in the Indian subcontinent, the professional classes and state employees play such an important role has been determined by various historical factors. Unlike the

West, the Indian economy has not undergone the following stages of development: the ancient or the slave, the feudal and the capitalist. the Indian social system was conditioned by what Marx has termed the "Asiatic mode of production".

The distinctive feature of the Asiatic mode of production was the absence of private ownership in land.

> *A closer study of the Asiatic, especially of Indian forms of communal ownership, would show how from the different forms of primitive communism different forms of its dissolution have developed.*[19]

What was the different form of dissolution that gave birth to the "Asiatic economy"? The answer can be found in a famous letter written by Engels to Marx on June 6, 1853:

> *How comes it that the orientals did not reach to landed property or feudalism? I think the reason lies principally in the climate, combined with conditions of the soil, especially the great desert stretches which reach from the Sahara right through Arabia, Persia, India and Tartary to the highest Asiatic uplands. Artificial irrigation is here the first condition of cultivation and this is the concern either of the communes, the provinces or the central government.*[20]

This, in the opinion of Marx and Engels, necessitated the dependence of the individual on the state and village commune, and negated the mobilisation of power by classes and estates.*

In India, unlike feudal Europe, the ownership of land did not belong to any private landlord.** The king simply delegated to some persons the specific and individual rights of zamin, i.e., the revenue collecting power. These zamindars and jagirdars (revenue collectors) were created by the state and could be removed by the state at any moment. According to Azizul Hoque:

> *In the Moghul revenue administration, the zamindar was ... an agent of the Emperor for making due collections on behalf of the Emperor and was remunerated with a percentage out of his collections for his labour. The term "zamindar" was a later development in the land*

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* - "The distinction is based on the fact that in the cultural evolution of Egypt, Western Asia, India and China, the question of irrigation was crucial. The water question conditioned the existence of bureaucracy, the compulsory services of the dependent classes upon the functioning of the bureaucracy of the king. That the king also expressed his power in the form of military monopoly is the basis of the distinction between the military organization of Asia and that of the West. In the first case the royal official and the army are from the beginning the central figure of the process, while in the West, both were originally different." (Max Weber, *General Economic History*, p.237.) It should be noted here that Marx later traced to the interdependence of agriculture and artisan industries than to irrigation the base of the Asiatic mode of production and its reason for greater stability than other pre-capitalist modes of production.

** - In Europe, after the disintegration of the Roman Empire, the fiefs became the social, political and economic units. The legal basis of the military and political power of the feudal lords was their control over the land.

> *system of the country. In the Ayeen-i-Akbari, he was the Amul-Guzar or collector of the revenues and he was directed annually to assist the husbandmen with loans of money and to receive payment at distant and convenient periods. ... Certain allotments of land were usually given to him rent free for his maintenance known as nankar.*[21]

Irfan Habib describes the jagirdars in his monumental work, *The Agrarian system of Mughal India*, as follows:

> *Over the large portion of the Empire, he* [the Emperor] *transferred his right to the land revenue and other taxes to certain of his subjects. The areas whose revenues were thus assigned were known as jagirs. The assignees were known as jagirdars* [holders of jagirs]. *... The jagirdars were usually mansabdars, holding ranks (mansabs) bestowed upon them by the Emperor* [e.g., how many soldiers could be commanded]. *These ranks were generally dual, viz., zat and sarwar, the former chiefly means to indicate personal pay, while the latter determined the contingents which the officer was obliged to maintain. The pay scales for both ranks were minutely laid down and the mansabdars received their emoluments either in cash (nagd) from the treasury or, as was more common, were assigned particular areas as jagirs. The assignee was entitled to collect the entire revenue due to the state, and though this consisted principally of land revenue, it*

> *also embraced the various cesses and petty taxes which were probably exacted even in the remotest rural areas.... The jagirs were constantly transferred after short periods so that a particular assignment was seldom held by the same person for more than three or four years.*[22]

This unique nature of tax-farming was noted by Francois Bernier, the great sociological-minded traveller who came to India in the seventeenth century.

> *The king as the proprietor of the land, makes over a certain quantity to military men, as an equivalent for their pay; and this grant is called jah-ghir, or as in Turkey, timar; the word jah-ghir signifies the spot from which to draw, or the place of salary. Similar grants are made to governors, also for the support of their troops, on condition that they pay certain sums annually to the king out of any surplus revenue that the land may yield.*[23]

These jagirdars and zamindars were not feudal lords in the western sense of the term. In the words of Max Weber, they were the holders of "office prebend". The distinctive characteristic of the land relationship in the East was that it was "prebendalization", not "feudalization".

> *In India, as in the Orient generally, a characteristic seigniory developed rather out of*

> *tax farming and the military and tax prebends of a far more bureaucratic state. The oriental seigniory therefore remained in essence a "prebend" and did not become a "fief"; not feudalization but prebendalization of the patrimonial state occurred.*[24]

In contrast, feudalism in Europe was based on the proprietary right of the lord over the land.

> *Feudal landed property gives its name to its lords, as does a kingdom give its name to its king. His family history, the history of his house, etc. — all this makes the landed property individual to him, makes it formally belong to a house, to a person.*[25]

This proprietary right gives the landlord a legal basis to alienate the peasants and the serfs from their means of labour (land). Moreover, the feudal mode of production creates dependency.

> *Here, instead of the independent man, we find everyone dependent, serfs and lords, vassals and suzereins, laymen and clergy. Personal dependence here characterises the social relations of production just as much as it does other spheres of life organized on the basis of that production.*[26]

In feudal Europe, the ownership of land confronted the producers as an alien power. It created a relationship of antagonism in social relations. The rule of private property, which served as the basis for the growth of capitalist relations as well as accumulation, began with the appropriation of land by the feudal lords.

> *The domination of the land as an alien power over men is already inherent in feudal landed property. The serf is the adjunct of the land. Likewise, the lord of an entailed estate, the first born son, belongs to the land. It inherits him. Indeed, the domination of private property begins with property in land — that is its basis. But in feudal landed property the lord at least appears as the king of the estate. Similarly there still exists the semblance of a more intimate connection between the proprietor and the land than that of mere material wealth. The estate is individualised with its lord: it has his rank, is baronial or ducal with him, has his privileges, his jurisdiction, his political position, etc. It appears as the inorganic body of its lord. Hence the proverb:* nulle terre sans maitre *(there is no land without its master) which expresses the fusion of nobility and landed property.*[27]

The intimate relationship between the lord and his dependents began to dissolve with the growth of international trade and commerce.[28] For the emergence of capital, it became necessary that the landed property be shorn of its feudal romantic glory and be transformed into a commodity. It took various forms in different countries of Europe, the classical form was the enclosure movement in England.* Through this movement, not only was the personal relationship between the lord and his dependents destroyed, and not only were the peasants ejected from the soil, but the soil, for the first time, was brought under the domain of capitalist production.[29] The noteworthy point here is that the commercialization of agriculture was made possible by the feudal mode of production which provided the mechanism of alienation — the private ownership of land.[30] With the introduction of the capitalist mode of production, the rule of private property, unlike feudalism which was characterised by personal relationships, began to appear as the rule of mere capital.[31]

In India, on the other hand, the landlords, i.e., the collectors of revenue, were not the owners of the land. Land belonged communally (as usufruct) to the village, although ultimate ownership remained vested in the state.[32] In fact, the state's ownership of land was not in the nature of private ownership, it was in the nature of collective ownership. That is why Shelvankar maintains that in India

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* - It should be borne in mind that the merchant capital in its initial period was dependent on the surplus extracted by the feudal lords from the peasants and serfs, and also on the resources created in petty production.

the king could not create subordinate owners of land, because he himself was not the supreme owner of the land. He had only the right of revenue collection.[33] The right of collective ownership of the state determined why the king could transfer the right of revenue collection from one person to another but could not create vassals.* On the other hand, the responsibility for the payment of the state's revenue was not an individual responsibility but the collective responsibility of the community. As Dr. Radhakamal Mukherjee says:

> *The fiscal system of the Muhammadan conquerors encouraged the original joint administration developed from undeveloped clan or the joint family by emphasising collective fiscal responsibility.*[34]

In the Occident, the rise and fall of the value of feudal rent, as distinct from the state's revenue in the Orient, played an important role in leading the feudal lords to expropriate land.[35] The decline of seigniorial revenue also encouraged the feudal lords to rent their land to the better peasants, thus paving the way for the introduction of the capitalist mode of production in agriculture.[36]** This

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* - In this sense, the state was the supreme landlord, but not the king. He only represented the interests of the community.

** - There was a crisis of feudalism in Europe in could not occur in the Orient. The *de facto* control of land in the Orient remained vested in the village communities, and the supreme landlord was the state. This does not, however, mean that there was no individual possession of land.

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the fourteenth and fifteenth centuries. "At this time of contracting demand for agricultural products, urban wages and hence industrial prices were rising, because of the shortage of labour bred by population decline. This in turn raised the cost of agricultural labour while reducing rents (insofar as they were fixed while nominal prices were inflating). This led to what Marc Bloch has called the 'momentary impoverishment of the seigniourial class'.... The economic squeeze led to increased exactions on the peasantry which were then counterproductive, and resulted in peasant flight. One path to the restoration of income for the nobility, one often efficacious for the wealthiest stratum, was to involve themselves in new and remunerative carriers with the princes. It was not however sufficient to counteract the effects of recession and therefore to stem the decline of the demesne. And it may incidentally, by removing seigniors from residence, have encouraged disinterest in management. What then happened to the large estates? They were sold or rented for money to the principal groups ready and able to engage in such a transaction, the better of peasants, who were in a position to obtain favorable terms." (Immanuel Wallerstein, *The Modern World System*, p.26.)

Duby, on the other hand, maintains: "We must be constantly on our guard against considering the abandonment and regrouping in the fourteenth century of all the fields into a few coherent village territories subject to strict agrarian constraints as signs of economic malaise, agricultural failure or a too sudden decline in the population. On the contrary, these topographical transfers reflect a critical phase in the growth of the cereal economy, postponed for a century or two, but quite comparable in their development and nature to those of which the Ile de France was the scene in the thirteenth century. Thus, in North Western Germania the lords enclosed their woods whose value was increasing. They surrounded them with hedges, shut out the peasants' swine and henceforth forbade periodic heat-burning." (*Rural Economy*, p.309.)

To what extent the laborer, the self-sustaining serf [under European feudalism], *can here secure for himself a surplus above his indispensable necessities of life, a surplus above the thing which we would call wages under the capitalist mode of production, depends, other circumstances remaining unchanged, upon the proportion, in which his labor time is divided into labor time for himself and forced labor time for his feudal lord. This surplus above the indispensable requirements of life, the germ of that which appears as profit under the capitalist mode of production, is therefore wholly determined by the size of the ground-rent, which in this case not only is unpaid surplus labor, but also appears as such. It is unpaid surplus labor for the "owner" of the means of production, which here coincide with the land, and so far as they differ from it, are mere accessories to it. That the product of the laboring serf must suffice to reproduce both his subsistence and his requirements of production, is a fact which remains the same under all modes of production. For it is not a result of its specific form, but a natural requisite of all continuous and reproductive labor, of any continued production, which is always a reproduction, including the reproduction of its own labor conditions. It is furthermore evident that in all forms, in which the direct laborer remains the "possessor" of the means of production and labor conditions of his own means of subsistence, the property relation must at the same time assert itself* *as a direct relation between rulers and servants, so that the direct producer is not free. This is a lack of freedom which may be modified from serfdom with forced labor* [in feudalism in the Occident] *to the point of a mere tributary relation* [in the Asiatic mode of production in the Orient]. *The direct producer, according to our assumption, is here in possession of his own means of production, of the material labor conditions required for the realization of his labor and the production of his means of subsistence. He carries on his agriculture and the rural house industries connected with it as an independent producer. This independence is not abolished by the fact that these small farmers may form among themselves a more or less natural commune in production, as they do in India, since it is here merely a question of independence from the nominal lord of the soil. Under such conditions the surplus labor for the nominal owner of the land cannot be filched from them by any economic measures, but must be forced from them by other measures, whatever may be the form assumed by them.*

This is different from slave or plantation economy, in that the slave works with conditions of labor belonging to another. He does not work as an independent producer. This requires conditions of personal dependence, a lack of personal freedom, no matter to what extent, a bondage to the soil as its accessory, a serfdom in the strict meaning of

> *the word. If the direct producers are not under the sovereignty of a private landlord, but rather under that of a state which stands over them as their direct landlord and sovereign, then rent and taxes coincide, or rather, there is no tax which differs from this form of ground-rent. Under these circumstances the subject need not be politically or economically under any harder pressure than that common to all subjection to that state. The state is then the supreme landlord. The sovereignty consists here in the ownership of land concentrated on a national scale. But, on the other hand, no private ownership of land exists, although there is both private and common possession and use of land.*[37]

In the above statement we find the following characteristics which distinguish the feudal from the Indian (Asiatic, Marx also sometimes denotes it as tributary) mode of production.

(i) The direct producer in the feudal mode of production — the serf — does not own the means of production or labour conditions of his own means of subsistence, i.e., land; so he has to provide to the owner of the land unpaid surplus labour which is the ground rent extracted from him by the private landlord by virtue of his ownership of the soil, this being the main form of wealth or the means of production in feudalism. In India, on the other hand, the direct producer, the peasant, possesses the means of production and labour conditions of his own means of subsistence, i.e., land. His surplus labour is extracted from him in the form of tax not by any private landlord but by the state.

(ii) In the feudal mode, the private ownership of land exists, the predominant being the private landlord's ownership. In the Asiatic mode there is no private ownership of land, although there is both private and common possession and use of land. It is here important to note that although the direct labourer remains the "possessor" of the means of production, i.e., the land, he is not absolutely free because *the property relation asserts itself as a direct relation between ruler and the servant*. Thus, the actual possessors of land in India, whether as private occupants (which later under the British rule came to be known as ryotwari areas) or as collective occupants (mahalwari areas) remain subservient to the supreme landlord or real owner of the soil — the state.*

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* - D.D. Kosambi, who is often quoted in support of the argument that there had been private property in land in India, makes it very clear that the private ownership in land in India was not in the nature of bourgeoisie property in land. He says: "The question of private property in land [in ancient India] makes no sense if regarded from the modern bourgeois point of view, namely the right to buy and sell. In the first place, most of the actual cultivators had emerged from a tribal stage where land was only territory, while primitive slash-and-burn cultivation had made individual plots useless till the day of the plough and cattle-manure fertilization. Secondly, the holding, even in the sense of

(iii) In the feudal mode, the landlord is the sovereign over the serf. In the Asiatic mode, the state is the sovereign because it is the supreme landlord. By using the term "supreme landlord", Marx implies that there might be revenue farmers (known as landlords) in India but unlike Europe (i.e., in the feudal mode) they were not co-sharers of sovereignty with the state. In the feudal mode, the sovereignty or political power of the state is decentralised because the private landlords are regarded as the owners of the soil.[38] In the Asiatic mode the sovereignty of the state is undivided and concentrated because of the state's monopolisation of landownership.

Again, Marx adds:

> *The specific economic form, in which unpaid surplus labour is pumped out of the direct producers, determines the relations of rulers and ruled, as it grows immediately out of production itself and reacts upon it as a determining element. Upon this is founded the entire formation of the economic community*

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mere right of cultivation was a privilege as well as proof of membership in a community. Loss of all and would not be possible unless the individuals were expelled from the peasant sub-group, usually a nati caste. Finally, within a village community that produced virtually no commodities, land would have no purchaser, while uncleared waste or marginal land was still to be had for the cultivation. The only conditions were payment of taxes to the king and perhaps of a nominal adoption fee to the previous village community, unless the settlers could form a separate community of their own. This state of affairs continued almost to the end of the Moghul period, with local variations." (D.D. Kosambi, *An Introduction to the Study of Indian History*, p.323.)

> *which grows up out of the conditions of production itself, and this also determines its specific political shape. It is always the direct relation of the owners of the conditions of production to the direct producers, which reveals the innermost secret, the hidden foundation of the entire social construction, and with it of the political form of the relations between sovereignty and dependence, in short, of the corresponding form of the state. This does not prevent the same economic basis frow showing infinite variations and gradations in its appearance, even though its principal conditions are everywhere the same. This is due to innumerable outside circumstances, natural environment, race peculiarities, outside historical influences, and so forth, all of which must be ascertained by careful analysis.*[39] (Emphasis added.)

In India, as well as in the Asitaic mode, the "owners of the conditions of production" was the state. Therefore, the claim on the surplus labour of the producers here lies with the state. The state extracted the surplus labour in the form of surplus commodity (both in kind and cash).

> *It is the surplus alone that becomes a commodity, and a portion of even that not until it has reached the hands of the STate, into whose hands from time immemorial a certain quantity of these products has found its way in the shape of rent in kind.*[40]

Thus, the state's claim, as the supreme owner of the soil, on the surplus labour of the direct producers determined the nature of social formation and the state structure in India. In short, the state's omnipotence over, and independence from, the social classes was ensured by its supreme landownership. The classes that grew were naturally subservient to the state either as direct producers or as hanger-on (as nobility or revenue collectors, literati and even merchants). It has been debated incessantly by Indian and foreign scholars whether the zamindars and jagirdars, i.e., the revenue collectors, had the right to sell or alienate their rights of revenue collection. But this is not the important question. The important question (for the development of capitalism) is whether the zamindars or jagirdars had proprietary rights over the disposal of the soil, i.e., whether they could create a class of wage labourers by evicting the peasants from the soil.

Irfan Habib maintains that since the reign of Akbar (late sixteenth century), the zamindars attained the right to sell their zamindari with the approval of the state but they failed to acquire the proprietary rights over the land*

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* - However, this tendency on the part of the revenue collectors to appropriate the land of the peasants was not altogether absent. "This first appears in the *Ain* where it cautions revenue officials against entering peasant holdings (*raiyat-kashta*) as "personally cultivated land" of *modadi-maash*

which was the hallmark of landed aristocracy in Europe.

> *The zamindar's right to a part of the produce of the soil was limited both by custom and by imperial or official regulation. The zamindar might formally be known as malik and his right termed milkiyat, but nothing will be more inaccurate than to imagine him to be like a landed proprietor of the colonial era, paying the land tax and collecting rent fixed by himself from his tenants-at-will. Zamindari, therefore, did not signify a proprietory right over the land. It is important, at the same time, to note that zamindari in itself (not the land under zamindari) had all the hall-marks of an article of private property. It was inheritable and could be freely bought and sold.** [41]

Irfan Habib further tells us,

> *... the share of the zamindar in the surplus produce of the peasant, wherever the land happened to be within a zamindari, was still a subordinate one compared with the land-revenue demand levied on the same land by the authorities* [i.e., the state]. [42]

It is this proprietary right which the revenue collectors in India failed to achieve that distinguished the Indian pre-capitalist mode of production from that of the West. In India, unlike feudal Europe, the revenue collectors could

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holders, in their records. The second is one of the twelve decrees issued by Jahangir on his accession. It prohibits the revenue officials themselves from forcibly converting the land of the peasants (*zamin-i-raiya*) into their own holdings (*Khud Kashta*)." (Irfan Habib, *The Agrarian System of Mughal India*, p.115.)

* - The noteworthy point is the qualification within the brackets. Although zamindari or the right to revenue collection had some characteristics of private property, zamindars did not have proprietory rights over the land.

neither raise the revenue (or rent) nor evict the peasants because they were not the owners of the soil. Thus, one of the prime factors — the separation of the peasants from their land — for the emergence of wage labour was virtually non-existent in India. The revenue collector's share in the surplus was dependent on the state's surplus (which varied from one tenth to one fourth of the state revenue, depending on various factors), and the state's approval to impose a separate rate on the peasants (only in cases where the zamindars were not allowed to take a share from the state revenue). Thus, the nobility in India, because of the mode of surplus extraction, was a dependent class on the state.

However, as Marx points out, the economic form of surplus extraction not only determines the relation between the rulers and the ruled and acts on the development of forces of production, it also depends on the nature of production itself.

The nature of production in India was conditioned by the existence of the village communities. The village communities were characterised by an organic unity between agriculture and industry.[43] To quote, in brief, the classic description of the village system given by Marx:

> *The constitution of these communities varies in different parts of India. In those of the simplest form, the land is tilled in common, and the produce divided among the members. At*

the same time, spinning and weaving are carried on in each family as subsidiary industries. Side by side with the masses thus occupied with one and same work we find the chief inhabitant, who is judge, police and tax-gatherer in one; the bookkeeper who keeps the accounts of the village ... the overseer who distributes the water from the common tanks for irrigation ... the schoolmaster who on the sand teaches the children reading and writing ... a smith and a carpenter, who make and repair all the agricultural implements; the potter who makes all the pottery of the village; the barber, the washerman;... the silversmith, here and there the poet. This dozen of individuals is maintained at the expense of the whole community.... The simplicity of the organisation for production in these self-sufficing communities that constantly reproduce themselves in the same form, and when accidentally destroyed, spring up again on the same spot and with the same name — this simplicity supplies the key to the secret of the unchangeableness in such striking contrast with the constant dissolution and refounding of Asiatic states, and the never ceasing changes of dynasty. The superstructure of the economic element of society remains untouched by the storm clouds of the political sky.[44*]

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* - Irfan Habib's description of the village system of Moghul India points out how the division of labour within the village was made the basis of caste: "Almost every craft within the village, carpentary, pottery, etc., would be the

Probably commenting on this description of the village community, Weber has opined:

> *Karl Marx has characterised the peculiar position of the artisan in the Indian village — his dependence upon fixed payment in kind instead of upon production for the market — as the reason for the specific stability of the Asiatic peoples. In this Marx was correct.*[45]

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business of a separate caste, possibly represented there by no more than one family. The need for self-sufficiency was the economic cause which made the presence of certain primary crafts imperative for each village. But even if the separation of trades was originally 'spontaneously developed', it was 'crystallised and finally made permanent by law', the law of the caste system. Once this had been achieved, every village became a single economic and social unit apart, a single community, able, when any increase in its population occurred, to reproduce from itself another on the same pattern." (Irfan Habib, *The Agrarian System of Mughal India*, p.122.)

Kosambi describes how the Brahmin provided the ideological basis of the village economy and, thus, that of the Asiatic mode of production: "The Smriti foreshadows complete victory of the village, with consequences far deadlier than any invasion. The hide-bound caste system became rigid only within stagnant villages whose chief intellectual product, the Brahmin, was stamped with incurable rusticity elevated to religious dogma. For an orthodox Brahmin, travel beyond the traditional limit of *arya-desa* entailed penance; residence was forbidden;... This mentality killed history. It mattered little which kind ruled over relatively changeless village.... The passage of years had little meaning compared with the vital round of the seasons, because the villagers produced almost all they needed every year, to consume it (but for that portion expropriated for taxes) by the time of the next harvest. As a result, Brahmin scholars joined (still engage in) bitter theological controversy about the tithi (lunar date) of a festival even like Rama's legendary conquest of Lanka, without troubling themselves as to the year." (D.D. Kosambi, *An Introduction to the Study of Indian History*, p.258.)

Evidently, production relations in these small communities were not based on exchange but on use value. In fact, the artisans in a sense were the employees of the village; craft production could function only as a subsidiary to agriculture. The artisans and other professionals were maintained at the expense of the whole community. They used to receive a fixed share of the produce from each cultivator for the services they rendered.[46]

There is no doubt that this kind of payment stood in the way of the emergence of wage labour in the East.

> *One of the prerequisites of wage labour and one of the historic conditions for capital is free labour and the exchange of free labour against money, in order to reproduce and to convert it into values, in order to be consumed by money, not as use value for enjoyment, but as use value for money.*[47]

But why could wage labour not emerge in the East? Here Weber missed the real point which is, as Marx emphasized, the natural unity of labour with its material prerequisites.

> *Another pre-requisite is the separation of free labour from the objective conditions of its realisation — from the means and material of labour. This means above all that the worker must be separated from the land, which functions as his natural laboratory. This means the dissolution both of free petty*

landownership and of communal landed property, based on the oriental commune.[48]

In the evolution of western society, the transition to capitalism was facilitated by the existence of feudalism. One of the significant factors in the development of western society was the emergence of serfdom and the appropriation of land by the feudal lords. This led to a sharp polarization of interests between the lords and the direct producers, the serfs and peasants. In the Orient, because of the absence of legal ownership or fiscal responsibility of the village community, the tax collector, as in the West, was not a co-sharer of sovereignty with the king. Therefore there was no conflict between the peasantry and the landlord over the physical possession of land and of labour services which was the bone of contention between the feudal lords and the serfs in Europe.*

The conflicts, of course, were there between the vill-

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* - The Russian sociologist Kovalevsky pointed out that three of the four characteristics of Germano-Roman feudalism were present in India. But Marx refused to accept Kovalevsky's characterisation of India as a feudal society and asserted: "Kovalevsky forgets among other things serfdom, which is not of substantial importance in India. (Moreover, as for the individual role of feudal lords as protectors, not only of unfree but of free peasants,... this unimportant except for the Wakuf Estates devoted to religious purposes). Nor do we find that 'Poetry of the soil' so characteristic of Romano-German feudalism (cf. Maurier) in India, any more than in Rome." (Cited in E.J. Hobsbawn's introduction to Karl Marx, *Pre-Capitalist Economic Formations*, p.58.)

age and the state but they were confined to the size of the revenue or the surplus of the soil.[49] The basis of agriculture remained unchanged. Hence, Marx says, in spite of incessant changes of the dynasties, the structure of the economic element of society, i.e., the village community, remains untouched by the political sky. This is also the reason why there was no fundamental change in the nature of the state structure.

The absence of conflict of interests between the peasants and the revenue collectors over the question of disposal of the land did not lead to the workers' separation from the land.* For this reason, one of the important preconditions for the emergence of wage labour was non-existent in eastern society.

Furthermore, the self-sustaining unity of agriculture and manufacturing "contained all the conditions for reproduction and surplus production within itself."[50] Where such small self-sufficient units exist as part of a larger unity,

* - For example, the enclosure movement in England, i.e., transforming the arable land into pasturage (for the production of more valuable wool with the rise of the wool industry) by the feudal lords led to the expropriation of the peasants from the soil. These landless peasants formed the industrial reserve army from which the wage workers for the industries in England were recruited. In other parts of Europe, too, such as France and Germany, many landlords took control of their land and uprooted the peasants. In India the nobility or the revenue collectors could not do so because their right was confined to the right of revenue collection only.

it is very natural that they would provide a part of their surplus products to the large unity for maintaining communication, irrigation, etc.[51] A part of the surplus is also spent by the larger unity for such items as war, religious worship, etc.[52]

So, herein lies the secret — the unity of manufacturing and agriculture — of how the Asiatic society resisted disintegration and economic evolution. As Marx says:

> *The Asiatic form necessarily survives longest and most stubbornly. This is due to the fundamental principle on which it is based, that is, that the individual does not become independent of the community; that the circle of production is self-sustaining, unity of agriculture and craft manufacture, etc.*[53]

As the circle of production remains self-sustaining and as the individual remains confined to the community, there is little scope for changes in the forces of production. As Dr. Gadgil says:

> *The office of the village artisan being hereditary, it stereotyped the whole life of the village. It was no doubt a very good device for insuring that the services required for the village would be regularly provided for, especially during troublous times, but, at the same time, it insured against progress in the methods of the artisans. To begin with, the artisan, who did all the miscellaneous*

> *duties connected with his occupation in the village did not specialize, and the division of labour was extremely limited. The proficiency therefore, of the artisan in his craft could not be expected to be great. It also effectively protected the artisan from the pressure of external competition. For a cultivator was not likely to buy his pots from an outside potter — even though his wares were superior — if he had been paying the village potter to supply them to him.*[54]

The differential development of Asiatic artisan industry from the feudal artisan industry could be gleaned from the following description of the feudal industry by Leo Huberman:

> *Whatever industry existed formerly had been carried on in the peasant's own house. Did his family need furniture? Then there was no calling in the carpenter to make it or no purchasing it at the furniture store on Main Street. Not at all. The peasant's own family chopped and cut and carved until it had whatever furniture it needed. Did the members of the family need clothing? Then the members of the family spun, and wove, and stitched, and sewed — their own. Industry was carried on in the home, and the purpose of production was simply to satisfy the needs of the household. Among the lord's domestic serfs there were some who did only this sort of work while the others farmed. In the ecclesiastical*

> *houses, also, there were some craftsmen who specialized in one craft and so became quite skilled at their jobs of weaving or working in wood or iron. But this, too, was not commercial industry supplying a market — it was simply serving the requirements of the household. The market had to grow before craftsmen as such could exist in their separate professions. The rise of towns and the use of money gave craftsmen a chance to give up farming and make a living by their craft.*[55]

The feudal craftsmen, therefore, did not enjoy the same security the craftsmen in Indian villages had. Moreover, their subservience to the noblemen and clergy made them desirous of seeking independence which the rising free towns could provide. The conflicts between the lords and serfs, and also between the bourgeoisie and the lords, were, thus, a source of change in the forces of production in the feudal industry.

Indian Towns: A Source of Weakness of the Indian Bourgeoisie

Another reason for the stagnation of the Indian economy was that the state stood in the way of the development of the cities on the western line, a necessary pre-condition for the emergence of the bourgeoisie. On the development of cities in history, Marx says:

> *Ancient classical history is the history of cities based on land ownership and agriculture; Asian history is a kind of undifferentiated unity of town and country (the large city properly speaking, must be regarded merely as a princely camp, superimposed on the real economic structure); the Middle Ages (Germanic period) starts with the countryside as the locus of history, whose further development then proceeds through the opposition of town and country, modern (history) is the urbanisation of the countryside, not, as among the ancients, the ruralisation of the city.*[56]

The cities in India, and also in other countries in Asia, were mostly centres of pilgrimage and administration. According to Dr. D.R. Gadgill:

> *Most of the towns in India owed their existence to one of the three following reasons: (i) they were places of pilgrimage or sacred places of some sort; (ii) they were the seat of a court or the capital of a province; (iii) they were commercial depots, owing their importance to their peculiar position along trade routes. Of these reasons, the first two were by far the most important.*[57]

By this it is not meant that Indian or Asian towns at this time had no industries, but rather that the industries were not the cause of their importance. Industries grew in these towns to satisfy the needs of the courts, the nobility, the fauzdars, subadars (Governors), etc., who were the agents of the despotic state.[58] So, when the court moved (on campaign, etc.), the industries also moved. To quote Sir Henry Maine, one of the ablest authorities on the village community in the East and West:

> *Nearly all the movable capital of the empire or kingdom was at once swept away to its temporary centre, which became the exclusive seat of skilled manufacture or decorative art. Everyman who claimed to belong to higher class of artificers took his loom or tools and followed in the train of the king.*[59]

Marx also noted this dependency of the merchants and artisans on the nobility in the following words:

> *... this will not appear so very astonishing to one who understands the particular condition and the government of the country, namely that the king is the one and only proprietor of all the land in the kingdom, from which it follows as a necessary consequence, that a whole capital city, like Delhi or Agra, lives almost entirely on the army and is therefore obliged to follow the king if he takes to the field for any length of time. For these towns neither are, nor can be, anything like a Paris, being virtually nothing but military camps.... Moreover, the same merchants who keep the*

bazaars in Delhi are forced to maintain them during a campaign.[60]

In the development of the cities in the West, the significant factor was the opposition between the town and the country. The feudal lords in the tenth, eleventh and twelfth centuries encouraged town development within their areas because it brought them increased revenue.[61] In these towns the bourgeoisie soon became powerful enough to challenge the power of the feudal lords.[62] In the West, a threefold conflict between the crown, the feudal lords and the bourgeoisie paved the way for the bourgeoisie to consolidate its power, by aligning itself first with the crown against the feudal lords, and then by curtailing the power of the crown itself. Morton has given a graphic description of how the English bourgeoisie consolidated its power in the battle against the Spanish Armada:

> *Up to 1588, the English bourgeoisie were fighting for existence: after that they fought for power. For this reason, the defeat of the Armada is a turning point in the internal history of England as well as in foreign affairs. It was the merchants with their own ships and their money, who had won the victory and they had won it almost in spite of the half-heartedness and ineptitude of the crown and council, whose enthusiasm diminished as the war assumed a more revolutionary character. The victory*

> *transformed the whole character of the class relations that had existed for a century. The bourgeoisie became aware of their strength and with the coming of this awareness the long alliance between them and the monarchy began to dissolve. It might still need their support but they no longer needed its protection. Even before the death of Elizabeth, Parliament began to show an independence previously unknown.*[63]

Thus we find, in the western situation, that there were three forces which facilitated the capture of political power by the bourgeoisie: the king, the feudal lords, and the serfs. In its struggle against the feudal lords, the king had to surrender to its ally, the bourgeoisie, the legal and functional sovereignty of the city.[64] The attainment of charters, in particular for the states in Southern Europe, ensured to the bourgeoisie its victory against feudal fetters.[65]

A critical analysis of the social factors which formed the basis of occidental cities will make clear what enabled them to acquire freedom through charters. As mentioned earlier, there was an antagonism between town and country in medieval Europe which emanated from the feudal order of society. The solution to this problem was sought in containing the mercantile activities in the towns where it could be regulated and controlled. The feudal order and its ethic was apprehensive of the corrosive influence of commerce.

> *It was not that trade in itself was despised, but that the institutions, the activities and the rather obvious commercial instincts of professional merchants were clearly not consistent with the ideological precepts of the feudal order. Attempts to organize trade on a non-professional basis were insufficient, however, and the rank society was forced to rely on a professional merchant class which appeared, in some respects, to threaten its moral bases.*[66]

No such danger was present in India. Therefore, no such development occurred in India. India's development was similar to China's, as described by Weber in the following words:

> *In contrast to the Occident, the cities in China and throughout the Orient lacked political autonomy. The Oriental city was not a polis, in the sense of antiquity, and it knew nothing of the "city law" of the Middle Ages, for it was not a "commune" with political privileges of its own. Nor was there a citizenry in the sense of self-equipped military estates such as existed in Occidental antiquity. No military oath-bound communities like the Campagna communes of Genoa or other coniurationes ever sprang up to fight or ally themselves with the feudal lords of the city in order to attain autonomy. Nor forces emerged like the consuls, councils, or political asso-*

ciations of merchant and craft guilds such as Mercanza which were based upon the military independence of the city district. Revolts of the urban populace which forced the officials to flee into the citadels had always been the order of the day. But they always aimed at removing a concrete official or a concrete decree, especially a new tax, never at gaining a charter which might at least in the relative way, guarantee the freedom of the city.[67]

In the absence of feudalism in the East, the merchants and artisans in the city could not play the feudal forces against the king in their attempt at consolidation of power.*

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* - In breaking the power of the great feudal lords in the Wars of the Roses, the English king had to depend on the support of the rising bourgeoisie. "...the 'Tudor Revolution in Government', as Dr. Elton called it, was a consequence of social changes which were increasing the importance of the House of Commons vis-a-vis the House of Lords, which secularized the monastaries, which led to enclosure for ship-farming and to a society in which wealth came to be measured in £ s d, rather than in military followings. Indeed, by the end of the Wars of the Roses, with the growing importance of gunpowder, money was needed even to raise private armies. The dependence of the Tudors on the gentry [i.e., the bourgeoisie in agriculture] and the greatest merchants ... explains why Henry VIII said that he never stood so highly in his estate royal as in the time of Parliament." (Christopher Hill, *Reformation to Industrial Revolution*, p.29.)

The situation was similar in France. "This history of the Capetian monarchy had in fact been largely the story of its struggle against the aristocracy. Sometimes the royal power had won out, as under Francis I and Henry II, to go back no further, or under Henry IV and Richelieu. Sometimes the aristocracy had regained the advantage, through the wars of religion, the minority of Louis XIII or the Fronde. Under Louis XIV the conflict seemed to be over, and the nobility

The cities in India, as well as in Asia, could not win the "political autonomy" or "political privileges" that the medieval cities in the occident did. The nobility, however powerful they might have been in their area of operation, were nothing but mere tax collectors and public functionaries. The dependence of the Moghul Bureaucracy or the nobility on the state is clearly brought out by Irfan Habib in the following words:

> *The principal obligation of the masnabdars was the maintenance of cavalry contingents with horses of standard breeds. There was, therefore, an intimate connection between the military power of the Mughals and the jagirdari or assignment system. It was the great merit of the latter that it made the masnabdars completely dependent upon the will of the Emperor, so that the imperial government was able to assemble and despatch them with their contingents to any point at any time where and when the need arose.... There was one great struggle in protest from the nobility and the theocracy — the revolt of 1580 — but once it had been quelled, the Empire never really faced a serious revolt from within the ranks of its own bureaucracy.*[68*]

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saw itself at last even subjected to direct taxation.... Saint-Simon had complained of Louis XIV, that the monarch surrounded himself with nothing but 'vile bourgeoisie'." (George Lefebvre, *The Coming of the French Revolution*, p.16.)

* - Moreland characterizes the Indian nobility as follows: "We have officers posted to their charges by the

Habib further says:

> *The jagirdar as an individual member of the governing class* had no rights or privileges apart from those received from the Emperor. He could not manage his jagir just as he pleased, and had to conform to imperial regulations. The rate of the land-revenue demand and the methods by which it was to be assessed and collected were all prescribed by the imperial administration. The Emperor also decreed what other taxes to be collected. The conduct of the jagirdars and his agents was watched over and checked by officials such as Qanungos and chaudhuris, and fauzdars and newswriters.*[69]

Hence the merchants and artisans in the oriental cities could not acquire power by balancing the feudal lords against the emperor. They had to remain satisfied with play-

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king, and transferred, removed or punished, at his pleasure, administering their bharges under his orders, and subjected to the strict financial control of the Revenue Ministry. None of these features has any counterpart in the feudal system of Europe.... The use of feudal terminology was presumably inspired by the fact that some of the nobles of the Delhi Kingdom occassionally behaved like feudal barons, that is to say, they rebelled, or took sides in disputed succession to the throne; but, in Asia at least, bureaucrats can rebel as well as barons, and the analogy is much too slight and superficial to justify the importation of feudal terms and all the misleading ideas which they connote. The Kingdom was not a mixture of bureaucracy with feudalism: its administration was bureaucratic throughout." (W.H. Moreland, *Agrarian System of Moslem India*, pp. 218-219.)

* - Apart from the jagirdars, the other most numerous revenue collecting interest, the zamindars, also failed to emerge as the governing class. It neither could overcome its local limitation, nor could bring the state under its own control. "The *zamindar* class was so fatally divided, so narrowly bound by its caste and local ties (though they were indeed in some respects its real strength and ensured its survival) that it could never form into a united governing class and create an empire. This incapacity on the part of the most powerful indig-

ing a role subordinate to the courts, noblemen, priests and soldiers. In the East, the city could not become a centre of power for the bourgeoisie for it to wage a struggle first against the feudal fetters* and then against the state itself as it was the case in feudalism. The bourgeoisie failed to overcome the hegemony of the state.

This weakness of the Asian merchants and artisan classes vis-a-vis the state power was one of the reasons why these countries were defeated by the rising bourgeoisie of the West. It is interesting to note that most of the countries in Asia were colonised by various companies, by the bourgeoisie itself. The Western bourgeoisie was not only victorious in its home country, it was also victorious in its march for power on foreign soil.

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enous class may provide us with at least one explanation of why the main impetus towards empire-building in medieval India came so repeatedly from foreign conquerors." (Irfan Habib, *The Agrarian System of Mughal India*, p.169.)

* - "In the middle ages citizens in each town were compelled to unite against the landed nobility to save their skins. The extension of trade, the establishment of communications, led the separate towns to get to know other towns, which had asserted the same interests in the struggle against the same antagonist. Out of the many local corporations of burghers there arose only gradually the burgher *class*. The conditions of life of the individual burghers became, on account of their antagonism to the existing relationships and of the mode of labour determined by these, conditions which were common to them all and independent of each individual. The burghers had created the conditions in so far as they had torn themselves free from feudal ties, and were created by them in so far as they were determined by their antagonism to the feudal system which they found in existence." (Karl Marx, *Pre-Capitalist Economic Formations*, p.131.)

The rise and decline of a nascent bourgeoisie

In the preceding pages, we have described what factors stood in the way of the development of an indigenous capitalism in India. Now we will see how, despite these impediments, a prosperous merchant class came into existence in the seventeenth and eighteenth centuries as a result of the opening of long-distance trade with the West. The question is, how this merchant class could emerge as a social force when the Asiatic mode of production was a stagnant system based on a more or less inalienable interdependence between agriculture and the village artisan industry.

The point we want to emphasise is: it would be wrong to conclude from our above discussion that the Indian social economy was totally immobile. No mode of production can be absolutely static. In fact, under the impact of international trade, the Indian economy was undergoing a formidable change. We have already mentioned that in the urban centres of India (see p.35 note) there were merchants and urban artisans who catered to the needs of the court. With the expansion of sea trade, the demand for their products in the foreign markets outstripped the demands of the court and its hangers-on. Consequently, the dependency of the merchants and urban artisans on the court began to decline and they started to emerge slowly as an incipient capitalist class, and began to erode the autonomy of the village economy.

When the Europeans came to India, the trade with the British East India Company, the Dutch East India Company, the French East India Company and other companies, led to an efflorescence of commercial activities in India. Indian industrial commodities had a very good market all over Europe.*

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* - In fact, there was a great demand for Indian products in Europe even before the discovery of the sea route to India from Europe by Vasco da Gama. Most of this trade was carried over the land route through Turkey, Iran and the Arab peninsula. However, the discovery of the sea route (1498) via the Cape of Good Hope gave a tremendous boost to the Indian industries which found a ready market in Europe. The purchasing power of Europe increased many times in the sixteenth century with the arrival of silver from Latin America. "A systematic drain on precious metals from the whole world continued, primarily to the profit of the Great Mogul and his states [i.e., India]. The reader must take into consideration that all the gold and silver which circulates in the world ultimately goes to the Great Mogul (i.e., the emperor of India), as if to its centre. It is known that the metals that leave America go partly to Turkey and partly to Persia, via Smyrna, for silk after having roamed over several European kingdoms. But the Turks cannot do without coffee from Yemen or Arabia Felix. No more can the Arabs, Persians and Turks do without commodities from the Indies. This means that they send large sums of money by the Red Sea to Moka near Bab el Mandeb, to Bassorah at the bottom of the Persian Gulf, to Bandar Abbessi and to Gommeron, and from there take it to the Indies on the ships." The Dutch, English and Portuguese also made their purchases in the Indies against gold and silver because "... we can only get from the Indian the merchandise we want to transport to Europe with hard cash.... But, as nothing is free, India had to pay dearly for its precious metals. *This was one of the reasons for its austere life* and also for the rise of its compensation industries, notably the textiles of Gujerat, a real driving force of the Indian economy even before the arrival of Vasco da Gama.... From the sixteenth century on, an enormous burst of industrialisation began there and spread towards the Ganges. In the eighteenth century, cotton prints flooded into Europe. They were imported by British merchants in large quantities until the

Since the beginning of the sixteenth century, Indian goods began to enter Europe directly via sea routes. This gave a tremendous boost to production in India, particularly to urban crafts. In 1601, the various East India Companies exported to India 22,000 pounds sterling worth of bullion to import commodities to Europe; at the end of the century, the bullion export totalled annually about 800,000 pounds.[70] From the beginning of the seventeenth century to the end of the eighteenth century, India's export to England increased continuously.

> *At the beginning of English trade in calicoes, 13,000 pieces of calico were exported in 1618-19. The figure rose sharply to 200,000 pieces in 1629. Between 1680-83 about two million pieces of cotton goods and silk stuffs were imported per annum on an average by the English India Company for the English and European markets. In 1720, the year of the imposition of fresh restriction of the import of calicoes to England, the aggregate import was 1,502,498 pieces, including calicoes, wrought silk and sooseys. The value of such cotton goods has not been accurately estimated. Between 1677-1680 the aggregate value of the cloth goods was roughly estimated in the English Parliament between £200,000 and £300,000 of which the calicoes alone accounted for*

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moment came when England preferred to manufacture them itself and competed with them" (Fernand Braudel, *Capitalism and Material Life, 1400-1800.*)

£150,000 to £160,000. In 1769-97 the value of piecegoods from India imported into England was £2,776,082 or one-third of the whole volume of the imports from India. In the sixteen years between 1793-94 and 1809-10 the imports of Indian piece goods amounted to £26,171,125.[71]

Other East India companies were also actively engaged in importing huge amounts of Indian cloth products to Europe.

The total annual export of Indian hand loom products by sea in the seventeenth century has been estimated by Moreland at 50,000 million square yards, 15,000 bales of cotton goods being exported by the English merchants and 10,000 bales by the Dutch to Europe, making a total of 20,000 bales or 32 million square yards for Europe excluding the trades of the French, the Portuguese and the Danes. Markets in the Far East, the Red Sea and Persian Gulf supplied by the Europeans as well as by Indian, Javan and Siamese merchants absorbed, it is roughly computed another 18 million sq. yards of cloth. 1½ to 3 million sq. yards more represented the cloth export to Persia and Central Asia up to the borders of the Caspian Sea by land routes.... Tavernier estimates that the Dutch took from Bengal 6,000 to 7,000 bales of silk annually and the merchants of Tartary took another 6,000 to 7,000 bales. Reckoning a bale at about 1400 sq. yards the Bengal silk trade alone may be taken as somewhere about 19.6 millions of sq. yards at this period.[72]

In 1791, the import of Indian cotton piece goods by France amounted to 1.2 million, while a considerable quantity of these was also exported in American vessels (valued at Rs 5,600,000).[73]

From this huge trade in Indian products the Indian merchant class of various urban centres was gradually becoming stronger and bolder. The principle dynamic in the formation of this class was international trade. The capital (in money form) accumulation of this class became so big that it became a common practice for them to advance loans to European trading companies.

> *Before the Dutch financiers came to the rescue of the English trading corporation, the English merchants trading in India had on many occasions resort to borrowing of capital from the native bankers.*[74]

They even started to give loans to revenue farmers. Radhakamal Mukerjee has given a graphic description how this class was becoming stronger despite various restrictions imposed on it by the agents of the state.

> *In spite of the variety of imposts, fines and exactions, a class of rich shop keepers, traders and financiers developed in the large towns of India. In the imperial capital, Delhi, Mandelso records there were 80 carvansaries for foreign merchants, most of them three stories high, with very noble lodg-*

ings, store houses, vaults and stables belonging to them. It was estimated by Manrique that at the town of Patna there were as many as 600 brokers and middlemen most of whom were wealthy.... Similarly in Bengal there were the seths of Murshidabad who represented a most influential banking and financial house, advanced money to moth farmers of revenue and nawabs of Bengal and wielded great political influence at the time of the advent of the English in the province.[75*]

With regard to the social origins of this class, N.C. Sinha says:

The trading classes of the mid-eighteenth century were a pre-eminently non-feudal community. There were not sprung from the landed capital, nor did they invest in land. The Jagatt Seths had no landed estates, the Arunji Nathji would not invest

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* - Two factors were responsible for the political influence the merchants were attaining. First, the weakening of the Moghul centralised state led to the consolidation of power by the jagirdars or revenue assignees. These revenue farmers became dependent on the seths to maintain their independence from the control of the central state and also to wage internecine warfare among themselves. Second, the European companies took active part in these struggles, at first to protect their own interests, and later on to curb the interests of other European companies. To do so, they had to make forts and build their own army. The native merchants who traded with them could seek their protection in need. However, the fate of two "jagat seths" (world bankers) of Murshidabad clearly indicates that their political power had no institutional base. Their conspiratorial careers were ended by Mir Kasim, the last "independent Nawab" of Bengal.

> *in land grants from the Company and a class of the Cheltics would prefer to be petty traders than land-holders. The cause of this aversion to land lay in the fact that the national economy provided far better field of investments than land. There was a wide spread and highly developed textile industry whose variegated products sold in the markets of Europe.*[76]

Thus, in the seventeenth and eighteenth centuries, there were many industries in India — of these, the textile was the most important — that could compare favourable with the most flourishing industries of Europe of that period. To cite a few examples, Delhi, Agra, Meerut, Lucknow, Lahore, Patna Ahmedabad, Dacca and many others became great industrial centres.[77] How could these towns have become so great if they depended, as we mentioned earlier, only on the favour of the court? As Henry Maine has rightly observed, these industries sometimes outgrew the needs of the court.

> *Some peculiar manufacture had sometimes so firmly established itself as to survive the desertion, and these manufacturing towns sometimes threw out colonies.*[78]

Usually a particular industry flourished in a particular city, for example, muslins at Dacca, silk at Murshidabad, chintzes at Lucknow, dhotis and dopattas at Ahmedabad, shawls at Srinagar.[79] The cotton manufacturers were, of course, the most widespread; next to them in importance were the manufacturers of silk cloths.[80] The towns in Bengal, especially Dacca, Murshidabad, and Malda, excelled in the production of both textile and silk.[81] The muslin of Dacca was the finest and best known of all these. It was of the Dacca muslin that a Manchester manufacturer, when he could not rival its fineness, said deprecatingly that it was but "a shadow of a commodity".[82]

According to Edmund Burke:

> *... there are to be found (in India) a multitude of cities not exceeded in population and trade by those of the first class in Europe: merchants and bankers who have once vied in capital with the Bank of England, whose money had often supported a tottering state and preserved their governments in the midst of war and desolation; millions of indigenous manufacturers and mechanics.*[83]

Thus we find, just before the rise of the British, a new bourgeoisie that was coming into its own in the emerging trading cities of India.

This efflorescence of trade and industry, which started with the discovery of the sea route to India from Europe, continued until the victory of the British power. The towns which were centres of administration were transforming gradually into flourishing trade centres. Merchant capital also took the fundamental step towards manufacturing industry by separating the producers from the products.

> *The merchant capitalist advanced funds to the weavers with which they bought the necessary material and supported themselves while at work. Thus, when they handed over their products to the merchant capitalist, they were no longer owners of their own produce. The product was alienated from the producer. The merchant capitalist derived not the usual profit out of buying cheap and selling dear; he was already exploiting the labour power of the producer.*[84]

Under such circumstances, it was not impossible that the Indian bourgeoisie could have triumphed and caused the birth of industrial capitalism.

The development of the new form of commerce and industry was also working as a disintegrating force in the village community in some parts of India. The production of the village artisans, particularly in Bengal and other advanced areas, was no longer oriented to meet the needs of the village; it was being produced for the world market.*

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* - However, in most parts of India, the unity between agriculture and industry remained unchanged. Moreover, the dissolving effect of commerce was more pronounced in the case of weaving than in other artisan industries (see chapter 5). It should also be kept in mind that the urban industry which catered to the court was, by nature, different from the village industry. "It will be seen that a twofold division has thus been made in the old Indian industry. On one

His production was no longer the property of the community to be exchanged by himself into other necessities produced by equally independent members of the community. Arts and crafts, which centuries ago had arisen as a part of the village economy within the bonds of castes, had long ceased to be the exclusive concern of the isolated villages, but was taken from one province to another in order to be sold and resold by a prosperous trading class with considerable capital accumulated in its hand. The principal industries had been commercialized and their base had been removed from the village confines to the towns, hundreds of which flourished all over the country. Still confined to the caste guilds in so far as labour was concerned, the social and economic control of the industrial products had gone out of the hands of the artisan. Instead of completely controlling production and distribution as before, the craftsman was supplied with raw materials by the trading

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side are the village industries, which included the village servant class of artisans and also such classes as the country weaver, goldsmith, etc. The characteristic of this class was that they were spread throughout India. This class of industry was also confined, more or less, to the primary needs of man and the organization of the industry was of the crudest. The second class is that of urban industry, better organized and confined to the higher class of products. The division is obviously of a rough nature. In the village, a luxury industry was a very rare phenomenon, but in the town there were always some industries, which were akin in the nature of their products to the village industry group, for example, a certain amount of coarse weaving, ordinary pottery works, etc., were always to be found in the towns." (D.R. Gadgil, *The Industrial Evolution of India*, p.45.)

> *middleman, who took the finished products out of the former's hand, not to distribute it according to the needs of the community, but to sell it for profit.*[85]

In this connection, this statement of Marx in *Grundrisse* is very significant:

> *In the periods of the pre-bourgeois relations, there sporadically occur free workers whose services are bought for purposes not for consumption, but of production; but, firstly, even if on a large scale, for the production only of direct use values, not of values; and secondly, if a nobleman, e.g., brings the free-worker together with his serfs, even if he resells a part of the worker's product, and the free-worker thus creates value for him, then this exchange takes place only for the superfluous (product) and only for the sake of superfluity, for luxury consumption; it is thus at bottom only a veiled purchase of alien labour for immediate consumption or use value. Incidentally, wherever these free-workers increase in numbers, and where this relation grows, there the old mode of production — commune, patriarchal, feudal, etc. — is in the process of dissolution, and the elements of real wage labour are in preparation.*[86]

From the point of view of organisation, the merchant capitalist introduced an even more significant innovation.

The products were often procured as semi-finished and the final processing was carried out in the workshops by the craftsmen who worked as wage labourers.[87] So this class of traders could be viewed as the advance guard of the coming Indian industrial bourgeoisie and might have developed into the modern capitalist class had not its normal growth been obstructed. The defeat of the rising bourgeoisie of India at the hands of more developed bourgeoisie of England sealed India's fate.

But how could the bourgeoisie grow without weakening the state? In fact, India's social structure was undergoing a significant change at this period. As M.N. Roy says:

> *In the later part of the eighteenth century, there came into existence in India a prosperous trading class with considerable capital accumulated in its hands. This trading class was largely responsible for undermining the foundations of feudalism (office-prebend) in the days of the decay of the Moghul power. All the big landowners, as well as the rulers of the various independent states that sprang up on the ruins of the Moghul Empire, were heavily indebted to this class of usurious traders.*[88]

Dr. Ganguly has more succinctly described how a new kind of feudalism was emerging on the ruins of the central authority of the state:

So long as there was a strong central authority, the revenue farmers were mere government officials. But when, after the death of Aurongzeb, the authority of the king began to wane, the local officers and assignees declared themselves independent of the central authority. Since time immemorial, the right to demand and collect revenue, had been, in the minds of the Indian rural population, regarded as an attribut of sovereignty. The revenue farmers made use of this popular idea and began to exercise not only rights of ownership of land but also magisterial and administrative powers.[89]

Thus we find, in India's land relations, a significant change taking place at this period; it was a transition from prebendalization to feudalization. According to Weber, prebendal organization of office means:

Payments which are somehow fixed to objects or which are essentially economic usufruct from lands or other sources. They must be compensation for the fulfillment of actual or fictitious office duties; they are goods permanently set aside for the economic assurance of the office. The transition from such prebendal organization of office to salaried officialdom is quite fluid.[90]

Moreover, as has been hinted by Weber, prebendalization can either transform itself into pure bureaucracy with the development of the money economy or into landlordism with the consolidation of power by the tax farmers. In the case of England, France and other West European nations, "the sale of office" was gradually replaced by pure bureaucracy; in India the bureaucrats were transforming their "office prebends" into hereditary estates.

In the development of capitalism in the West, the bourgeoisie at first sided with the crown or the state because the feudal relations were fetters on its growth; in the East, the state was the greatest obstacle which had to be overcome for its emancipation. How irritating was the hold of the bureaucracy on the bourgeoisie can be understood from the following description:

> *It is mentioned that Mir Jumla once demanded Rs 50,000 from the merchants of Dacca. On refusal they were threatened with death by being trampled by elephants and compromised for Rs 25,000 while the bankers of the city appeased his wrath by paying Rs 300,000 without much further ado. Occasionally, however, the mercantile community could protest successfully against the exactions of a governor or high administrative officer by hartal or suppression of business.*[91*]

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* - Mir Jumla was governor of Bengal. He held this office during the reign of the last great Moghul emperor, Aurongzeb, in the early eighteenth century.

"In the 12th century A.D., Balasena who was ruling Bengal during those days was involved in debt due to his

So it was not surprising that this rising merchant class would try to undermine the authority of the state. They did this by forming an alliance with the tax farmers, or office-prebend holders metamorphosed into landlords. However, the weakening of the state did not lead to the consolidation of power by the bourgeoisie. Before the bourgeoisie could form its own state, the internecine warfare among the feudal lords and the consequent decline of the central authority created a power vacuum into which the British stepped.[92*]

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wars with the king of Manipur, and took a loan of rupees one crore (ten million) from Vallabhananda Adhya, and when he felt the necessity of further money, he again approached the same banker. The banker realizing foul play refused the grant of loan and thus became the victim of the wrath of the king." (B. Bhargava, *Indigenous Banking in Ancient and Medieval India*, pp. 223-224.) This is the reason, Bernier states, the rich men, merchants, revenue collectors, etc., in India always feigned themselves as poor.

* - Here Immanuel Wallerstein made a mistake in claiming that feudalism had an ideological superiorty over prebendal organization in forming absolute national monarchies or nation states in Europe. He says, "... a prebendal land-controlling class can better resist the growth of a truly centralized monarchy than a feudal land owning class, because the feudal value system can be used by the king insofar as he can make himself the apex of a single hierarchical system of feudal relations (it took the Capetians several centuries to accomplish this), to build a system of loyalty to himself, which, once constructed, can simply shed this personal element and become loyalty to a nation, of which the king is the incarnation." (Immanuel Wallerstein, *The Modern World System*, p. 58.) In fact, the prebendal land-controlling class, as has been made very clear by Weber, was totally dependent on the state. The military violence by the state in the East (i.e., the relative weakness of the horsemen compared with the infantry), — the very factor mentioned by Wallerstein — was responsible for the weakness of the prebendal land-controlling class vis-a-vis the state. Moreover, contrary to Wallerstein's contention, the Cape-

Thus, the emerging bourgeoisie of India was defeated by the established bourgeoisie of England which enjoyed the backing of its own state power. The Indian nascent bourgeoisie might have succeeded in overcoming the obstacles of the state power and the rising feudal elements if they could have succeeded in keeping the country independent a little longer.

For Marx, three factors were necessary for the indigenous development of capitalism in any country:

> *First, a rural social structure which allows the peasantry to be set free at a certain point; second, the urban craft development which produces specialised, independent, non-agricultural commodity production in the form of crafts; and third, accumulation of monetary wealth derived from trade and usury.*[93]

From the above analysis of the social economy of India just before the rise of British power, it is clear that India satisfied the second and the third conditions, but her rural structure, except in very few places, was far from the kind of dissolution which could lead to the large-scale alienation

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tians had to depend on the bourgeoisie to curtail the power of the feudal lords, and to create an absolute monarchy and a nation state (see the note, p.70). Feudalism's contribution in creating the nation states in Europe did not lie in providing an ideology, but in creating a countervailing force against the state that provided an opportunity for the consolidation of power by the bourgeoisie. The nation states in Europe were the creations of the bourgeoisie.

of the peasants from the soil. The forces of production and their relationships were thus the main stumbling blocks on which the city bourgeoisie floundered. Their weakness vis-a-vis the state also stemmed from this.

Notes to chapter 2

1. H. Pirenne, Economic and Social History of Medieval Europe, pp. 42-45.

2. Ibid., pp. 82-83; H.K. Takahashi, "A Contribution to the Discussion", pp. 81-82 in R. Hilton (ed.), The Transition from Feudalism to Capitalism.

3. C. Hill, Reformation to Industrial Revolution, pp. 146-154.

4. Pirenne, Economic and Social History, p. 54; see also H. Pirenne, Medieval Cities; M. Weber, The City; See, Henri, Modern Capitalism.

5. Leo Huberman, Man's Worldly Goods, p. 48; Hilton, "A Comment", in Transition, pp. 114-115.

6. See H.J. Habakkuk, "English Landownership, 1680-1740"; G. Lefebvre, The Coming of the French Revolution, p. 14; M. Dobb, Studies in the Development of Capitalism, p. 193; M. Weber, General Economic History, p. 94; Pirenne, Economic and Social History, p. 84.

7. Marx, Capital, I, pp. 784-785; J.D. Chambers, "Enclosure and Labour Supply in the Industrial Revolution"; Hill, Reformation, pp. 146-154.

8. Marx, Capital, I, pp. 784-804.

9. Marx, Grundrisse, pp. 253, 505; Capital, I, p. 163; E. Mandel, From Class Society to Communism, p. 38.

10. Marx, Grundrisse, p. 508.

11. Marx, Capital, III, p. 389.

12. Ibid., p. 390.

13. M.N. Roy, India in Transition, pp. 91-92.

14. See: Huberman, Man's Worldly Goods, pp. 56-60; A. Toynbee, Lectures on the Industrial Revolution of the 18th Century in England.

15. Lefebvre, "Some Observations", in R. Hilton (ed.), The Transition, pp. 125-126; also see R.M. MacIver, The Modern State; F. Oppenheimer, The State: Its History and Development viewed Sociologically; Marx, Capital, I, p. 789.

16. Marx/Engels, "Manifesto of the Communist Party", in Selected Works, p. 37; R.H. Tawney, "Harrington's Interpretation of His Age", pp. 211-216.

17. E.J. Hobsbawm, The Age of Revolution, pp. 79-86; P. Zagorin, "The English Revolution, 1640-1660".

18. L. Krader, Asiatic Mode of Production; B. Hindess and P. Hirst, Pre-Capitalist Modes of Production; G. Lichtheim, "Marx and the Asiatic Mode of Production"; D. Thorner, "Marx on India and the Asiatic Mode of Production".

19. Marx, Critique of Political Economy, p. 29n.

20. Engels, "Letter to Marx, June 6, 1853".

21. Huque, Azizul, The Man Behind the Plough, p. 214.

22. I. Habib, The Agrarian System of Mughal India, pp. 256-260.

23. F. Bernier, Travels in Mughal India, p. 224.

24. M. Weber, Religion of India, p. 71.

25. Marx, Economic and Philosophical Manuscripts of 1844, pp. 100-101.

26. Ibid.

27. Ibid.

28. K. Takahashi, "A contribution to the Discussion", in Hilton (ed.), Transition, pp. 80-84; Lefebvre, "Some Comments", in Ibid., pp. 125-126.

29. Tawney, Agrarian Problems in the Sixteenth Century, pp. 257-258; P. Mantoux, Industrial Revolution in the Eighteenth Century, p. 177.

30. Lefebvre, "Some Observations", in Hilton (ed.), Transition, pp. 14-15; Huberman, Man's Worldly Goods, p. 109; Tawney, Agrarian Problems, pp. 406-408; F.M.L. Thompson, "The Social Distribution of Landed Property in England since the Sixteenth Century", p. 515.

31. Weber, General Economic History, p. 94; Marx, Capital, III, pp. 927-929.

32. Marx, _Pre-Capitalist Economic Formations_, p. 69; House of Commons, _The Fifth Report from the Select Committee on the Affairs of the East India Company, 1812_, p. 85; Altekar, _State and Government in Ancient India_.

33. K.S. Shelvankar, _The Problem of India_, p. 78.

34. R. Mukherjee, _Democracies of the East_, p. xxiii.

35. Marx, _Capital_, I, pp. 784-805; Hilton, _Transition_, pp. 113-116.

36. Habakuk, "English Landownership, 1680-1740", pp. 15-16.

37. Marx, _Capital_, III, pp. 917-919.

38. M. Bloch, _Feudal Society_; Pirenne, _Early Democracies in the Low Countries_, pp. 46-47.

39. Marx, _Capital_, III, p. 919.

40. _Ibid._, I, p. 392.

41. Habib, _Agrarian System_, p. 154.

42. _Ibid._, p. 153.

43. See: House of Commons, _The Fifth Report from the Select Committee on the affairs of the East India Company, 1812_; G.C.M. Birdwood, _The Industrial Art of India_, p. 137; D.R. Gadgil, _The Industrial Evolution of India_, p. 10.

44. Marx, _Capital_, I, pp. 392-394.

45. Weber, _Religion of India_, p. 111.

46. Gadgil, _The Industrial Evolution of India_, p. 10.

47. Marx, _Pre-Capitalist Economic Formations_, p. 70.

48. _Ibid._, p. 83.

49. K.S. Shelvankar, _The Problem of India_, p. 80.

50. Marx, _Pre-Capitalist Economic Formations_, p. 70.

51. _Ibid._, pp. 70-71.

52. _Ibid._

53. _Ibid._, p. 83.

54. Gadgil, _The Industrial Evolution of India_, p. 11.

55. Huberman, _Man's Worldly Goods_, pp. 55-56.

56. Marx, _Pre-Capitalist Economic Formations_, pp. 77-78.

57. Gadgil, _The Industrial Evolution of India_, p. 6.

58. See B.B. Dutt, _Town Planning in Ancient India_; J. Sarkar, _Economics of British India_, pp. 55-56.

59. H. Maine, _Village Communities in the East and West_, p. 119.

60. Marx, "Letter to Engels, June 2, 1853".

61. A.B. Hibbert, "The Origins of the Medieval Town Patriciate", pp. 15-27; see also, Pirenne, _Early Democracies_, p. 20.

62. Huberman, _Man's Worldly Goods_, pp. 73-74; see also, Pirenne, _Medieval Cities_.

63. Cited in R.K. Mukherjee, _The Rise and Fall of the East India Company_, p. 237.

64. Pirenne, _Economic and Social History of Medieval Europe_, pp. 50-52; Huberman, _Man's Worldly Goods_, pp. 72-76.

65. _Ibid._

66. H. David, _Social Justice and the City_, p. 252.

67. Weber, _Religion of China_, p. 13.

68. Habib, _Agrarian System_, pp. 317-318.

69. _Ibid._, p. 319.

70. Mukherjee, _The Economic History of India_, p. 29.

71. _Ibid._, pp. 161-162.

72. _Ibid._, pp. 158-159.

73. _Ibid._, pp. xvii-xviii.

74. N.C. Sinha, Studies in Indo-British Economy Hundred Years Ago, p. 17.

75. Mukherjee, The Economic History of India, p. 76.

76. Sinha, Studies, p. 32.

77. Gadgil, The Industrial Evolution of India, pp. 33-35.

78. Maine, Village Communities, p. 119.

79. Gadgil, The Industrial Evolution of India, p. 34.

80. Ibid.

81. Ibid.

82. Ibid.

83. Cited in M.N. Roy, India in Transition, pp. 98-99.

84. Anonymous, "On the Formation of the Hindusthani Nationality and the Problems of its National Language", p. 9, cited in Mukherjee, The Rise and Fall, p. 154.

85. Roy, India in Transition, p. 97.

86. Marx, Grundrisse, p. 469.

87. S. Chaudhury, Trade and Commercial Organisation in Bengal 1650-1720 with Special Reference to the English East India Company, p. 154; M.N. Roy, India in Transition, pp. 97-98.

88. Ibid.

89. Cited in A.K.N. Karim, The Modern Muslim Political Elite in Bengal, Unpublished Ph.D. Dissertation, London University, 1964.

90. Weber, Essays in Sociology, p. 207.

91. Mukherjee, The Economic History of India, p. 67.

92. See Percival Spear, A History of India.

93. Marx, Pre-Capitalist Economic Formations, see "Introduction" by E.J. Hobsbawm, p. 48.

Chapter 3

THE VICTORY OF THE BRITISH AND ITS IMPACT ON THE EVOLUTION OF SOCIAL CLASSES IN INDIA

Prolegomena

In this chapter, we will examine the impact of the British rule on the evolution of India's social economy and social classes, and the role of the state in this process.

We will first attempt to analyse how the establishment of the colonial state in the service of a metropolitan mercantile bourgeoisie led to the disappearance of the rising merchant bourgeoisie of India and to the ruthless exploitation of its artisan industry. Then we will try to explain how the victory of industrial capitalism in establishing its hegemony over the state power in England eventuated the metamorphosis of the task of the colonial state into reducing India from an exporter of manufactured commodities to an importer of the same, in short, how India was made a supplier of primary products for, and a market of metropolitan capital. The process was accompanied by the conversion of Indian agriculture into a source of primitive capital accumulation for the metropolitan centre. The various measures including legislations which were adopted by the colonial state did not, however, result in any fundamental change in the organisation of production in Indian agriculture. This process of integrating India into the world capitalist market necessitated the creation of new relations of production, and new state apparati. As a consequence new social classes and social categories came into existence. However, due to the obstructed growth of industries (but not their total absence) and the failure of the capitalist class to establish its sway over agriculture, the public officer and other professions related to the state remained, as in the pre-colonial period, the most important sources of occupations as well as power. Thus, during the colonial period, despite the emergence of an industrial bourgeoisie and a proletariat, as we will discuss below, the basis of the hegemony of the state remained substantially unaltered.

The colonial state and the decline of incipient capitalism

The victory of British power (in 1757) killed indigenous capitalism in its nascent stage. The trade which was being carried on by the East India Company, and for which England had to pay huge amounts of bullion to the Indian traders and manufacturers, was transformed into an "organised plunder".

The artisans were forced to accept whatever price the company and its agents paid to them. (The agents of the company also had their own native employees, known as *gomasthas*. They also used to trade in the name of the company.) The plundering was so merciless, even the English-appointed Bengali Nawab protested to the Company's governor in Calcutta:

> *They forcibly take away goods and commodities of the ryots, merchants, etc., for a fourth of their value; and by ways of violence and oppression, they oblige the ryots, etc., to give five rupees for goods which are worth but one rupee.*[1]

An English merchant, "who saw things with his own eyes", has presented a vivid picture of how the artisans were being turned into "bond slaves of the company".

> *Inconceivalbe oppressions and hardships have been practised towards the poor manufacturers and workmen of the country, who are, in fact, monopolised by the Company as so many slaves. Various and innumerable are the methods of oppressing the poor weavers, which are duly practised by the company's agents and gomasthas in the country; such as by fines, imprisonments, floggings, forcing bonds from them, etc., by which the number of weavers in the country has been greatly decreased.... Upon the gomastha's arrival at the aurang or manufacturing town,*

> *he fixes upon a habitation, which he calls his Kachari, to which by his peons and harkaras he summons the brokers, together with the weavers, whom he makes to sign a bond for the delivery of a certain quantity of goods, at a certain time and price, and pays them a part of the money in advance. The ascent of the poor weaver is in general not deemed necessary, for the gomasthas, when employed on the company's investment, frequently make them sign what they please.*[2]

Until the industrial revolution came into being in England, the main interest of the East India Company was not to turn India into a market, but to monopolise Indian exports. The Indian merchants were also prohibited from buying from Indian producers, and were forced to buy goods at higher prices from the company and its servants. Thus ended the days of prosperity of the Indian merchants. Henceforth they were allowed to exist only as the agents of the company and their employees in the form of *gomasthas* and *baniyans*.[3]

The "plunder of Bengal", however, helped capital formation in England on an unprecedented scale and ushered in the Industrial Revolution in England. Brook Adams has given a very vivid picture of how it happened:

> *Very soon after Plassey, the Bengal plunder began to arrive in London, and the effect appears to have been instantaneous, for all the*

authorities agree that the "industrial revolution", the event which has divided the nineteenth century from all antecedent time began with the year 1760. Prior to 1760, according to Baines, the machinery used for spinning cotton in Lancashire was almost as simple as in India; while about 1750 the English iron industry was in full decline because of the destruction of the forests for fuel ... Plassey was fought in 1757, and probably nothing has ever equalled the rapidity of the change which followed. In 1760, the flying shuttle appeared, and coal began to replace wood in smelting. In 1764, Hargreaves invented the spinning jenny; in 1776, Crompton contrived the mule; in 1785 Cartwright patented the powerloom and chief of all in 1768 Watt matured the steam engine, the most perfect of all vents of centralising energy. In themselves inventions are passive, many of the most important having lain dormant for centuries, waiting for a sufficient store of force to have accumulated to set them working. That store must take the shape of money, and money not hoarded but in motion. Before the influx of the Indian treasure, and the expansion of credit which followed, no force sufficient for this purpose existed; and had Watt lived fifty years earlier, he and his invention must have perished together. Possibly since the world began, no investment has ever yielded the profit reaped from the Indian plunder, because for nearly fifty years Great Britain stood without a competitor. From 1694

> *to Plassey (1757) the growth had been relatively slow. Between 1760 and 1815 the growth was very rapid and prodigious.*[4]

He further states how the circulation of money capital suddenly increased many times in England:

> *For more than sixty years after the foundation of the Bank of England, its smallest note had been for 20 pounds, a note too large to circulate freely, and which rarely travelled far from Lombard Street. Writing in 1790, Burke said that when he came to England in 1750, there were not "twelve bankers shops" in the provinces, though then (in 1790) he said, they were in every market town. Thus the arrival of the Bengal trade not only increased the mass of money, but stimulated its movement; for at once, in 1759* the bank issued 10 and 15 pound notes and in the country private firms poured forth a flood of paper.*[5]

Thus the plunder of Bengal was a major source of "the primitive capital accumulation", to use an expression of Marx. Andre Gunder Frank gives the role of primitive capital accumulation for the industrial revolution in Europe to Bengal and other major regions of Latin America.

> *There surely are no major regions in Latin America which are today more cursed by under-*

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* - Bengal was conquered in 1757.

> *development and poverty; yet, all of these regions, like Bengal in India, once provided the life blood of mercantile and industrial capitalist development -- in the metropolis.*[6]

The famous historian Christopher Hill notes:

> *Where did the capital for the industrial revolution come from? Spectacularly large sums flowed into England from overseas -- from the slave trade, and especially from the seventeen sixties, from organized looting of India.*[7]

Karl Marx has summarized how and where the capital was formed for the industrial revolution:

> *The discovery of gold and silver in America, the extirpitation, enslavement and entombment in mines of the aboriginal population, beginning of the conquest and looting of the East Indies, the turning of Africa into a warren for the commercial hunting of black skins, signalised the rosy dawn of the era of capitalist production. These idyllic proceedings are the chief momenta of primitive accumulation.*[8]

We have already observed that American gold and silver was pouring into India via Europe for payments for the Indian products. A major part of this huge capital was tapped from the "plunder of India". During the decade 1747-1756, according to Brook Adams, on the average of ten years 562,423 pounds in bullion was exported to India annually, but after 1757, bullion was no longer exported to India. The British trade in India was financed from the wealth collected in India.

We have already mentioned that the typical aim of the East India Company* was to make a profit by securing a monop-

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* - The East India Company was given its first charter in 1600 by Queen Elizabeth I. The company era in India continued until 1858, when the crown took direct control of the administration of India. In fact, the company's domination of India was during the second half of the eighteenth century. Although trading depots were establish in Surat, Madras, and Bombay in the seventeenth century, the new East India Company, which subsequently conquered India, received its first charter in 1698 and did not reach its final form until the beginning of the eighteenth century. "The true commencement of the East India Company cannot be dated from a more remote epoch than the year 1702, when the different societies claiming the monopoly of the East India trade, united together in one single company. Until then, the very existence of the original East India Company was repeatedly endangered, once suspended for years under the protectorate of Cromwell, and once threatened with utter dissolution by parliamentary interference under the reign of William III.

"It was under the ascendancy of that Dutch Prince, when the whigs became the farmers of the revenues of the British Empire, when the Bank of England sprang into life, when the protective system was formally established in England, and the balance of power in Europe was definitely settled, that the existence of an East India Company was recognised by Parliament. That era of apparent liberty was in reality the era of monopolies, not created by Royal Grants, as in the times of Elizabeth and Charles I, but authorised and nationalised by the sanction of parliament. This epoch in the history of England bears, in fact, an extreme likeness to the epoch of Louis Philippe in France, the old landed aristocracy having been defeated and the bourgeoisie not being able to take its place except under the banner of moneyocracy or the 'haute finance'. The East India Company excluded the common people from the commerce with India [the East India Company was a monopoly company], at the same time that the House of Commons excluded them from Parliamentary representation. In this as well as in other instances we find the first decisive victory of the bourgeoisie over the feudal aristocarcy coinciding with oly trade in the goods and products of India which found a ready market in England and Europe. Prior to 1857, the difficulty the company faced was that it had to pay in silver or gold because the British industries (which were still undeveloped) could not offer much in exchange for Indian goods.* So the British had to conduct their transactions in silver which they "obtained by the sale of the slaves in the West Indies and Spanish America."[9] As Knowles says:

> *The English trade with India was really a chase to find something that India would be willing to take, and the silver obtained by the sale of the slaves in the West Indies and Spanish America was all important in this connection.*[10]

It may be pointed out here that for more than two centuries and a half (1500-1757), the balance of trade was always in favour of India. The trade consisted mainly of

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the most pronounced reaction against the people...." (Karl Marx, *New York Herald Tribune*, July 11, 1858.)

* - "The whole difficulty of trading with the East lay in the fact that Europe had so little to send out that the East wanted — a few luxury articles for the courts, lead, copper, quicksilver and tin, coral, gold and ivory were the only commodities except silver that India would absorb. Therefore it was mainly silver that was taken out." (L.C.A. Knowles, *Economic Development of the Overseas Empire*, p.73.)

the export of cotton and silk goods in exchange for bullion.*
However, the merchant capital of the East India Company made huge profits from selling the Indian commodities in England and Europe. As Macaulay says:

> *The company enjoyed during the greater part of the reign of Charles II, a prosperity to which the history of trade scarcely furnished any parallel and which excited the wonder, the cupidity and the envious animosity of the whole capital (London).... the gains of the body (the East India Company) were almost incredible.... the profits were such that in 1676 every proprietor received as a bonus a quantity of stock equal to that which he held. On the capital thus doubled were paid, during five years, dividends amounting to an average of 20 per cent annually.*[11]

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* - "At the commencement of the East India Company's operations, under the reign of Elizabeth, the Company was permitted, for the purpose of profitably carrying on its trade with India to export an annual value of 30,000 pounds in silver, gold and foreign coin. This was an infraction against all the prejudices of the sage and Thomas Mun was forced to lay down in A Discourse of Trade, from England unto the East Indies, the foundation of the 'mercantile system', admitting that the precious metals were the only wealth a country could possess, but contending at the same time that their exportation might be safely allowed, provided the balance of payments was in favour of the exporting nation. In this sense, he contended that the commodities imported from East India were chiefly reexported to the countries, from which a much greater quantity of bullion was obtained than had been required to pay for them in India.". (Karl Marx, "The East India Company — Its History and Results," *New York Daily Tribune*, July 11, 1853.)

In 1677, the price of the stock increased to 245 for every one hundred. In the 1680s, it rose to 500. However, towards the end of the seventeenth century, according to Brook Adams, Europe, including England, was on the brink of a contraction of money, due partly to the constant bullion drain to Asia. A part of this huge amount was paid to the Indian manufacturers and traders. Throughout the seventeenth and until the middle of the eighteenth centuries, wealth poured into India from various European countries.[12]

However, this trend was changed after the company captured political power in the battle of Plassey. Since then, "methods of power could be increasingly used to weigh the balance of exchange and secure the maximum goods for the minimum payment."[13] From the very beginning of the East India trade, the purchase of commodities through bullion was dis-aggreeable to the merchant capitalist and to the whole system of mercantile capitalism which regarded gold and silver as the only real wealth.

L. Serafton, a member of Clive's Council, declared in 1763, on the basis of the plunder after Plassey, that it had been possible to carry on the whole India trade for three years without sending out one ounce of bullion.

> *These glorious successes have brought nearly three millions of money to the nation (Britain); for, properly speaking, almost the whole of the*

> *immense sums received from the Soubah (Bengal) finally centres in England. So great a proportion of it fell into the company's hands, either from their own share, or by sums paid into the treasury at Calcutta for bills and receipts, that they have been enabled to carry on the whole trade of India for three years together, without sending out one ounce of bullion. Vast sums have been also remitted through the hands of foreign companies, which weigh in the balance of trade to their amount in our favour with such foreign nations.*[14]

According to a report of the Company's governor, Verelest, during the three years 1766-68, India's exports amounted to 6,311,250 pounds, while here imports amounted to only 624,375 pounds.[15] Thus, ten times as much was taken out of the country as was sent into it. The deficit in the balance of trade was paid from the revenues collected in India, which was termed company's "investment". The House of Commons Select Committee reported, in 1783:

> *A certain portion of the revenues of Bengal has been for many years set apart in the purchase of goods for exportation to England, and this is called investment.... When an account is taken of the intercourse, for it is not commerce, which is carried on between Bengal and England, the pernicious effect of the system of investment from revenue will appear in the strongest point of view. In*

> *that view, the whole exported produce of the country, so far as the company is concerned, is not exchanged in the course of barter, but it is taken away without any return or payment whatever.*[16]

The whole situation was more clearly put by Burke in the following words:

> *This new system of trade, carried on through the medium of power and public revenue, very soon produced its natural effects. The loudest complaints arose among the natives, and among all the foreigners who traded in Bengal. It must have unquestionably thrown the whole mercantile system of the country into the greatest confusion....*
>
> *In all other countries, the revenue, following the natural course and order of things, arises out of their commerce. Here, by a mischievous inversion of that order, the whole foreign maritime trade, whether Englisy, French, Dutch or Danish, arises from the revenues; these are carried out of the country without producing anything to compensate so heavy a loss.*[17]

The Indian trade on the basis of Indian revenue was made possible because Clive, the governor of the company, obtained a charter in 1765 from the tottering Moghul Emperor who handed over the revenue administration of the Subah of

Bengal to the company. Although the Moghul emperor had no power, his charter gave the company a legal status.

This kind of revenue-farming* was first put into practice in Bengal in 1765. It was extended to other parts of India as the whole of India gradually came under the Company's rule before its demise was forced through the British Parliament in 1858 by the industrial bourgeoisie.**

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* - The extraction of revenue for capital accumulation was not restricted to Bengal alone. James Harrington, who had been called by Prof. R.H. Tawney as "the first English thinker to find the course of political upheaval in antecedent social change", wanted to extract as much revenue as possible from Ireland if necessary, even by settling the Jews in place of the slothful Irish and the English. He "approved of its subjugation, regretted that it was not producing nearly as much revenue for England as it could do, and would have liked to see it repopulated with a more industrious and enterprising people, the Jews, whom he thought capable of improving Ireland's agriculture and increasing its trade to levels which produce 4 million pounds a year 'dry rents', i.e., the net surplus product over and above the average wages of labour and the profits of enterprise. Of this surplus, he modestly proposed that only 2 million pounds a year (plus customs duties sufficient to maintain an army in Ireland) should be paid as tribute to England." (C.B. MacPherson, *The Political Theory of Possessive Individualism*, p.180.)

** - Besides these regular channels, the accumulated capital of India was also drained to England in another way. Enormous fortunes, as we have already noted, were made by individual officers of the company. Clive himself, who started as a writer or clerk in the service of the company, returned home with a fortune estimated at a quarter of a million pounds. In his own words, he accumulated fortunes of 100,000 pounds in two years. The other servants of the company were not lagging far behind Clive in this noble occupation of making wealth. Sir John Shore reported in his minutes of 1787, in reference to Bengal: "The exports of specie (bullion) from the country for the last twenty-five years have been great, and particularly during the last ten

There was also another means for extracting resources from India which came to be known as the "Indian debt". The total Indian debt was a little over seven million pounds in 1792, it rose to ten million in 1799. Then came Lord Wellesly's wars, and the Indian debt stood at 27 millions in 1807. The total debt of India stood at 69.5 millions in 1858, the year the company's rule merged with the Crown.[18] Moreover, India was debited with the expenses incurred in England. This debt was incurred by India for her own conquest by the company. She was also charged with the cost of the Afghan Wars, the Chinese Wars and other wars outside of India.[19*]

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of that period. It is well understood, although the remittances to China are by the government (Indian bullion was used to pay for Chinese opium and other products) provided by bills, that specie to a large amount has been exported to answer them.... Silver bullion is also remitted by individuals to Europe; the amount cannot be calculated, but must, since the Company's accession to the Dewany, have been very considerable." (Cited in Dadabhai Naoroj, *Poverty and Un-British Rule in India*, p.79.)

Marx also noted: "During the whole course of the eighteenth century the treasures transported from India to England were gained much less by comparatively insignificant [compared to the direct looting but not in absolute terms] commerce, than by the direct exploitation of that country, and by the colossal fortunes there extorted and transmitted to England." (Karl Marx, *New York Daily Tribune*, July 11, 1853.)

* - The following table, as given in the report of the Royal Commission on Indian Expenditures, Vol. II, page 305, will show how India had to carry the expenses of the wars fought for the expansion of the British Empire:

It is impossible to state exactly how much India had been drained since the battle of Plassey in 1757. Ac-

Foreign Wars whose cost was charged to India

Expedition	Ordinary charges paid by India	Ordinary charges paid by England	Extraordinary charges paid by India	Extraordinary charges paid by England
1st Afghan War	all	none	all	none
1st China War	all	none	none	all
Persian War	all	none	half	half
Abyssinian War	all	none	all	none
2nd Afghan War	all	none	all except	5,000,000
Egyptian War	all	none	all except	5,000,000
Soudan War	all	none	--	--

According to B.R. Thomilson, "The greatest, because the only irreplaceable advantage the British derived from India was the use of the Indian army. In 1880 the Indian Tax payer supported 130,000 Indian troops and 66,000 British troops; in Lord Salisbury's words, 'India was an English barrack in the Oriental Seas from which we may draw any number of troops without paying for them'." (B.R. Thomilson, *The Indian Economic and Social History Review.*) During the First World War, the government of India recruited over 800,000 combatants and over 400,000 non-combatants. At the end of the War in 1918-19, the government of India's national debt stood at 370 million pounds. The strain on India's economy during the Second World War was equally severe. She raised an army of 2.25 million and at the end of the war her defense expenditure was a staggering sum of 38,130 million rupees. The last finance member of the government of India described the impact of the War on India in the following words in his budget speech of February, 1946: "While India has been spared the material destruction that has befallen many other countries, she has suffered in full measure, and in some direction, in greater measure than others, the economic consequences of the war." (B.R. Thomilson, *Economic and Social History Review,* July - Sept., 1976.) The consequence was one of the worst famines in the history of mankind — the Great Bengal famine of 1942 in which about six million people died of hunger.

cording to Mr. Digby:

> *Estimates have been made which vary from 500,000,000 pounds to nearly 1,000,000,000 pounds. Probably between Plassey and Waterloo the last mentioned sum was transferred from Indian hoards to the English Bank.*[20]

Again, the excess of Indian exports (over imports) during the same period reached the enormous total of nearly 5,000,000,000 pounds.

> *If one could follow the money in all the ramifications through which, in India, it might have passed, its fertilising effect in every one of the five hundred and forty thousand villages, its accumulating power (money begets money) fructifying in a land where its expenditures would have led to an increase in substance, it would, even then, be impossible to put into words the grievous wrong which has been done to India.*[21*]

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* - The importance and magnitude of this sum could be understood if we take into account the purchasing power of a pound at that period. The accumulated capital of the richest textile industrialist of England, Sir Robert Peel, at his death in 1830, was only one and a half million pounds. The initial capital of the industry which his father started in 1760 was not more than a few thousand pounds. "The greatest of the early cotton industrialists was Sir Robert Peel (1750-1830), a man who at his death left almost one and a half million pounds — a vast sum for those days — and a son just about to become Prime Minister of Britain. The Peels were a family of yeoman peasants of middling status who, like others in the Lancashire Hills, combined farming and domestic textile production, at any rate from the mid-seventeenth century. Sir Robert's father (1723-95) still hawked his goods

As a result of this unprecedented organized economic drain from India, the rising merchant and urban artisan classes were completely wiped out.* However, as we have already observed, the destruction of the Indian industries eased the way for the emergence of the industrial revolution in England. England was mainly agricultural until the middle of the eighteenth century.

> *In 1750, there had been only two cities in Britain with more than 50,000 inhabitants — London and Edinburgh; in 1801 there were already eight, in 1851 twenty-nine, including nine over 100,000. By this time more Britons lived in cities over 50,000 inhabitants.*[22]

England, favoured with coal and iron mines and with easy credit emanating from the Indian plunder, soon dominated the

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about the countryside, moved into the town of Blackburn only in 1750, and even then had not yet quite abandoned farming. He had ... perhaps 2,000 to 4,000 pounds worth in land, which he mortgaged in the early 1760s when he formed a calico-printing firm with his brother-in-law Hayworth and one Yates, who brought into it the accumulated savings of his family's innkeeping business at the Black Bull.... Three years later — in the middle 1760s — its demand for cotton to print was such that the firm went into the manufacture of cloth itself." (E.J. Hobsbawn, *Industry and Empire*, p.62.)

* - What economic and extra-economic pressures were adopted by the metropolitan bourgeoisie to eliminate the nascent Indian bourgeoisie have been vividly described by various Indian scholars. See R.C. Dutt, *The Economic History of India*, (2 vols.); R.P. Dutt, *India Today*; and R.K. Mukherjee, *The Rise and Fall of the East India Company*.

world market.

The commercial basis was already well established in Britain. Socially, the conditions were ripe for the advance to industrial capitalism. A huge unattached labour force was ready to be tapped as the industrial proletariat. Still, the transition to the industrial capitalist stage required "an initial accumulation of capital on a much larger scale than was yet present in England of the middle eighteenth century."[23]

The resource transfer from India was one of the primary hidden "sources of capital accumulation" on which industrial England was built up. There is also no doubt that the transformation of merchant capital into industrial capital stemmed from the desire to "manufacture foreign imports at home."

> *This vast and growing circulation of goods did not merely bring to Europe new needs, and the stimulus to manufacture foreign imports at home. "If Saxony and other countries of Europe make up fine China", wrote the Abbe Raynal in 1777, "if Valencia manufactures Pekins superior to those of China; if Switzerland imitates the muslins and worked calicoes of Bengal; if England and France print linens with great elegance; if so many stuffs formerly unknown in our climates, now employ our best artists, are we not indebted to India for all these advantages?* More than this, it provided a*

* - Within a few years he would not have failed to mention the most successful imitators of the Indians — Manchester.

> *limitless horizon of sales and profit for merchant and manufacturer. And it was the British who — by their policy and force, as much as by their enterprise and inventive skill — captured these markets."*[24]

<u>India's transformation into an arena of primitive capital accumulation</u>

Once the industrial revolution was achieved in England, the task before the British power was to transform India from an exporter of cotton goods to the whole world to an importer of cotton goods — in short, to change her into a market for British industrial capital.[25]

As Hobsbawn says, "Whoever says Industrial Revolution says cotton,... the cotton industries of Lancashire and Manchester."[26] In fact, the industrial revolution could not have triumphed so easily without destroying the Indian cotton industry.*

> *The cotton manufacture was a typical by-product of that accelerating current of international and especially colonial commerce....*

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* - In the silk industry, too, the Indian products were far superior to the British products. In 1673, complaints were made that the imports of Indian silk, chintz, etc., were ruining the home manufacturers in Britain.

> *Its raw material, first used in Europe mixed with linen to produce a cheaper version of that textile ("fustian"), was almost entirely colonial. The only pure cotton industry known to Europe in the early eighteenth century was that of India, whose products (calicoes) the Eastern tradign companies sold abroad and at home, where they were bitterly opposed by the domestic manufacturers of wool, linen and silk. The English woolen industry succeeded in 1700 in banning their import altogether, thus accidentally succeeding in giving the domestic cotton manufacturers of the future something like a free run of the home market. They were as yet too backward to supply it, though the first form of the modern cotton industry, calico-printing, established itself as a partial import substitution in several European countries.... For the home market it produced a substitute for linen or wool and silk hosiery; for the foreign market, so far as it could, a substitute for the superior Indian goods, particularly when was or other crisis temporarily disrupted the Indian supply to export markets.*[27*]

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* - "Cotton acquired its characteristic link with the underdeveloped world, which it retained and strengthened through all the various fluctuations of fortune. The slave plantations in the West Indies provided its raw material until, in the 1790s, it acquired a new and virtually unlimited source in the slave plantations in the southern U.S.A., which therefore became in the main a dependent economy of Lancashire." (E.J. Hobsbawn, *Industry and Empire*, p.59.)

Although the industrial bourgeoisie in England succeeded in prophibiting the import of Indian textiles and silk into England, the East India Company continued to export Indian products to various countries of Europe.* Even in decline — because of the destruction wrought by the merchant bourgeoisie — the Indian industries remained superior to the British industries, especially in textile manufacture which became the primary industry in the industrial revolution of England.** So this superiority had to be destroyed

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* - "Parliamentary intervention, with regard to the East India Company, was again claimed, not by the commercial, but by the industrial class, at the latter end of the seventeenth century, and furing the greater part of the eighteenth, when the importation of East Indian cotton and silk stuffs was declared to ruin the poor British manufacturers, an opinion put forward in John Pollesfen's England and East India Inconsistent in Their Manufacturers, a title strongly verified a century and a half later, but in a very different sense. Parliament did then interfere. By the Act 11 and 12 William III, Cap. 10, it was enacted that the wearing wrought silks andof printed or dyed calicoes from India, Persia or China should be prohibited and a penalty of 200 pounds imposed on all persons having or selling the same. Similar laws were enacted under George I, II, and III in consequence of the repeated lamentations of the afterwards so 'enlightened' [apostrophe is Marx's] British manufacturers. And thus during the greater part of the 18th century, Indian manufactures were generally imported into England in order to be sold on the Continent, and to remain excluded from the English market itself." (Karl Marx, "The East India Company", *New York Daily Tribune*, July 11, 1853.)

** - It is interesting to note that even Napoleon was not successful in securing the complete prohibition of the illegal import of Indian textiles and silks into France until the British industrial capitalism totally destroyed the Indian industries. We get a glimpse of the attraction the European ladies felt for Indian muslin and silk from the autobiography of Queen Hortense, the step-daughter of Napoleon. "Meanwhile France was prosperous. The government if the rapidly growing manufacturers in England had to find markets.*

The first step was taken in this direction in 1769. With the rise of the power of the British bourgeoisie in the British parliament came the first parliamentary interference in the company's affairs. So, it was decided that the company should, during each year of the term, export British merchandise, exclusive of naval and military stores, to the amount of 380,837 pounds.[28] So, the directors of the company desired in a letter to the Governor of Bengal, dated 17th March 1769, that the manufacture of raw silk should be encouraged. In 1783, the House of Commons Select Committee on administration of justice in India remarked:

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was being organized. Public works were undertaken on a vast scale. The luxury which is necessary to the life of every great nation reappeared (which disappeared after the French Revolution). The First Consul (Napoleon), in order to free us from paying tribute to England, forbade the wearing of muslin materials.... When my mother and I would come into the room wearing an elegant dress, his first question was, 'Is that gown made of muslin?' We often replied that it was lawn from Saint Quentin, but if a smile betrayed us he would instantly tear the guilty garment in two.... Fashion completed what the Consul had begun, and what he might not have achieved without her; for Cashmir shawls (Indian), in spite of being frequently threatened with the fire, survived his taboo." (*The Memoirs of Queen Hortense*, p.56.)

* - Engels wrote: "The conquest of India by the Portuguese, Dutch and English between 1500 and 1800 had imports from India as its object — nobody dreamt of exporting anything there and yet what a colossal reaction these discoveries and conquests, solely conditioned by the interests of trade, had upon industry; they first created the need for export to these countries and developed large-scale industry." (Marx and Engels, *Selected Correspondence*, p.420.)

> *This letter contains a perfect plan of policy, both of compulsion and encouragement, which must in a considerable degree operate destructively to the manufacturers of Bengal. Its effect must be to change the whole face of that industrial country, in order to render it a field of the produce of crude materials subservient to the manufacturers of Great Britain.*[29]

Despite the fact that the mercantile bourgeoisie was carrying out the orders of the industrial bourgeoisie, it — in particular, the monopoly companies — appeared to be a nuisance and a hindrance to the rapid development of the industrial bourgeoisie. So, an ideological offensive was launched against the East India Company's administration in India by Adam Smith, the theoretical mentor of the rising industrial bourgeoisie of England. He demanded that the opportunities to trade in India should be made open to all.[30] However, this could not be done without undermining the mercantile basis of the company's rule. It is interesting to note how the governor of the company, Warren Hastings, the spokesman of the mercantile school, denied the possibility of developing India into a market.[31] So, it was no wonder that Warren Hastings (Governor General of India from 1772 to 1785) came under the wrath of England's great parliamentarians — Pitt, Fox, Burke, and Sheridan, the representatives of the rising industrial bourgeoisie (see Marx's comment on page 116).

As a result of the actions of the industrial bourgeoisie and their parliamentary representatives, the British manufacturers were forced into India through the agency of the company's Governor General and the company's commercial residents, while India's manufacturers were shut out from England by prohibitive duties. We have already observed, as early as 1769, that the directors desired the manufacture of raw silk to be encouraged in Bengal, and that of silk fabrics discouraged.

It was also directed that the silk-winders should work only in the company's factories and be prohibited from working outside "under severe penalties by the authority of the government."[32]

Although the mandate had its desired effect, and the manufacture of cotton and raw silk declined in India, India was not de-industrialised until 1813. Indian textiles and silk goods were still superior to the British products. However, the representatives of the industrial bourgeoisie in the British parliament were determined to promote British industries at the sacrifice of Indian industries. The demand for exporting British manufactures to India became a life and death issue with the British industrial capital since Napoleon Bonaparte put a ban on the import of British commodities into Europe (see footnote on page 116).

In 1813, an enquiry was made in the House of Commons to ascertain how India could be developed as a market for the rising British machine industry.[33*] It was found that only by prohibitive duties — not on the basis of the technical superiority of a machine industry — that India could be transformed into a British market.

> *It is also a melancholy instance of the wrong done to India by the country on which she has become dependent. It was stated in evidence (in 1813) that the cotton and silk goods of India up to the period could be sold for a profit in the British market at a price from 50 to 60 per cent lower than those fabricated in England. It consequently became necessary to protect the latter by duties of 70 and 80 per cent, on their value or by positive pro-*

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* - Until 1813, "... the interests of the moneyocracy which had converted India into its landed estates, of the oligarchy who had conquered it by their armies, and of the milliocracy who had inundated it with their fabrics, had gone hand in hand. But the more the industrial interest became dependent on the Indian market, the more it felt the necessity of creating fresh productive powers in India, after having ruined her native industry.... Besides, they found that in all attempts to apply capital to India they met with impediment and chicanery on the part of Indian authorities [i.e., the East India Company representing the merchant capitalists]. Thus India became the battlefield in the contest of the Industrial interest on the one side, and of the moneyocracy and oligarchy on the other. The manufacturers conscious of their ascendency in England, ask now for the annihilation of these antagonistic powers in India ... and for the final eclipse of the East India Company." (Karl Marx, *New York Herald Tribune*, July 11, 1853.)

> *hibition. Had this not been the case, had not such prohibitory duties and decrees existed, the mills of Paisley and Manchester would have been stopped in their outset, and could scarcely have been again set in motion, even by the power of steam. They were created by the sacrifice of the Indian manufacturer. Had India been independent, she would have retaliated, would have imposed prohibitive duties upon British goods, and would thus have preserved her own productive industry from annihilation. This act of self-defence was not permitted; she was at the mercy of the stranger. British goods were forced upon her without paying any duty, and the foreign manufacturer employed the arm of political injustice to keep down and ultimately strangle a competitor with whom he could not have contended on equal terms.*[34]

Henry St. George Tucker wrote in 1923, only ten years after the date of the Parliamentary enquiry:

> *... the cotton fabrics, which hitherto constituted the staple of India, have not only been displaced in this country but we actually export our cotton manufactures to supply a part of the consumption of our Asiatic possessions. India is thus reduced from the state of a manufacturing to that of an agricultural country.*[35]

Thus, on the basis of one way free-trade, and the prevention of direct trade between India and Europe or other foreign countries, the de-industrialisation of India was made complete. This process and how important India became as a market for the British industrial capital has been described by Marx in the following way:

> *Till 1813, India had been chiefly an exporting country, while it now became an importing one; and in such a quick progression that already in 1823 the rate of exchange which had generally been 2s 6d per Rupee, declined to 2s per Rupee.* India, the great workshop of cotton manufacture for the world since immemorial times, *became now inundated with English twists and cotton stuffs. After its own produce had been excluded from England, or only admitted on the most cruel terms, British manufactures were poured into it at a small or merely nominal duty, to the ruin of the native cotton fabrics once so celebrated. In 1780, the value of the British produce and manufactures amounted to only 386,152 pounds, the bullion exported during the same year 15,041 pounds, the total value of exports during 1780 being 12,648,616 pounds. So that India trade (export) amounted to only 1/32nd of the entire foreign trade. In 1850, the total exports to India from Great Britain and Ireland were 8,024,000 pounds, of which the cotton goods alone amounted to 5,200,000 pounds, so that it reached more than 1/4 of the foreign cotton trade. But, the cotton manufacture also employed now 1/8 of*

> *the population of Britain and contributed 1/12 of the whole national revenue. After each commercial crisis, the East India trade grew of more paramount importance for the British cotton manufacturers, and the East India Continent became actually their best market. At the same rate at which the cotton manufacturers became of vital interest for the whole social frame of Great Britain East India became of vital interest for the British cotton manufacture.*[36]

The irony of the situation is that the heavy hand of the state came upon India at a time when the ideological slogan of the industrial bourgeoisie was "the non-interference of the state in economic affairs". Neither Adam Smith, nor Ricardo had anything to say when the policy of free-trade was reversed in the case of India. The representatives of the industrial bourgeoisie knew when it was wise to remain silent. However, in 1844, a great German economist, Frederich List, pointed out the great injustice which had been perpetrated in India.

> *Had they sanctioned the free importation into England of Indian cotton and silk goods, the English cotton and silk manufactories must, of necessity, soon come to a stand. India had not only the advantage of cheap labour and raw material, but also the experience, the skill, and the practice of centuries. The effect of these advantages could not fail to*

tell under a system of free competition.
But England was unwilling to found settlements in Asia in order to become subservient to India in the manufacturing industry. She strove for commercial supremacy, and felt that of two countries maintaining free trade between one another, that one would be supreme which sold manufactured goods, while that one would be subservient which could only sell agricultural produce. In the North American colonies, England had already acted on these principles in disallowing the manufacture in those colonies of even a single horse-shoe nail, and still more, that no horse shoe nails made there should be imported into England. How could it be expected of her that she would give up her own market for manufactures, the basis of her future greatness, to a people so numerous, so thrifty, so experienced and perfect in the old system of manufacture as the Hindus? Accordingly, England prohibited the import of the goods dealt in by her own factories, the Indian cotton and silk fabrics. The prohibition was complete and pre-emptory. Not so much as a thread of them would England permit to be used. She would have none of these beautiful and cheap fabrics, but preferred to consume her own inferior and costly stuffs....

Was England a fool in so acting? Most assuredly according to the theories of Adam Smith and J.B. Say, the theory of values. For according to them, England should have bought what she required where she could buy them

> *cheapest and best; it was an act of folly to manufacture for herself goods at a greater cost than she could buy them at elsewhere, and at the same time give away that advantage to the Continent.*[37]

The above quote makes it clear that, while the British political economists were propagating the principles of free trade in the latter half of the eighteenth and in the early nineteenth century, they were not ready to apply them in the case of India until they had crushed her industries. (The other great colony of the British Empire, the U.S.A., was able to develop its manufacturing power — although primarily it was an agricultural country in the eighteenth century — by protection after its independence in 1776.) As it was pointed out by E.J. Hobsbawn in a recent study, the enthusiastic proponents of *laissez-faire* conveniently dropped their theories when they came to the control of Indian affairs:

> *The one exception was India. Its abnormality leaps to the eye. It was, for one thing, the only part of the British Empire to which laissez-faire never applied. Its most enthusiastic champions in Britain became bureaucratic planners when they went there, and the most committed opponents of political colonization rarely, and then never seriously, suggested the liquidation of British rule....*
>
> *India was an increasingly vital market*

> *for the staple export, cotton goods; and it became so because in the first quarter of the nineteenth century British policy destroyed the local textile industry as a competitor with Lancashire.*[38]

After the industrial tide was turned in favour of Britain, British cotton manufactures exported to India rose from less than one million yards in 1824 to 64 million yards in 1837.[39] During the same period, the export of Indian cotton piece goods fell rapidly, never to rise again.

The impact of this de-industrialisation on the Indian economy was devastating. Prosperous territories, towns and market places lay in ruins. The great manufacturing towns of Dacca, Murshidabad, Surat, Malda became desolate. In 1757, Clive described the city of Murshidabad as more extensive, populous and prosperous than the city of London. Montgomery Martin reported to the Select Committee:

> *The decay and destruction of Surat, of Dacca, of Murshidabad and of other places where native manufactures have been carried on, is too painful a fact to dwell upon. I do not consider that it has been in the fair course of trade; I think it has been the power of the stronger exercised over the weaker.*[40]

Marx traced this wrecking of the Indian economy in the following words:

> *From 1818 to 1836, the export of twist from Great Britain to India rose in the proportion of 1 to 5200. In 1824, the export of British muslins to India hardly amounted to 600,000 yards, while in 1837 it surpassed 64,000,000 yards. But at the same time, the population of Dacca decreased from 150,000 inhabitants to 20,000. This decline of Indian towns, celebrated for their fabrics, was by no means the worst consequence.*[41]

He further commented in *Capital*:

> *English cotton machinery produced an acute effect on India. The Governor General reported in 1834-35: 'The misery hardly finds a parallel in the history of commerce. The bones of cotton weavers are bleaching the plains of India.'*[42]

As India was transformed into a market by the British industrial capital, her huge imports had to be matched by exports of raw materials. In fact, India throughout the whole of the nineteenth and until the thirties of this century had a comfortable surplus of exports over imports. Even after India was reduced to an agricultural country, there occurred a tremendous transfer of capital from its pre-capitalist agriculture. The following table (3.1) shows the nature of India's trade in the twenty-five years preceding the First World War.

Table 3.1: FOREIGN TRADE, 1874-1899 (in millions of rupees)

Quinquennial Average	Export	Import	Excess Export
1874-79	630	380	250
1879-84	790	590	200
1884-89	880	610	270
1889-94	1,040	710	330
1894-99	1,070	740	330

Source: M.N. Roy, *The Future of India's Politics*, p.6.

Table 3.2: FOREIGN TRADE IN COMMODITIES, 1900-1940 (in millions of rupees)

Years	Imports	Exports	Excess Export
1900-01 1904-05	836.2	1310.1	473.9
1910-11 1913-14	1530.5	2283.0	752.5
1919-20 1923-24	2540.4	2863.4	323.0
1935-36 1939-40	1502.2	1808.5	306.2

Source: H. Venkatasubbiah, *The Foreign Trade of India, 1900-1940*, p.28.

After the First World War, India's trade surplus declined considerably due to the growing impoverishment of her economy, but still the balance of trade was in her favour (see Table 3.2).

Thus, India's imports were always less than her exports. This favourable balance of trade, however, did not indicate India's growing prosperity. The excess exports were always siphoned off to England to serve the imperial cause. Moreover, more than eighty per cent of India's exports consisted of raw materials and food stuffs. The unpaid excess exports, thus, led to the ever increasing deterioration of the condition of the peasants, thereby leading to a primitive capital accumulation without, however, making possible the introduction of the capitalist mode in agriculture.

Furthermore, while approximately 70 per cent of India's exports went to the countries outside of the Empire, roughly 70 per cent of her imports came from Britain. From these imports (i.e., British exports) — the amount of surplus labour which the owners of capital in England extracted from the British labourers* and which throughout the nineteenth and early twentieth centuries constituted the bulk of British exports to India — the major part of the British capital was formed.** Cotton goods formed the lion's

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* - And also from India's excess exports over imports.

** - "A significant part of the surpluses needed for the general expansion of British industry was born from export profits. Exports, *particularly in cotton goods*, reached phenomenal proportions. Between 1870 and 1913, Britain's exports amounted to about one third of her total industrial production." (S. Hetzler, *Technological Growth and Social Change*, p.135.)

Table 3.3: BRITISH COTTON PIECE-GOODS EXPORTS, 1880-1914 (in million yards)

	Total	India
1880	4,496	1,813
1890	5,124	2,190
1900	5,034	2,019
1913	7,075	3,000

Source: A. Redford, *Manchester Merchants and Foreign Trade*, Vol. II, Manchester, 1956.

share of British exports* and India was one of the major importers of British cotton goods (see Table 3.3).

Thus Britain was able to use India's export surplus with other countries to pay for her exports to India. However, very little of the British capital which was formed from this triangular trade was invested in India. As Barbara Ward says:

> *Before the First World War, all Britain's investments, public and private, in India amounted to not much more than 10 per cent of British investments, the bulk of which had gone to the temperate lands.*[43]

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* - In this period (1880-1913) Britain's exports to her traditional markets in Europe and North America were being hit by indigenous industrial development and tariff barriers, while her imports from these countries continued at the same level.

In fact, it was the investment of British capital in the U.S.A. in the nineteenth century that laid the base for further development of that country on the industrial path. That is why Braudel says that the victory of Britain at the battle of Plassey was not only significant for the social evolution of England, it was significant for the emergence of new forces of production in the world at large.

> *When civilisations clash, the consequences are dramatic. Today's world is still embroiled in them. One civilisation can get the better of another: this was the case with India following the British victory at Plassey which marked the beginning of a new era for Britain and the whole world.*[44]

The new land system under the British

The process of changing India into a market and producer of primary products which could be exported to other countries necessitated the restructuring of her land relations on a commercial basis. The new land system superseded the traditional right of the village community. Under the village community system, land was not a commodity, nor could it be alienated without the approval of the village community. But under the new system, land was transformed into a commodity which could be disposed of in the market like any other commodity. As we have already mentioned, the village community in the economically advanced areas such as Bengal had shown signs of weakening before the British conquest itself.

However, the British intervention did not allow India to undergo the natural transition from a conglomeration of thousands of atomistic little republics to a unified economic and political national unit. Her economy had to suffer the aberrations of the existing Asiatic mode of production as well as the semi-feudal and semi-capitalist system imposed by the colonial state (see below).

India's agriculture was gradually commercialized, but it did not undergo the capitalist mode of production. Marx has described the historical significance of capitalism in the sphere of agriculture:

> *It is one of the great outcomes of the capitalist mode of production, that it transforms agriculture from a merely empirical and mechanically perpetuated process of the least developed part of society into a consciously scientific application of agronomics, so far as this is at all feasible under the conditions going with private property; that it detaches property in land on the one side from the relations between master and servant, and on the other hand totally separates land as an instrument of production from property in land and landowners ... The rationalizing of agriculture on the one hand, and thus rendering it capable of operation on a social scale and the*

reduction ad absurdum of private property in land on the other hand, these are the great merits of the capitalist mode of production. Like all its other historical advances, it brought these also by first completely pauperizing the direct producers.[45]

This was true in the case of western nations where the feudal mode of production was replaced; in the process, the cultivators were pauperized. But in the case of India, British capital was not interested in introducing the capitalist mode of production.* Its interest lay in the capitalistic penetration of India; for this, the share of commodity extraction from agriculture had to be considerably increased without disturbing fundamentally the mode of production itself. For this, new land tenure systems were brought into being without, however, undermining the traditional concept of the state as the supreme landlord. This change in the land system under the colonial government has been succinctly described by Wadia and Merchant in the following way:

When the East India Company acquired political control, they took over the traditional system.... It was assumed that the State was the supreme landlord. In the place of the traditional share of the Government in the produce

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* - Only on plantations — tea, coffee, and rubber — was the capitalist method introduced. It constituted less than one per cent of Indian agriculture.

paid by the village communities as a whole, there was introduced a system of fixed payments in cash assessed on land which had no reference to good or bad harvests. In most cases the assessment was individual, whether levied directly on the cultivator or on landlords appointed by the State. The land revenue was considered as a rent rather than tax. Under British rule, the system of assessing and collecting revenue varied according to the varying circumstances of different provinces and to suit administrative convenience....

Land tenures in India may be defined as the system of rights and responsibilities of individuals owning or cultivating the land, vis-a-vis the State, regarding the payment of revenue. The principal land tenure in India may be classified: (1) on the basis of the relation between the holder and the Government as Zamindari and Ryotwari; (2) on the basis of the duration of the tenure as permanent and temporary. The Zamindari system makes the zamindar the holder of all lands from the government. He is responsible for the land revenue, the land being cultivated by tenants. Under the Ryotwari system the land is held directly by the ryot or occupant who is in most cases individually responsible to Government for land revenue. The Zamindari Settlement is ordinarily known as the Permanent Settlement, though there was another type known as the Temporary Zamindari system....

The Ryotwari Tenure is characterised by

> *the following features: (a) The principle of the State ownership of all lands including waste lands underlies the system. (b) The holder of the land is a mere occupant, having the right to use, bequeath, transfer and relinquish the occupancy of the holding. He holds the land so long as he pays the land revenue.... (c) Every holder of land is individually responsible for the payment of land revenue. (d) The assessment is fixed for a period of 20 or 30 years and is periodically revised under a survey settlement. The successive settlements gave an opportunity to the Government to raise the land revenue.*[46]

The Permanent Settlement was first introduced in Bengal by Lord Cornwallis in 1793 and later extended to parts of Bihar, Orissa and Madras. Temporary settlements of the zamindari variety were made in U.P., the Central Provinces, and West Punjab. The Ryotwari system prevailed in Southern Madras, Bombay, Berar, East Punjab and in some areas of Assam and Coorg.[47]

It has been claimed by many (including Marxists) that by introducing the zamindari system, the British created a feudal class in India. But nothing could be farther from the truth. The zamindars, or the landlords, brought into being by the fiat of the state, had no independent power base. Unlike Europe, where a naturally grown pre-existing feudal class fought with the emerging bourgeoisie for the control of the state, the zamindars (landlords) in India were the creation of a state which represented the interests of the metropolitan bourgeoisie. The inherited state apparatus from the Moghuls, though, became subservient to the metropolitan interests, remained supreme over the indigenous social classes. That is why Marx termed the zamindari system a caricature of English landed property and wondered what kind of landlord was the zamindar.

> *... a curious sort of English landlord was the zamindar, receiving only one-tenth of the rent, while he had to make over nine-tenths of it to the Government. A curious sort of French peasant was the ryot [in Ryotwari areas] without any permanent title in the soil, and with the taxation changing every year in proportion to his harvest.*[48]

With profound insight, Marx further brought out the character of the tenurial system, the state's supremacy and its nature of extraction of the surplus.

> *Thus, in Bengal, we have a combination of English landlordism, of the Irish middleman system, of the Austrian system,... transforming the landlord into the tax-gatherer and of the Asiatic system making the State the real landlord. In Madras and Bombay we have a French peasant proprietor who is at the same time a serf and a metayer of the State. The drawbacks of all these various systems accum-*

ulate upon him without his enjoying any of their redeeming features. The ryot is subject, like the French peasant, to the extortion of the userer; but he has no permanent title in his land like the French peasant. Like the serf he is forced to cultivation, but he is not secured against want like the serf. Like the metayer he has to divide his produce with the State, but the State is not obliged with regard to him, to advance the funds and the stock as it is obliged to do with regard to the metayer. In Bengal as in Madras and Bombay, under the zamindari as under the ryotwari, the ryots -- and they form 11/12ths of the whole Indian population -- have been wretchedly pauperized; and if they are, morally speaking, not sunk as low as the Irish cottiers, they owe it to their climate, the men of the South being possessed of less wants, and of more imagination than the men of the North.[49]

Marx's following comments make it clear that, while he was aware that the new land systems would fundamentally change the nature of production in land, he was at the same time aware that it was the state which would be the biggest beneficiary from the change and would remain supreme over the social classes that were being created through the transformation of land into a commodity:

The zamindari and the ryotwari were both of them agrarian revolutions, effected by British ukases, and opposed to each other; the one *aristocratic, the other democratic; the one a caricature of English landlordism, the other of French peasant proprietorship; but pernicious both combining the most contradictory character — both made not for the people, who cultivate the soil, nor for the holder, who owns it, but for the government that taxes it.*[50]*

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* - Daniel Thorner, it seems, agrees with Marx that the private property in land introduced by the British in India was not the absolute private property we find in the West. "If we reexamine the record a bit more closely, I think we will agree that this (introduction of absolute or unfettered private ownership) was precisely what Cornwallis and his successors did not do. Like the Moghuls before them, and the Guptas and the Mauryas before the Moghuls, the British insisted on the right of the imperial power to the first share of the fruits of the soil. But this type of a claim was already centuries out of date in England itself and belongs properly to a stage of economic development where there is, in effect, no other principal source of state revenue. The key fact about all of the British land settlements ... was the new rights in the land were invariably sub-ordinate to the rights of the State. To no holder was granted the exclusive right to occupy, enjoy, and dispose of land which, in practice, is the hallmark of western private ownership. Without this quality of exclusiveness, real property cannot be said to exist. Some of the rights normally associated with private property inland (e.g., mortgageability, transfer, hereditability) were indeed accorded to the new owners. But their privileges were restricted by the simultaneous recognition of rights both superior and inferior to their own in the same land. The State, as a superior landlord, claimed a share of rents; while the actual tillers exercised a traditional claim to occupancy [the zamindar's rights to evict ryots or tillers were restricted by later legislations].... The early British officials assumed that since the State collected what appeared to them as a rent, the State must be the owner of all the land. Accordingly, as they took over territorial power from the various rulers, they established the right of the British Raj as the supreme or ultimate landowner; and with this justification they continued to collect revenues at the former, or more commonly, enhanced levels. What the British established in India might be described, in fact an imperfect

The new land systems soon began to bear fruits. It transformed Indian agriculture into a sphere of primitive capital accumulation for the industrialisation of the metropolitan centre (the process we have already discussed above).

With the passage of time, the zamindars degenerated into a selfish parasitic class of absentee landlords. Many zamindars also leased out their interests, and the middlemen leased out in turn, thus creating a long chain of rent receivers and rent payers who intervened between the state and the actual cultivators (see Chapter 7). These people, the zamindars and the intermediary rent receivers could spend the surplus produced by the cultivators, not for further improvement in agriculture, but for luxury goods produced in Great Britain.

As we mentioned before, under the ryotwari system,

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or kaccha kind of private ownership of land. To this date [i.e., even after independence], there has not emerged in India a fully developed or pakka private property in land. It was the British insistence upon the State's prerogative as ultimate owners, which has given India's land tenures their distinctive character.... in the new setting land had been made more of a commodity than ever before in Indian history. What we have here in India, today, then, is an unique agrarian structure. It represents a blending of remnants from the pre-British economic order (including, above all, the claim of the State to a share of the produce of the land), together with modern Western concepts of private property. The result has been a layering of rights from those of the State as super-landlord (or ultimate owner) down through those of the sub-landlords (penultimate owners) to those of several tiers of tenants. Both the State and the superior holders exercise the right to draw income from the soil in the form of rents wherever possible, the tenants also try to subsist by collecting rents from the working cultivators with rights inferior to their own." (Daniel Thorner, *The Agrarian Prospect in India*, pp. 7-11.)

the settlement was made directly with the cultivator; he was recognized as the owner of the land he tilled. The Ryotwari had this advantage from the ruler's point of view — over the Permanent Settlement — that it, being subject to periodical reassessment, secured for the government the entire spoils.*

One of the reasons, as explained earlier, for the introduction of the new land relations was to replace the production for village use by that for market. As the rural economy was partially monetized and the rate of rent was gradually increased, the peasant's need for cash also increased. He was thus forced to produce not for home consumption but for the market.

Moreover, the insistence of the government, on the regular payment of rent, irrespective of good or bad harvests, led to an increasing indebtedness of the peasants. With the increasing burden of land revenue, the peasants' dependence on credit also increased. The nearest person to whom the peasant could go for a loan was the village moneylender. But with the commercialization of agriculture and the introduction of the British legal system which recognised the absolute right of alienation of land, a significant change took place

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* - In Ryotwari areas, too, the landlordism spread through the process of subletting and through the dispossession of the original cultivators by the moneylenders.

in the function of the moneylender. He could now appropriate land for non-payment of a loan which was not permissible under the village community system.

The transformation of agriculture on the basis of private property in land without the corresponding introduction of the capitalist mode of production created a situation in which the peasants' burden of debt steeply increased and lands began to pass from the hands of the cultivators to the moneylenders. About this process of commercialization, Dr. Gadgil says:

> *The commercialization of agriculture had progressed most in those tracts where the crops were largely grown for export out of the country. This was so in the Burma rice area, the Punjab wheat area, the jute area of Eastern Bengal and the Khandesh, Giojrat and Berar cotton tracts.*
>
> *These circumstances were the payment of the government assessments and interest of the moneylender. To pay these two dues, the cultivators had to rush into the market just after the harvest, and to sell a large part of their produce at whatever price it fetched.*[51]

The commercialization of agriculture, needed for the capitalist penetration, did not improve the lot of the cultivators; it only increased his indebtedness and led to the alienation of land from his hands. As a result, a large class of parasitic landowners, moneylenders and land speculators came into existence and more and more people were drawn to these sources of income. Furthermore, the British rule, as we saw before, destroyed the urban industries; all these uprooted people, having no other employment, fell on agriculture. In this way, agriculture became the only source of livelihood for most of the people in India.

Thus, the legendary poverty of India today, in contrast to its legendary riches which one day attracted the adventurers from the West, was the result of colonial rule. Paul Baran's classic description of the wretchedness of the subjugated people possibly fits no other country better than India:

> *... the peoples who came into the orbit of western capitalist expansion found themselves, in the twilight of feudalism and capitalism, enduring the worst features of both worlds, and the entire impact of imperialist subjugation to boot. To oppression by their feudal lords, ruthless but tempered by tradition, was added domination of foreign and domestic capitalists, callous and limited only by what the traffic would bear.... Their exploitation was multiple; yet its fruits were not to increase their productive wealth; these went abroad or served to support a parasitic bourgeoisie at home. They lived in abysmal misery, yet they had no prospect of a better tomorrow. They existed under capitalism, yet there was no accumulation of capital.*[52]

Referring to India, Baran further adds:

> *... it should not be overlooked that India, if left to herself, might have found in the course of time a shorter and surely less tortuous road toward a better and richer society. That on that road she would have had to pass through the purgatory of a bourgeois revolution, that a long phase of capitalist development would have been the inevitable price that she would have had to pay for progress, can hardly be doubted. It would have been, however, an entirely different India (and an entirely different world) had she been allowed -- as some more fortunate countries were -- to realize her destiny in her own way, to employ her resources for her own benefit, and to harness her energies and abilities for the achievement of her own people.*[53]

The emergence of trading towns and a new indigenous bourgeoisie

The material base which the British established had the worst features, as pointed out by Baran, of feudalism and capitalism, and we may add, of the existing Asiatic mode of production. We have already seen that, as a result of the decay of the urban industries, many old cities went into oblivion in the late eighteenth and early nineteenth centuries. However, new trading cities established by the British began to emerge since the second half of the eighteenth century. Very few of these cities had any industrial activity, most were commercial towns needed for the capitalist penetration of India. Some of them were off-shoots of the railway system established by the British. Lord Dalhousie's famous minute on railways clearly brings out why the establishment of the railways became indispensable, to make India a market for British goods and a source of raw materials:

> *The commercial and social advantages which India would derive from their establishment are, I truly believe, beyond all present calculation.... England is calling aloud for cotton which India does already produce in some degree, and would produce sufficient in quality and plentiful in quantity, if only there were provided the fitting means of conveyance for it from distant plains to the several ports adopted for its shipment. Every increase of facilities for trade has been attended, as we have seen, with an increased demand for articles of European produce in the most distant markets of India.*[54]

Therefore, the cities that were growing at this period were the centres which were being used for the exploitation of the Indian market.* As Gadgill has pointed out:

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* - "Global metropolitanism is embedded in the circulation patterns of a global economy, out of which surplus value is being extracted. Different city forms are contained within that economy. Castells (1970), for example, differentiates between the metropolitan forms of North America and

> *We have no reason to suppose that the urban population in India was in any way growing between 1800 and 1872. The only cities to which any growth at this time can be ascribed were ports of Calcutta, Bombay and Madras and a few places in the interior like Cawnpore; but, on the other hand, there was certainly a great decrease to be accounted for in the population of a large number of old towns, e.g., Dacca, Murshidabad, Lucknow, Tanjore, etc. Indeed, considering that modern industry was almost non-existent in India at this time ... it seems more probably that the percentage of the urban population in India was bigger at the beginning of the century than in 1872. In 1872 the percentage of urban population was 8.6 per cent.... In Western countries the percentages of the urban population towards the beginning of the nineteenth century were: England and Eales, 21.3, Scotland 17.0, France 9.5, Prussia 7.25, Russia 3.7, U.S.A. 3.8.*[55]

Western Europe and the dependent urban forms of much of the rest of the world. Dependent urbanism arises in situations where the urban form exists as a channel for the extraction of quantities of surplus from a rural and resource hinterland for purposes of shipment to the major metropolitan centres. This colonial form of urbanism is currently characteristic, for example, in much of Latin America (Frank, 1969) but in the early nineteenth century it was, as Pred (1966) notes, dominant in the United States." (David Harvey, *Social Justice and the City*, p.232.) The U.S.A., until the early nineteenth century, was a hinterland of the metropolitan centres of the U.K. and other West European countries. The urban population in the U.S.A. in the beginning of the century was only 3.8 per cent.

Bombay, Calcutta and Madras were major ports through which Indian cotton, wheat, rice, jute, tea, indigo, rubber, etc., were being exported to other countries; imports through them included textile products, hardware and manufactured goods from England. The other important cities were Delhi, Amritsar, Lucknow, Ahmedabad, Bangalore, etc. These were also important railway junctions connecting the whole country through a vast network of railways. Marx thought the railways would be the forerunner of modern industry in India. He wrote:

> *I know that the English millocracy intend to endow India with railways with the exclusive view of extracting at diminished expense the cotton and other raw materials for their manufactures. But when you have once introduced machinery into locomotion of a country which possesses iron and coal, you are unable to withhold it from its fabrication.... The railway system will, therefore, become in India truly the forerunner of modern industry.*[56]

British capitalists, for the extraction of raw materials and commercial penetration, had to invest in railways, tea, coffee, jute, coal, iron ore, and other mineral extractions.* Once the British started, the Indian bourgeoisie,

* - Throughout the negotiations from 1828 for the East India Company's Charter Acts of 1833, the growing desire of the English manufacturing classes to engage more actively in the Indian trade, and so harness with invested capital the raw materials available in India, had been actively brought

who formed their capital as agents or businessmen, could not be kept away. The Indian bourgeoisie developed from those businessmen whose task it was to collect the raw materials from the interior and bring them to the port, and, at the same time, reach the manufactured goods of Britain into the interior of India. With the further commercial penetration, the Indian trading class was gradually drawn to industrial activities. Their basic capital, however, was formed from commerce.

British capital was mainly invested in those areas which did not come into conflict with the metropolitan industrial interests. So, British investments were confined to enterprises like railways, coal mines, jute mills, tea, coffee and sugar plantations — industries related to the production and export of raw materials. Later, British investments in steel, cement and chemicals were anciliary to the railways and other raw material industies. For the period 1850-1914, the total British investment in India was 500 million pounds.

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to bear upon the British parliament. The import of Indian cotton interested Manchester and was considered to be "possible only through the introduction of European skill and capital." The Liverpool East India Committee asked for better communication in India to "facilitate movement of raw materials. The introduction of a uniform currency and substantial banking houses was demanded." Most interesting of all, Cr. Wallich tried to rouse the Board of Trade to the possibility of cultivation of tea in the foothills of the Himalayas. (J.N. Bhagwati and Padma Desai, *India: Planning for Industrialisation*, p.19.)

However, there was little capital export from Britain to India. Only for seven years, 1856-62, there was an excess of exports over imports totalling 22.5 million pounds.[57] Normally, India's exports, as we have explained above, were always in excess of her imports.

There were three important industries in India by 1880 — jute, coal and cotton (excluding the railways which were owned by the government). There were 20 jute mills, 56 coal mines and 56 cotton mills.[58] The first two were mainly owned by the British. In the cotton industry, the Indian merchants played the initiatory role.

Why did Indian entrepreneurship play such an important initiatory role in the development of the cotton industry? They knew from their experience as traders of British manufactured cotton goods that the country had a big market for textiles; the local industry had declined in the first half of the nineteenth century. Moreover, as the market consisted of private Indian consumers, the discriminatory purchasing policy, as was applied in the purchase of railway stores, could not be very effective here. Once started, the Indian entrepreneurs expanded their activities in other fields. As was hinted by Marx, the Indian capitalists came to their own, independent of the British capitalists.

In this emergence of the Indian industrial bourgeoisie during the British rule, capital was first accumulated in trade and later invested in industry. The process of investment of capital made in trade (even in money-lending and landownership) into industry was further facilitated by a unique system developed in India known as the managing agency system.

The managing agency system was the progeny of an older system known as "the agency house". In the late eighteenth and early nineteenth centuries, the company servants were engaged in private trade. There were also many free-merchants who were trying to gain a foothold in the lucrative East India trade. At first, there were frequent conflicts between these two groups. Later, however, the free-merchants who were successful were joined by the company servants who brought their past gains with them into their enterprise.

Agency houses thus emerged to pull the capital which could be invested both in commerce and industry. These agency houses never did import any capital from England. Already by 1790, there were fifteen agency houses in Calcutta.

> *The most prominent among them were messrs. Ferfuson, Fairlie and Company; Paxton, Cockrell and Delisle; Lambart and Ross; Colvins and Bazell; and Joseph Baretto. They controlled the country trade, financed indigo and sugar manufacture, cornered the government contracts, ran three banks and the four insurance companies at Calcutta and speculated in public securities.*[59]

By the twenties of the nineteenth century, the agency houses had invested capital in indigo cultivation, cotton, screws, and clocks. In 1826, six of the big agency houses went bankrupt when the prices of indigo fell on the London market.[60] By the middle of the 1830s, the other agency houses met the same fate.

The failure of these early agency houses was primarily due to their dependence on a limited number of exports and agricultural commodities. Moreover, the nature of the organisation had very little capacity for shock absorption. Whenever there was a crisis, the panicky partners rushed to withdraw their capital which accelerated their collapse.

> *On the ruins of these agency houses a new organisation of British capitalist enterprise arose -- the managing agency system -- which ushered in the industrial development of India and with it a new age.*[61]

The managing agency system no longer depended on the savings of the company's servants. The managing agents used to take charge of the construction of buildings, purchase of machinery, securing of technical personnel and marketing. However, the most important function of the managing agency system was to supply the capital. Generally, the managing agents gathered capital from persons who had money but no knowledge about running the industries. The managing agency houses also promoted the joint stock companies and arranged for financing by acting as guarantors of the concerns. The remuneration of the agency was a commission either in terms of gross profits, total sales or total production. The managing agencies, at first predominantly British, built up vast interests by a process of amalgamation, absorption and expansion.

> *From the start, the lack of modern industry encouraged the agencies to seek self-sufficiency, each developing its own sources of raw materials, its own services, and a substantial market within its own operations. Martin Burn's steel output went largely into its railway engineering workshop, which served its large railway interests, alternatively into its constructional engineering activities, which found further support in its cement interests, and so on. Andrew Yule's jute mills required electricity and coal supplies which in turn required engineering facilities, transport and the host of ancilliary materials and services to be found within that complex.*[62]

Thus, the managing agency system provided the economies of scale.

The establishment of modern finance capitalism in India was made through the managing agency system. This process also saw the rise of cartels and trusts.

The industries which could not depend upon huge sources of capital, on banks, insurance companies or investment trusts, were severely handicapped. The industries owned by the Indians belonged to this category.

The overwhelming influence of the British finance capital on the Indian economy, in fact, was the greatest weakness that the Indian industrialists suffered in the competition against the British industries. The British managing agents were more powerful than their Indian counterpart, could furnish large capital and in need could borrow advantageously from such places as the London market. Moreover, British finance capital worked through the banking system in conjunction with the government's financial and exchange policy.

There were British and foreign exchange banks, as well as Indian joint stock banks. The Indian banks were the weakest in the group. This weakness, to a great extent, emanated from the government's policy. While foreign finance capital operated in India unfettered, Indian capital had to function under various vexatious rules and regulations imposed by the government.

The Indian Industrial Commission wrote in 1919:

> *The lack of financial facilities is at present one of the most serious difficulties in the way of extension of Indian industries.*[63]

Buchanan, an American historian of Indian economics, wrote in 1934:

> *Events of the last decade tended to increase this difficulty* [the lack of finance]. *Comparisons with western countries in terms of banks or banking capital per capita are meaningless, but even as compared with Japan, India is ridiculously backward. Whereas in 1926 India had, excluding the Imperial Bank of India, 73 banks with a total paid-up capital, surplus and reserves of Rs 119,200,000 ($42,912,000); Japan had on June 30, 1927, excluding the Bank of Japan, 1,513 banks with paid-up capital, surplus and reserves of Yen 2,850,324,000 ($1,425,162,000).*[64]

Thus, it is no wonder that the Indian industries were starving from capital shortage.

Although there was no dearth of British capital,* it was never invested into sectors which could have affected Britain's export market in India. This was expressed in a statement by George Paish, the famous British economist to the Royal Statistical Society:

> *One of the most noteworthy characteristics of the British investor is his objection to place capital in any enterprise or in any country for the matter of that, the development of which appears to be against the inter-*

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* - British capital reigned supreme until the beginning of the First World War.

est of the motherland.[65]

Thus, whatever industrialisation took place in India, it had to fight its way against intense opposition from British finance capital, both in political and financial fields. The British metropolitan industrialists were also opposed to Indian capital spilling into sectors other than the development of raw materials and extractive industries. Under these circumstances, the only area in which India capital made some headway was the cotton industry. However, even in this field, the Indian industrialists had to face stiff opposition from Manchester. When the weak Indian cotton industry began to emerge in the eighteen-sixties and eighteen-seventies, there was an agitation in England for the removal of import duties on cotton goods (to India) which were imposed before, in the absence of Indian cotton industries, for revenue purposes. The Manchester Chamber of Commerce presented a memorandum to this effect in 1874 and a resolution was adopted in the House of Commons in 1877. Lord Salisbury, in forwarding this resolution, noted with alarm that:

> *... five more mills were about to begin work* [in India]*, and it was estimated that, by the end of March 1877, there would be 1,231,284 spindles employed in India.*[66]

The infant Indian industries needed tariff protection from the well-established industries from the West. But in the name of free trade, the protection was always denied to Indian industries.* Not only that, in 1896 a 3½ per cent import duty was levied on imported cotton cloth for revenue purposes. To neutralize the effect of this duty, a countervailing 3½ per cent duty was levied on all cloth made in Indian mills. This duty was imposed at the urgings of the Manchester and Lancashire industrialists. To quote Lord Curzon:

> *... ever since India was ordered to abolish her custom tariffs in 1875, it has been in the main in response to Lancashire pressure that the successive readjustments of this policy have been reintroduced.*[67]

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* - Comminting on the import tariff history of India, Buchanan says, "The effect of this policy on the minds of Indians has been complicated by the fact before the factory system was developed in Europe, Indian manufacturers were excluded from England by high tariffs. At the end of the seventeenth century, English woolen and silk weavers found their home market being taken by cotton and silk goods from India. Acts passed, especially in 1700 and 1720 and remaining in force over a century, until 1825, prohibited the wearing of certain Indian goods and laid heavy taxes on others. Even in 1802, duties on Indian cotton cloths were from 20 per cent to 50 per cent of their value.... When cotton textiles manufactured from American cotton by power machinery started to flow in great quantity from England to India, the British industrial and mercantile classes pressed for completely free access to the market." (D.H. Buchanan, *The Development of Capitalistic Enterprise in India*, p.465.)

In 1902, in a large public meeting in London, an Indian economist protested that it would be wrong to compare India's industrial development with that of Japan where protection was being adopted as rapidly as the treaty powers would permit. An Under-secretary of State for India was in the chair and expressed the apparent conclusion of nearly all present that:

> *... everybody was agreed that no stone should be left unturned to enable India to produce, as far as possible what she now imported. But the primary consideration of the matter must not be forgotten, that India had for centuries past been an agricultural country, and he did not see how the government of any country could suddenly change all that had gone before, merely by a desire to do so.... The timid opponents might have suggested that Japan was not being changed from an agricultural country "merely by a desire" but by definite governmental action.*[68]

Many important British officials, including Lord Curzon, were in favour of rapid industrialisation of India. They could foresee that India would decline as a market unless her economy was improved. An I.C.S. officer said that the British Indian Government should follow Japan's lead and that "... the native character was well adopted to the factory system,..." yet "... almost nothing ... had been done to restore the decaying industries of India, and launch her people on new careers."[69] Another official wanted "... duties to encourage Indian arts and manufactures and insisted that the question of protection for India ..."[70] should be decided, not on English grounds or by English people in England, but "... by the government in Calcutta in the interests of India alone."[71]

For development, Indian industries needed not only money and protection, but also technical know-how. However, the government of India did very little to import technical knowledge to the Indians. This attitude of the metropolitan government towards India's industrialisation was noted by the American economist Buchanan in this way:

> *A governing group which understood its people and really cared for their welfare should make an effort to teach them better ways of earning a living. This the government of Japan tried to do and as a result the Japanese are about two generations in advance of India. While Indian craftsmen are literally starving, unemployed, Japanese of the same group are learning to operate modern machinery. Often this was set up by the government itself for demonstration bot both capitalists and labourers; and as soon as possible the home market was preserved to the home producers. There have been anomalies in the Japanese protective system but it has "worked".*[72]

As a result, whatever progress the Indian industrialists made until independence, it was made without any help from the colonial state; in fact, in the nineteenth and early twentieth centuries, despite many impediments raised by the state which had to operate in the interests of the metropolitan bourgeoisie, the Indian industries came into being.

The emergence of the proletariat and the rise of a new middle class

The social class with the most progressive potential that was brought into being under the British rule was the proletariat. As we noted above, large-scale industrialisation started in earnest in India after 1880. By 1894, the size of the industrial labour force, i.e., workers employed in the factories, reached the figure of 350,000. The major industries at that time were textiles and jute. The following table (3.4) shows the numerical growth of organised industry and the proletariat since 1894.

We also find that, compared to India's population, the size of the industrial proletariat was remarkably small. The 1931 Census Report commented:

> *The number of workers employed in organised labour is extraordinarily low for a popula-*

Table 3.4:

Year	No. of factories	Average daily number of workers
1894	815	350,000
1919	3.440	1,171,000
1939	10,466	1,751,000

Data obtained from annual Statistical Abstracts (the figures are not strictly comparable as the definition of "factory" was modified over time).

tion the size of India's, and the daily average number of hands employed by establishments in British India to which the Factories Act applies is only 1,553,169 ...[73]

This was quite natural. As we explained above, the industrial revolution in England destroyed the artisan classes both in England and India. But while in England the pauperised artisans, along with the expropriated peasants, were absorbed into the expanding industries, in India agriculture became the sole source of livelihood for all. As a result, the number of landless workers continued to increase and very few of them could be employed in industries. According to the ILO report of 1938:

The total number of agricultural labourers

> *which was given as 21.5 million* [including underemployed] *in 1921 was shown by the census of 1931 to be over 31.5 million, of whom 23 million were estimated by the Indian Franchise Committee in 1931 to be landless, while the total number of non-agricultural labourers, as estimated by the Franchise Committee, was 25 million.*[74]

This vast industrial reserve army kept depressed the wage level of the industrial workers at the "vital minimum" below which reproduction of the labourer was not possible. The table (3.5) below indicates that there had been no increase

Table 3.5:

Years	Money Wages	Cost of Living	Real Wages
1880-1889	87	69	127
1890-1899	94	85	112
1900-1909	107	97	111
1910-1919	135	143	98
1920-1929	211	207	103
1930-1938	184	143	129

Source: Jurgen Kuczynski, "The Condition of the Industrial Worker in the English Colonies", (second half of the chapter on India), included in V.B. Singh (ed.), *The Economic History of India*, p.611.

in the real wages of the factory workers during more than half a century dating from 1880 to 1938.

We will see later on that the condition of the industrial proletariat has not improved much in post-independent India either.

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We have seen above that an industrial bourgeoisie came into existence in India in the second half of the nineteenth century; the commercial bourgeoisie was, of course, already on the scene. At the same time, a new middle class consisting of government employees, lawyers, doctors and other professionals began to form in the British-established towns. This class was mainly recruited from the traditional "literati" class which had been serving the administrative apparatus of the Moghuls and its potentates. It should not be forgotten that even in decline, the central authority (under the Moghuls) and its agents exerted vexatious control over the rising bourgeoisie in India.

In Indian tradition, public employments continued to be more valued than other occupations. It should be noted that these occupations throughout the Orient, although they enjoyed considerable state patronage, were subservient to the state. Like the mandarins in China, the literati in India were dependent on the state.

In the absence of a national system of educa-

> *tion, however, the scholarly professions were dependent on royal favour or private munificence. Abul Fazal cites a number of instances in which learned men had either to lose their* jaigirs *or their very life for a show of independence. Abdul Qadir, whose duty it was to say daily prayers at the audience hall of Fatehpur Sikri, where scholars assembled for debates and discussions, had his considerable* jaigir *cancelled because he refused to say prayers at the private residence of Akbar. Maulana Alauddin ... happened to occupy a seat at a* darbar *(audience hall) in front of that of a leading officer of government. When asked to go back, he retorted: "Why should not a learned man stand in front of fools?" The result was that he had to leave the hall to which he never returend again. Mir Nurullah, an eminent jurist and for a long time* qazi *of Lahore, offended the emperor by a "hasty word" for which he was executed.*[75]

Despotism was thus all pervasive. But the public officers and the literati, being nearer to the state, had more social prestige and political power than the members of other occupations.

This situation did not change, even under the British rule, because the reason was rooted in the social milieu. The education system, the mechanism through which these classes — the public officials and the literati — were formed could best be understood, therefore, if it is contrasted with that of the West. The Western "merchant capitalists" of the fifteenth and sixteenth centuries established schools with an emphasis on the education of the laity to suit their growing requirements of geographical and scientific knowledge. These in time broke down the ecclesiastical monopoly of the educated professions. The Indian educated class, "which the British aimed at creating, was to be a class of imitators, not an originator of new values and methods."[76] The West developed education to satisfy the needs of a developing economy. Max Weber, in his *General Economic History*, has shown what an important role the Western education, in particular the process of rationalization, has played in the development of capitalist economy.[77] Unlike the West, India, under the British, proceeded to develop education so as to form a class to "develop" its economy in the interest of the metropolitan bourgeoisie. Moreover, the traditional bias in India for administrative jobs and the bias against trade and industrial occupations led to the whole educational machinery being geared to satisfy the needs of the public service and had the effect of perpetuating the old emphasis on literary education.[78]

It must also be noted, in the analysis of the Indian educated middle class, that such a class had a structurally different origin from that of the West. This phenomenon probably convinced Bernier to pronounce that there was no middle class in India.

> *In Delhi, there is no middle state. A man must be either of the highest rank or live miserably.*[79]

However, as we have observed, there was a class of literati in India that, unlike in the West, did not emerge from the rising bourgeoisie. It was a "parasitic class" subsisting on state patronage.

> *The Indian middle class historically had ... a different origin from that of its counterpart in the West. There, the middle class was mainly composed of merchants and industrialists together with intellectuals and people belonging to the learned professions; these people did not depend upon agriculture for their livelihood, but some of them might purchase estates for the sake of prestige and profit. The middle class in India, on the other hand, had its roots in the agrarian system of the country and it largely lived on the profits of agricultural industry.*[80]

The various professional classes that emerged in the West were rooted in the expanding bourgeois economy. They developed gradually with the economy. Speaking of the non-existence of similar professional classes in pre-British India, Moreland says:

> *There were at this time no lawyers, very few if any professional teachers, no journalists or politicians, no engineers, no forms of employment corresponding to modern railways ... and if we remove these from middle classes as they exist today, we shall find that there is little left, beyond the families dependent on the various public offices.*[81]

The public offices and the literati were, in fact, the nuclei from which grew the educated middle class in India. The public offices, both in pre-British India and under the British, were the instruments through which the economy was channelled. He who had control over the public offices had control over the economy. This was due to the fact that the bourgeoisie, until very late, did not constitute any political element in the Indian body politic, and hence did not or could not play the role of its European counterpart.

The professional middle classes were created by the British to meet her administrative needs. The British government had to organize a huge and extensive state machinery to administer the country. It was not possible to staff this huge machine by bringing in educated people from Britain other than to fill in the upper posts. Moreover, the capitalist penetration of the country needed English educated youths. So, in 1835, English was made the medium of instruction of higher learning and the official language by Lord William Bentick, then the Governor-General of India.[82]

It should be pointed out, however, that the Christian missionaries — inspired by a proselytising spirit — had laid the foundation of modern education in India long before the government took any step in that direction. But their attempts were feeble and could not satisfy the growing needs of the colonial economy. Another source of English education were the British liberals. They thought that, by "Anglicizing" the Indians, they would lead them towards the path of light. Some Indians, like Ram Mohan Roy, who is regarded as the pioneer of modern education in India, shared this view.[83] It is interesting to note that most of the articulate Orientalists were not Indians.

> *The curious fact is that the Orientalists were almost all Englishmen in the service of the Company, whereas almost all Indians of repute were Anglicists.*[84]

As a true representative of the bourgeoisie (though not belonging to that class), Rammohan expressed very succinctly in the following words why English learning was necessary for the Indians:

> *If it had been intended to keep the British nation in ignorance of real knowledge, the Baconian philosophy would not have been allowed to displace the system of the schoolmen which*

> *was best calculated to perpetuate their ignorance. In the same manner, the Sanskrit system of education would be the best calculated to keep this country in darkness if that had been the policy of the British legislature.*[85]

However, despite the attempts of the Christian missionaries and the liberals, English could not secure many adherents until it was made the administrative language in 1835. It is also noteworthy that the students who pioneered to learn English had, in most cases, a comprador background.

> *It is the Hindus of Calcutta, the Sircars* [i.e., the agents] *and their connexions and their descendants and relations of Sircars of former days, those who have risen through their connexions with the English and with public offices, men who hold or seek employments in which knowledge of English is a necessary qualification. These are the classes of persons to whom the study of English is as yet confined.*[86]

How great was the lure of public offices for the Indian literati could be guessed from the fact that, in the thirties of the nineteenth century, according to Adam's report, more Hindus, in Bengal, were learning Persian than were Muslims.

> *With regard to scholars, there are only 9*

> *Hindu to 149 Musalman students of Arabic and consequently 2087 Hindus to 1409 Musalmans who are learning Persian. The small comparative number of Arabic students who are Hindus and the large comparative number of Persian scholars of the same class seem to admit of only one explanation, viz, that the study of Persian has been forced by the practice of government.*[87]

Persian was the cultural language of the upper class Muslims and the official language until 1835. Hindus were learning Persian because, as agents of the employees of the East India Company, they were more prosperous than the Muslims. But their prosperity depended on their access to the government.

So, the middle class which emerged in India on the basis of English education was not an outcome of the growing economy; it was an off-shoot of the British rule. The colonial state had no intention of making the education universal in character; it served their interests best to keep the Indian middle class elitist in nature as in the past. The rationale was expressed by Macaulay in the following words:

> *We must at present do our best to form a class who may be interpreters between us and the millions whom we govern; a class of persons, Indian in blood and colour, but English in*

> *taste, in opinions, in morals and in intellect.*[88]

At the same time, this class would develop India's resources in the form of raw materials for the metropolitan industries and secure an increasing demand for metropolitan goods. As the Educational Despatch clearly state, the advancement of English education

> ... *will teach the natives of India the marvellous results of the employment of labour and capital, rouse them to emulate us in the development of the vast resources of their country, guide them in their efforts, and gradually but certainly, confer upon them all the advantages which accompany the healthy increase of wealth and commerce; and at the same time, secure to us a large and more certain supply of many articles necessary for our manufacturers and extensively consumed by all classes of our population, as well as an almost inexhaustible demand for the produce of the British labour.*[89]

English education was thus found useful for the economic as well as political requirements of British rule in India. Although the stated policy of the government and such well-intentioned persons like Trevalyan and Adam was to broaden its scope, it was found practicable to limit it to the upper and middle classes of the society. To quote

Trevalyan:

> *It was absolutely necessary to make a selection, and they therefore selected the upper and middle classes as the first object of their attention, because, by educating them first, they would soonest be able to extend the same 'advantages' to the rest of the people.*[90]

It was believed that be educating these classes first, because of their previous monopoly of education, it would be easier to educate the masses through these classes. But this "infiltration theory of education" did not succeed because the British capitalist economy failed to expand in the colony; but the middle classes created by the British rule expanded more than the demand. So, the middle classes were more concerned with getting employment than with educating the masses.

In the West, the concept of middle-class education became universal with the growth of capitalism. It was rooted in the freedom of opportunity, the concept of laissez-faire, the antithesis of mercantilism or a monopolist concept of economy and education. As a distorted form of capitalism was implanted on India's social structure, which to a great extent remained embedded in "the Asiatic mode of production", it was very natural that the middle classes in India (as well as in other Asian countries except Japan, which had become an industrial nation) would remain elitist.

So, when Gunnar Myrdal, in a recent economic survey of the Indian sub-continent, criticises "the educated unemployed" of India for their contempt of manual work, he fails to take into consideration the institutional framework of this attitude. The concept of dignity of labour is a capitalist concept which could not be found anywhere in the world befor the rise of capitalism. Both the Greek and Roman philosophers, including Plato and Aristotle, considered manual work as detrimental to intellectual growth. This attitude was a natural corollary of the slave-mode of production.

Furthermore, as has been already observed, because of the obstructed growth of industries and over-pressure on agriculture, very few opportunities were left in these fields in India. Thus, there occurred a tremendous competition among the English educated middle class for the public offices and occupations that came into existence as a result of the British rule.

* * * * *

From the foregoing discussion, we find that the rise of colonial power in India hindered the possibility of the transformation of the nascent capitalism of pre-British India into industrial capitalism. The spread of trade and industry, that in the process of gradual evolution could have led to the emergence of a unified capitalist economy from the erosion of atomistic little village economies, was put to an end by the ruination of Indian manufactures. Agriculture, to a great extent, was commercialised and the village land was transformed into a commodity by the colonial state, thus facilitating the transfer of resources from India to the metropolitan centre. This process of capitalist penetration of agriculture, without enabling it to undergo the transition to a full-fledged capitalist mode of production, resulted in the creation of a social formation which was partly Asiatic, partly feudal and partly capitalist; in the resultant social formation, the state still remained independent of any class control. Due to the obstructed growth of industries, the bourgeoisie remained too weak to be able to make the functionaries of the state subservient to their won interests. This weakness of the bourgeoisie became manifest particularly after independence.

Notes to chapter 3

1. "Memorandum of the Nawab of Bengal to the English Governor, May, 1762", cited in R.P. Dutt, India Today, p. 101.

2. W. Bolts, "Consideration on Indian Affairs", cited in R.K. Mukherjee, The Rise and Fall of the East India Company, pp. 302-303.

3. Mukherjee, Rise and Fall, p. 312.

4. B. Adams, The Law of Civilization and Decay, p. 294.

5. Ibid., p. 306.

6. A.G. Frank, Underdevelopment or Revolution, p. 13.

7. C. Hill, Reformation to Industrial Revolution, p. 245.

8. Marx, Capital, I, p. 823.

9. L.C.A. Knowles, Economic Development of the Overseas Empire, p. 74.

10. Ibid.

11. Lord Macaulay, History of England, Vol. V, p. 2094.

12. Adams, The Law of Civilization and Decay, p. 305.

13. R.P. Dutt, India Today, p. 101.

14. L. Serafton, "Reflections on the Government of Indostan, 1763", cited in R.P. Dutt, India Today, p. 105.

15. Ibid.

16. House of Commons, Select Committee's Ninth Report, 1783, pp. 54-55.

17. Ibid., p. 47.

18. R.C. Dutt, Economic History of India, II, p. 218.

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Chapter 4

SOCIALISM IN INDIA: AN IDEOLOGY OF STATE HEGEMONY

Prolegomena

In the second and third chapters, we discussed why the state in India, during the pre-British and British periods, remained independent of class control. It was the result of a unique development of productive forces determined by geography, that in turn conditioned the development of the relations of production. The hegemony of the state, vis-a-vis the social classes, was at the roots of the weakness of the Indian polity. Unlike the West, the Indian bourgeoisie could not depend on the state to advance its own interests. In fact, the state and major social classes — revenue and money interests — were antagonists. This was the reason why the rising Indian bourgeoisie, in spite of its immense economic power, was defeated by the British bourgeoisie which was backed by its own state.

We have also noted how the colonial state, as an agent of the metropolitan bourgeoisie, encouraged the development of a comprador, indigenous bourgeoisie, but when the native bourgeoisie gradually began to acquire power, it further development was thwarted by various fiscal policies.

The further weakening of the Indian bourgeoisie stemmed from its failure to have its own control over the state in the sense that the colonial (metropolitan) state neigher governed nor ruled in its interests.

Now we shall examine how the weakness of the bourgeoisie in India encouraged the state to take an active, participative role in the industrialisation of the nation. Further, we shall examine the bourgeoisie's reaction to the state's direct participation in industrialisation, and how this role was legitimated by the state in the name of "socialism".

Economic conditions on the eve of independence and the weakness of the bourgeoisie

At independence, the Indian bourgeoisie was too weak to initiate large-scale industrialisation on its own. How weak it was could be guessed from the fact that in the year April 1, 1948 to March 31, 1949, the share of industry in the national income was only 17 per cent, while that of agriculture was 48 per cent. Even the income from commerce, communication and transport exceeded that of industry: it was 19.5 per cent.[1] Again, in industry itself, the share of organised industry was only one-fifth of the total. According to the First Report of the National Income Committee, while large-scale industry produced goods worth Rs 100 crores (in 1948-49), the share of small enterprises (artisan and small-scale industry) amounted to Rs 500 crores.[2] The bulk of consumer goods, such as coarse clothes, utensils, etc., was supplied by the unorganised industries, much of which was not even monetised. Of the Indian rural economy, 45 per cent was not monetised in 1952.[3] This 45 per cent of the rural economy, of course, depended on artisan industries with whom the cultivators had a barter relationship. The weakness of the bourgeoisie could also be gathered from the fact that while in every one of the capitalist countries the proportion of people in industry had been increasing at the cost of agriculture, in India the reverse was the case (see below, Table 4.2).

Another way of looking at the strength of the bourgeoisie could be based on its size. In this respect, too, we find that in 1950-51, tax-paying income recipients constituted only 0.6 per cent of all income recipients and they commanded only 4.7 per cent of all total disposable incomes.[4] Moreover, a person was taxable at the meagre income level of Rs 4200[5] or $840 (approximately) per year. If, from these income tax payees, the taxable salary earners and professionals are deducted (for which we do not have any data), the size of the bourgeoisie proper would be even smaller. In addition to this, another significant characteristic of

Table 4.1: Distribution of Labour Force

	Population (in millions)							
	1901	%	1911	%	1921	%	1931	%
Agriculture, forestry and fishing	64.1	68	70.2	72	69.6	73	72.1	72
General labour	5.3	6	2.6	3	2.8	3	3.7	4
Manufacture, mining and construction	9.9	11	9.6	10	8.9	9	9.1	9
Trade	5.0	5	5.4	5	5.5	6	5.6	6
Transportation and other services	9.0	10	9.3	10	8.7	9	9.5	9

Sources: *Census of India: 1901*, Vol. I, part II, Table XV; *1911*, Vol. I, part II, Table XV; *1921*, Vol. 1, part II, Table XVII; *1931*, Vol. 1, part II, Table X.

the weakness of the bourgeoisie in India was that its average income was not far above the average income of other groups.[6]

Thus, in the absence of bourgeoisie development and industrial employment opportunities (the reasons for which we also discussed in chapter 3), the dependence on agriculture continued to increase. Table 4.1, enumerated from the various census reports, presents a comparative view of the changing nature of the occupational structure in India from 1901 to 1931. It is noteworthy that the number of people employed in the various sectors remained more or less constant in all four enumerations.

Using a different method of enumeration, the Census of India 1951 pointed out that,

> ... *notwithstanding an element of unavoidable uncertainty, this may probably be relied upon as evidence that dependence on agriculture for employment did not decrease during these twenty years (from 1931 to 1951), but probably increased though to a small extent only.*[7]

The enumeration of the Papers on National Income (see table 4.2) support this assertion.

However, the condition of agriculture was dismal, particularly with respect to food crop production. While the population in India increased from 279.4 millions in 1891 to 388 millions in 1941,[8] food crop production in India, according to George Blyn's calculation, declined from 73.9 million tons in 1893-94 to 69.3 million tons in 1945-46.[9] During the same period, however, non-food crop production registered a considerable increase. The output ratio of

Table 4.2: The percentage distribution of workers, 1931, 1951

	1931	1951
Agriculture and mining	71.2	73.0
Industry	16.3	13.0
Commerce	6.0	6.1
Transport	1.7	2.0
Public force and administration	1.2	2.6
Professions and liberal arts	1.6	1.9
Domestic service	2.0	1.4

Source: *Papers on National Income*, Vol. II, p.8.

Table 4.3: Estimates of average annual per capital output of food and non-food crops, 1893-94 to 1945-46

	Output in Index Units per capita		Output of Food Crops, Pounds per capita	
	Food Crops	All Crops		
1893-94 to 1895-96	100	100	587	587
1896-97 to 1905-96	95	97	560	560
1906-07 to 1915-16	91	97	547	547
1916-17 to 1925-26	90	98	538	538
1926-27 to 1935-36	78	90	461	461
1936-37 to 1945-46	68	80	399	399

Source: George Blyn, *Agricultural Trends in India*, p.117.

non-food to food crops, which was approximately 22:100 in 1893-94, rose to 44:100 in 1945-46.[10] Most of these non-food crops were commercial crops and raw materials which were exported to pay for the finished goods imported into India. The export of raw cotton increased from 178,000 tons in 1901-02 to 762,133 tons in 1936-37.[11] As can be seen from Table 4.3, despite the increase in the production of non-food crops, the per capita output of all crops declined considerably, not to speak of the miserable decline in the per capita food output.

The pressure on Indian agriculture and the consequent wretched condition of the peasant was noted by the Royal Commission on Agriculture (1928) in the following words:

> *The overcrowding of the people on the land, the lack of alternative means to secure a living, the difficulty of finding any avenue*

> *of escape ... combine to force the cultivator to grow food whenever he can and on whatever terms he can.*[12]

At independence, then, the state in India was confronted with a dismal and deteriorating economic situation. In addition to this, there was a wisespread demand for economic development, employment and income, that the nationalist leaders had promised the people at the time of the freedom movement.

The state functionaries, therefore, wanted to improve the economy through industrialisation which they thought would alleviate the overpressure on agriculture, create more jobs, and raise the productivity of the land. Moreover, without modern industry which could provide irrigation, electricity, pumps, fertilizers, power tillers, tractors, etc., no modern agriculture was possible.

The State's policy on Industrialisation and the Reaction of the Bourgeoisie

The organised private industrial sector, as we have already pointed out, was too weak to undertake large-scale industrialisation on its own. It not only lacked the means, it also lacked the will to invest in sectors that required long gestation periods. Only the state had the means to do that.

Furthermore, just after independence (and even before then), the private sector appeared quite willing to let the state play an important part, at least in the initial stages of industrialisation. The private capital interests in India were fully aware that, in an age of advanced capitalism dominated by the giant multinational corporations of the West and Japan, their very survival was at stake without some sort of state protection. Even in the West, after the depression of the 1930, the concept of unfettered competitive capitalism without any state intervention had been abandoned.

After the Second World War, many mechanisms of state intervention, such as state control of the banking system, government participation in the development of new technology, the creation of a trained labour force suitable for the adoption of the new technology, the nationalisation of private enterprises, etc., were resorted to in order to infust a new life into post-war capitalism in the advanced capitalist countries.[13] These steps were taken over and above the Keynesian prescriptions to reduce business risks and speed up the process of investment.

Under such changed situations in the world economy, it was quite natural that the weak Indian bourgeoisie would also seek help from the state to further its own interests. During the closing year of the Second World War, a blueprint for the industrialisation of India after the War — known as the Bombay Plan — was drawn up by a few industrialists headed by Tata and Birla, with this purpose in view.

The plan called upon the state to play an active role in laying the groundwork for the future industrialisation of India. The Plan also proposed that the state should have both preventive as well as positive functions to accelerate economic growth. It unequivocally stated that "An enlargement of the positive as well as the preventive functions of the state is essential to any large-scale economic planning."[14]

The Bombay Plan pointed out three areas of state intervention — ownership, management, and control — and for obvious reasons opted for the last one.

> *State control appears to be more important than ownership or management. Mobilisation of all the available means of production and their direction towards socially desirable ends is essential for achieving the maximum amount of social welfare.*[15]

With respect to social overheads, the Bombay Plan agreed to state ownership with reluctance but added,

> *... if later on private finance is prepared to take over these industries, state ownership must be replaced by private ownership* (emphasis added).[16]

Even in cases of state ownership, it suggested that the management of the concerns should be vested in the private capitalists.

> *It does not invariably follow that all the enterprise owned by the state should also be managed by it.*[17]

Although it is clear that the Bombay Plan called upon the state to operate actively in the economy in the interests of the bourgeoisie, the call itself was a big departure from what is normally regarded as the subjective preference of the capitalist class — the independent capitalist path of development or *laissez-faire*.

One may pertinently ask: why did the Indian bourgeoisie not seek the collaboration of foreign capital instead of asking for state intervention? There are two answers to this question. First, on the morrow of independence, the capitalist class was genuinely apprehensive that a call for foreign private capital to operate in India would have meant the loss of a sheltered market for itself,[18] for which very purpose it had joined the independence movement. Second, it could not be expected that the foreign private capital would be interested in developing only the slow-yielding infrastructure industries, which the Indian bourgeoisie considered essential for its own development and aggrandisement.[19]

It may be noted here that the very concept of economic planning on the part of the bourgeoisie was a novel step, if not a revolutionary one, because until then the concept was associated with socialist, or more precisely Soviet, planning.

India was probably the first country outside the soviet and socialist blocs to undertake long-term economic planning* under which the basic industries are to be owned by the state. Even before the Bombay Plan, a National Planning Committee of the Congress Party was appointed as early as 1938, under the chairmanship of Mr. Jawaharlal Nehru, who became the first Prime Minister of free India.

Planning was defined by this Committee,

> *... as the technical coordination, by disinterested experts, of consumption, production, investment, trade and income distribution, in accordance with social objectives set by bodies representative of the nation. Such planning is not only to be considered from the point of view of economics and the raising standard of living but must include cultural and spiritual values, and the human side of life.*[20]

The National Planning Committee represented different

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* - Planning in India, unlike planning in many other developing countries as well as some developed countries, covers almost all sectors of the national economy. In many European countries, planning had been adopted after the Second World War to accelerate the rate of economic growth, and remove certain imbalances in the capitalist structure; but in almost none of these countries did planning include any provision whereby the state would own the basic industries.

social groups and interests.[21] The Committee included fifteen members of the Congress who were assisted by the representatives of the governing bodies of each province.* Non-Congress provincial governments and many large princely states also participated in its deliberations. In the words of Nehru, the composition of the Committee was as follows:

> *Toward the end of 1938 a National Planning Committee was constituted at the instance of the Congress. It consisted of fifteen members* [from the Congress] *plus representatives of provincial governments and such Indian states* [native princely states] *as chose to collaborate with us. Among the members were well-known industrialists, financiers, economists, professors, scientists, as well as representatives of the Trade Union Congress and the Village Industries Associastion. The Non-Congress provincial governments (Bengal, Punjab and Sind), as well as some of the major states (Hyderabad, Mysore, Baroda, Travancore, Bhopal) co-operated with the committee. In a sense it was a remarkably representative committee cutting across political boundaries as well as the high barrier between official and non-official India.... Hard-headed big business was there as well as people who are called idealists and doctrinaires, and socialists and*

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* - An election was held in 1937 under the Act of 1935. In this election, the Indian National Congress was elected in all provinces except Bengal, Punjab, and Sind.

> *near-communists. Experts and directors of industries* [i.e., government officials concerned with industries] *came from provincial governments and states.*[22]

The big business interests joined in the deliberations of this committee because they were afraid that its decisions would go against their interests. Nehru adds,

> *Big business was definitely apprehensive and critical* [of the committee], *and probably joined up because it felt that it could look after its interests better from inside the committee than from outside.*[23]

It was decided by the National Committee that the defense industry must be owned and controlled by the state. Regarding other key industries, the majority members of the committee were of the opinion that they should be state-owned; the minority members, acting as deputies for the business interests, opined that state control would be sufficient.[24] The opinion of the majority prevailed. Its other important recommendations were: public utilities to be state-owned; all businesses to be licensed and regulated by a public authority; banking to be licensed and regulated; and a national board to be formed to supervise insurance.[25]

A very significant factor emerges from the aim, composition and deliberation of the Planning Committee.

The aim of planning, as it was pointed out before, was to realise "social objectives" set by "bodies representative of the nation". Now, it became clear that the "bodies representative of the nation" were predominantly comprised of the literati classes and officials. Thus, the presence of capitalist interests was futile because of its inherited weakness, and this presence could not resist the Planning Committee's determination to monopolise for the state the ultimate say in the future industrialisation of India.

It may be noted, in this connection, that the projected intervention of the state in the production processes of India was quite different from the state's intervention in production in the advanced capitalist countries, as pointed out by Clause Offe:

> *Due to lack of capitalist class cohesiveness, the state takes on responsibility for managing crises through production policy. With no class-originated policy guidelines, the state itself is forced to devise decision rules that reproduce private capital accumulation.*[26]

In the case of India, there was a distinct class-originated policy guideline that reluctantly agreed to have some sort of state control in key industries, but not state ownership.*

* - "The authors of the plan [Bombay Plan] are evidently orthodox believers in the creed of capitalism and laissez-faire and whilst they are reluctantly led to pay

Even state control was acceded to, because the bourgeoisie was too weak to undertake on its own the development of the infrastructure.

The bourgeoisie demanded from the state a base for quick private capital accumulation but that demand, however, did not originate from the "lack of class cohesiveness" or "specific bottlenecks, externalities or crises due to breakdowns in private capital investment"[27] — which are endemic to the system (capitalism) in advanced capitalist countries.[28]

In India, the state intervened, not because it was delegated power to intervene on behalf of the bourgeoisie resulting from crises in the process of capital accumulation or from its lack of cohesiveness, but because the bourgeoisie was too weak. Despite the protests from the bourgeoisie, the state in India could take the decision to own and manage the basic industries because it was independent of bourgeois control, and its freedom to act in the economic field could not be thwarted by the lack of support from the bourgeoisie (such as non-investment or withdrawal of investment).

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homage to a compromise formula, a via-media between state and private enterprise, they look upon state control as a temporary measure during the planning period." (P.A. Wadia and K.T. Merchant, *The Bombay Plan, A Criticism*, p.18.)

After independence, the decisions of the National Planning Committee were adopted in a modified form in the Industrial Resolution Policy (IRP) which the Government of India published April 6, 1948. A brief compendium of the important points of the Resolution is given below:

> *State Enterprise vs. Private Enterprise: It was stated that the State must play a progressively active role in the development of industries. The ability to achieve the main objectives should determine the immediate extent of State responsibility and the limits to private enterprise. It was realised that under the existing conditions the mechanisms and the resources of the State might not permit it to function forthwith in industry as widely as might be desired. It was, therefore, felt that for some time to come the State should contribute more quickly to the increase of national wealth by expanding its present activities whereever it was already operating, and by concentrating on new units of production in other fields, rather than on acquiring and running existing units.* * *It was stated that in the meanwhile, private enterprise properly directed and regulated, had a valuable role to play.*
>
> *Allocation of spheres: In order to implement this policy industries were classified*

* - The existing units mainly consisted of jute and textile industries.

as under:--

(a) Industries reserved for the exclusive monopoly of the Government of India: In this category were included the manufacture of arms and ammunition, the production and control ot atomic energy, and the ownership and management of railway transport.

(b) Industries reserved for State initiative: The State was defined as including Central, Provincial and State Governments as well as public authorities like Municipal Corporations. State initiative meant that the State would be exclusively responsible for the establishment of new undertakings in certain industries, though it was further laid down that in those cases where the state itself found it necessary in the national interests to secure the cooperation of private enterprise, it would do so subject to such control and regulation as the central government might prescribe. The industries in this category were:

(i) coal;

(ii) iron and steel;

(iii) aircraft manufacture;

(iv) shipbuilding;

(v) manufacture of telephone, telegraph and wireless apparatus, excluding radio receiving sets; and

(vi) mineral oils.

So far as the existing private enterprise in the above industries was concerned the inherent right of the state to acquire any *existing industrial undertaking was emphasised.*

So far as the management of a State enterprise was concerned, it was laid down that as a rule it would be through the medium of public corporation under the statutory control of the Central Government, which would assume such powers as might be necessary to insure this policy. But it was mentioned that government had decided to let existing undertakings in these fields develop for a period of ten years.... At the end of this period the whole matter was to be reviewed and a decision taken in the light of circumstances obtaining at the time. Compensation on a fair and equitable basis would be given if the state decided to acquire any unit.

(c) Private Enterprise: Industrial activities other than those indicated above would normally be open to private enterprise. It was, however, laid down that the state would also progressively participate in this field; and that it would not hesitate to intervene if the progress of an industry under private enterprise was unsatisfactory.

Foreign Capital: It was proposed to introduce legislation for regulating the conditions under which foreign capital might participate in Indian industries. Each individual case of such participation was to be scrutinised and approved by the Central Government. As a rule it would provide that the major interest in ownership and effective control should *always be in Indian hands. Power would, however, be taken to deal with exceptional cases in a manner calculated to serve the national interest.*

Cottage and small-scale industries: The role of these industries in the national economy was emphasised and though they fell within the provincial sphere, the Government of India agreed to investigate how far and in what manner these industries could be coordinated and integrated with large-scale industries; for example, how the textile mill industry can be made complementary rather than competitive, to the handloom industry. The creation of a Cottage Industry Board ar the centre, as well as of a Cottage and Small-scale Industries Directorate was envisaged. The encouragement to these industries by means of industrial co-operatives was suggested.

Labour-Capital Relations: The Government of India accepted the resolution of the Industries Conference which among other things laid down: "That the system of remuneration to capital as well as labour must be so devised that, while in the interests of the consumers and the primary producers, excessive profits should be prevented by suitable methods of taxation and otherwise, both will share the product of their common effort, after making provision for payment of fair wages to labour, a fair return on capital employed in the industry and reasonable reserves for maintenance and expansion of undertaking."

> *In accepting this resolution the Government observed that labour's share of the profits should be on a sliding scale normally varying with production.*[29]

We have quoted in detail the main features of the Industrial Policy Resolution of 1948 because they embodied the directive principles for the future industrialisation of India. The Second Industrial Policy Resolution of 1956 was in many ways a reiteration of the first.[30] But it made a few important points of departure. It declared, as its avowed goal and principle, the establishment of a "socialist pattern of society" which did not find any mention at all in the first Industrial Policy Resolution.

The second Industrial Policy Resolution categorically declared that all industries of *basic and strategic importance*, or in the nature of public utility services, should be in the public sector. It also included policies to undertake state trading on an increasing scale. All industries were classified into three categories on the basis of their strategic importance to the state.

The industries in the first category were made the exclusive monopoly of the state. The industries in the second category were to be progressively state-owned, and new undertakings in this category were to be initiated by the state. The private sector was given a secondary role to supplement the endeavours of the state. All the remaining industries, falling under the third category, could be developed by the private sector, but it was declared at the same time that it would be open to the state to start any industry even in this category.

The first category included:

arms, ammunition, and allied items of defense equipment;

iron and steel;

heavy castings and forgings of iron and steel;

heavy plant and machinery required for iron and steel production, mining, machine tool manufacture, and such other basic industries as may be specified by the Central Government;

heavy electrical plants including large hydraulic and steam turbines;

coal and ignite;

mineral oils;

mining of iron ore, manganese ore, chrome ore, bypsum, sulphur, gold and diamonds;

mining and processing of copper, lead, zinc, tin, molybdenum, and wolfram;

minerals specified in the schedule to the Atomic Energy (Control of Production and Use) Order, 1953;

aircraft;

air transport, railway transport, shipbuilding;

telephones and telephone cables, telegraph and wireless apparatus (excluding radio receiving sets);

generation and distribution of electricity.

The second category consisted of:

all other minerals except "minor minerals" as defined in Section 3 of the Mineral Concession Rules 1949;

aluminium and other non-ferrous metals not included in Schedule A;

machine tools;

ferro-alloys and tool steels;

basic and intermediate products required by chemical industries such as the manufacture of drugs, dyestuffs and plastics;

antibiotics and other essential drugs;

fertilizers; synthetic rubber;

carbonization of coal;

chemical pulp;

road transport and sea transport.

What is obvious is that the above lists indicate that all basic and strategic industries were to be brought under state production. This was done in the name of "socialism", although the term was conspicuously absent in the First Industrial Policy Resolution.

The nature of State Socialism in India

The social economy of India on the eve of independence made the intervention of the state inevitable; and state initiative in large-scale industrialisation until then was associated, even in the enlightened circles, with the ideology and practice of socialism.

Although the term "socialist pattern of society" was first officially used in the Second Industrial Policy Resolution, it had already been adopted in a non-official resolution in the Indian Parliament in 1954.[31] The urgency in adopting these resolutions lay in the partial failure of the First Five Year Plan — embarked on in April, 1951 — to enlarge the industrial sector and to shift the ever-swelling population from agriculture to industry.[32] Although the First Industrial Policy Resolution provided resolutions which were sufficient to enable the state to develop industries on its own, the incorporation of the term "socialist pattern of society" reinforced the purpose and gave the functionaries of the state a better ideological base to work on.*

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* - One of the reasons that led the Government of India to exclude the mention of the "socialist pattern of society" in the First Industrial Policy Resolution might have

Agriculture had failed to generate, during the First Five Year Plan — thus belying the expectations of the planners — the necessary surplus for the expansion of other sectors. This failure was readily confessed in the Second Five Year Plan:

> *There has not been any marked change in the occupational pattern in India over the last three or four decades.... Broadly speaking, agriculture and allied pursuits continue to absorb about 70 per cent of the working force; mining and factory industry absorb about 2.6 per cent of the working force; small enterprises including construction, take up some 8 per cent, about 7 per cent of the working force is engaged in transport, communication and trade; public administration, professions and liberal arts and domestic services account for over 10 per cent. This means that the secondary and tertiary sectors have not grown rapidly enough to make an impact on the primary sector; nor has the primary sector itself thrown up surpluses which would create conditions favourable for expansion elsewhere.*[33]

In short, the development of industrialisation needed a big push which would lead to a significant change in the

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been prompted by the desire to not offend the advanced capitalist societies, their being, at that time, the only source of capital goods. By 1956, however, the U.S.S.R. had emerged as another viable source.

occupational structure, the removal of the burden on agriculture, and an improvement in the standard of living.*
The state of the economy at the end of the First Five Year Plan made it imperative for the state to play a more vigorous and active role in enlarging industrial production and this could be readily undertaken and vindicated on the grounds of establishing a "socialist pattern of society".

The "socialist pattern of society", or "socialism", that was underlined in the Second Industrial Policy Resolution and the Second Five Year Plan rested on three cardinal resolutions:

(i) the productive forces of the country should be rapidly expanded, and in this endeavour the basic and strategic industries should be owned and controlled increasingly by the state;

(ii) unorganised (cottage and village) and small-scale industries should be given preference over, and be provided with more facilities, than the large-scale private sector industries;**

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* - The continuing low standard of living (and its deterioration in the absence of industrialisation) is a source of danger to the stability of any state.

** - "The State has been following a policy of supporting cottage and village and small-scale industries by restricting the volume of production in the large-scale sector, by differential taxation, or by direct subsidies.... The State will, therefore, concentrate on measures designed to improve the competitive strength of the small-scale producers." (*The Second Industrial Policy Resolution*,

(iii) to reduce disparities in income and wealth, the concentration of economic power in the hands of a small number of persons should be resisted. To accomplish this and to make business conform to the "social and economic policy" of the state, economic activity should be regulated and controlled by various legislative and fiscal means.*

What emerges from the above scheme is that the essence of Indian socialism that began to take a concrete form after the Second Five Year Plan lay not in the establishment of an egalitarian society based on social ownership, but in the rapid growth of the productive forces, mainly, but not exclusively, through the state sector. Private business was not eliminated, but its activities were curbed and its role was defined in order to complement the state sector. It is clear that the emphasis was more on production than distribution.

However, this was not the goal of Nehru, the socialist, in 1933. He wrote then in a booklet entitled *Whither India?* —

> *The nationalist answer is to prefer home interests to foreign interests, but beyond that*

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* - "Industrial undertakings in the private sector have necessarily to fit into the framework of the social and economic policy of the State and will be subject to control and regulation in terms of the Industries (Development and Regulation) Act and other relevant legislation." (*The Second Industrial Policy Resolution.*)

it does not go. It tries to avoid disturbing the class division or the social status quo. It imagines that various interests will somehow be accommodated when the country is free. Being essentially a middle class movement, nationalism works chiefly in the interests of that class. It is obvious that there are serious conflicts between various interests in a country, and every law, every policy, which is good for one interest may be harmful for another.... Appeals are issued for unity between different classes and groups to face the common national foe, and those who pointed out the inherent conflict between landlord and tenant, or capitalist or wage labourers, are criticised.[34]

Rejecting the appeal for class collaboration to stand against the common enemy, Nehru's answer was: "India's immediate goal can only be considered in terms of the ending of the exploitation of the people."[35] This meant, for him, not only political independence but also economic emancipation of all the people. However, as the first prime minister of India, he began to speak in a different voice only five months after independence.

Production became, for him then, the first priority.*

* - "Now it is well known and we have often stressed this that production is perhaps one of the most important things before us today, that is adding to the wealth of the country. We cannot overlook other things. Nevertheless production comes first, and I am prepared to say that every-

Now he wanted to minimize the inherent conflict between the owners of the means of production and the sellers of labour power in order to ensure continued production.

> *Capital may want a certain prize, labour may want a certain prize; the consumer, the producer, everybody naturally wants to benefit himself or his group.... It is not necessary to give up the hope of getting the prize, but rather to put first things first, that is, to preserve the prize and then either in a friendly way come to future decisions or, if you like, have a conflict; but when the conflict endangers the prize itself, then obviously this is an exceedingly unfortunate and foolish way of approaching a thing.*[36]

The question is: why this transformation? To get an answer to this question, let us examine briefly what alternative courses of action were open to him. He could either urge the Congress Party, which he headed, to usher in a full-scale socialist revolution, thereby dissolving the existing social formation which was a complex of various modes of production — partly Asiatic, partly feudal, and partly capitalist. Or, he could let the existing social structure continue whereby the state, as the single most powerful organ, would have a great amount of leverage to mould the future development

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thing that we do should be judged from the point of view of production first of all." (J. Nehru, *Speeches*, Vol. I, 1946-49, p.110.)

of society. He opted for the second alternative.

The choice was dictated by two factors. First, the Indian National Congress, which was the largest political party and which had won India's freedom, was composed of various social strata — the educated middle class, the professionals, small businessmen, small landlords, rich and small peasants;[37] all these could not easily be brought together shortly after independence in order to unleash a social revolution. Moreover, the socialist core of the party was very thin.[38] The leadership was predominantly made up of intellectuals of petit-bourgeois origins.[39]

Second, the party derived its mass support mainly from the peasants with small holdings[40] whose aversion to any kind of social change had been noted by Marx long ago.* In the case of India, this was further reinforced by the village communal life, as well as the caste system. In short, the configuration of the social forces, despite the poor and declining condition of the economy, was not favourable for a social

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* - Commenting on the issue of cooperative and collective farming, Nehru described the Indian peasants' apathy to part with their small holdings in the following words: "... it is obvious that before you can think of them, you have to put an end to the present land system which prevails in the greater part of India ... and that is not such an easy matter. It is not a matter of few, whom you might call capitalists, disliking it, but possibly a very large number of peasant proprietors disliking it. Obviously, whatever decision we may make must have the consent of a large number of people. We cannot force it down the throats of the vast majority of our peasants." (J. Nehru, *Speeches*, Vol. I, 1946-49, p.116.)

revolution at this juncture.*

Thus, at independence, Nehru and his Congress Party were confronted with a situation in which the state had considerable leverage, free from any dominant class hegemony, to plan and determine India's future social development. By manipulating the state machinery, in curbing the private and expanding the public sectors, it would be possible, so Nehru thought, to establish in India a socialist society without taking any recourse to the violent overthrow of the existing structures. After all, a social revolution is always fraught with unforeseen consequences.** His strategy was, therefore, one of creeping socialism which, with the increasing production in the state sector, would minimise the concentration of wealth and income in the nands of a few capitalists, and

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* - The poor performance of the Communist party in the general election which was held in 1950 is indicative that the situation was not propitious for a social revolution.

** - "Communism charges the capitalist structure of society with being based on violence and class conflict. I think this is essentially correct, though the capitalist structure itself has undergone and is continually undergoing a change because of democratic and other struggles. The question is how to get rid of inequality and have a classless society with equal opportunities for all. Can this be achieved through methods of violence, or can it be possible to bring about the changes through peaceful methods? Communism has definitely allied itself to the approach of violence ... If the society which we aim at cannot be brought about by big scale violence, will small scale violence help? Surely not, partly because that itself may lead to a big-scale violence and partly because it produces an atmosphere of conflict and of disruption. *It is absurd to imagine that in a conflict the socially progressive forces are bound to win.*" (J. Nehru, *Speeches*, 1957-63, pp. 116-118.)

at the same time would implicitly provide assurance for the workers' needs.

But the system Nehru visualised did not include any change in the "ownership pattern". He said:

> *Obviously, most persons who believe in a socialist pattern must believe in the public sector growing all the time. But it does not necessarily mean that the private sector is eliminated even at a much later stage. In regard to the private sector and the public sector, I think the criteria should be basically two. One is to have as much production as possible through all the means at our disposal, and the second is prevention of accumulation of wealth and economic power in individual hands. If we have only the first one, it may lead subsequently to unsocial, undesirable and harmful consequences. Therefore we must aim right from the beginning and all the time at the prevention of this accumulation of wealth and economic power.*[41]

He also added:

> *... socialism involves higher grades of production, more production and more wealth being produced and equitable distribution.*[42]

In brief, the equitable distribution should be gradually effected through the diminution of the private sectors and the expansion of the public sectors; the idea was, that economic benefits would automatically flow from this process to the less-fortunates. What is clear, however, is that what Nehru envisioned in the mixed-economy socialism was the gradual enhancement of the state's economic (as well as political) power without changing the "ownership pattern".

The state would not — as proclaimed by Marx and Lenin, and put into practice in the socialist countries — restructure the society by smashing up the existing "ownership pattern" and replacing it with "social property".* The state, here, was not the instrument to abolish the class relations which emanate from private property.

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From the foregoing discussion, it may be concluded that the hegemonical role of the state, in India, both in economics and politics, was determined by the factors generated from the depths of society itself. The "socialistic form", or the name "socialism", was given only to legitimate what was already there, weak social classes dominated by a strong state which wanted to further consolidate its position

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* - Lenin stressed the need of political domination or of the state power to execute the transition to socialism. "If we are not anarchists, we must admit that the state, that is, compulsion, is needed for the transition from capitalism to socialism." (V.I. Lenin, *Questions of the Socialist Organisation of the Economy*, p.126.)

by strengthening its economic power. The aim, indeed, was to make the state independent of the economic subservience to the capitalist class (see chapter 6). This could be done only by bringing under its own ownership and control the basic and strategic industries, so that the state in India, unlike in the developed capitalist countries, would not have to depend on the private capitalists' investments which, in the developed countries, determine both the volume of capital accumulation and its partial appropriation through the mechanism of taxes, public debt, etc., (i.e., social capital and social expenses as explained by James O'Conner in his *Fiscal Crisis of the State*). In short, the Indian state was not a capitalist state.*

The state in India manifested itself over almost all social classes, the bourgeoisie, the peasants and the workers. If it had any realtionship on the basis of inputs, with any class, it was, to some extent, with the petit-bourgeoisie. However, in terms of output, it would be very difficult to

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* - Nor could the state in India be called a socialist one in the sense of scientific socialism, because it had no organic relationship with either the workers or the peasants. It did not emerge from any social revolution, whether bourgeois or proletarian. In his letter to Kugelmann (dated April 12, 1871), Marx wrote: "If you look at the last chapter of my Eighteenth Brumaire, you will find that I declare the next attempt of the French Revolution to be: not merely to hand over, from one to another, the bureaucratic and military machinery — as has hitherto but to *shatter* it [Marx's emphasis]; and this is the preliminary condition of any real people's revolution on the continent."

locate the state in any class, because, as it appears, its policies were (and are) principally directed toward the augmentation of its own power and not the power of any social class (see below, chapter 6).

However, it must be borne in mind that the classes and their relationship with the state do not remain static. In the modern world, in every country, the bourgeoisie and the proletariat — in third world countries other forces as well, such as the feudal elements, rural bourgeoisie, etc. — are engaged in a perpetual struggle to determine in their own favour the nature of both inputs (structure) and outputs of the state. At the same time, in countries like India, with its myriad bureaucratic structures, where the state has enjoyed autonomy from any class control for so long, it is natural that it would try to resist the hegemonic domination of the bourgeoisie.

Notes to chapter 4

1. First Report of the National Income Committee, 1951, p. 24.

2. Ibid.

3. Report of the Taxation Enquiry Commission, 1953-54, I, pp. 63-64.

4. Report of the Committee on Distribution of Income and Levels of Living, Table 3.12.

5. Ibid., p. 15.

6. Ibid., Table 3.19.

7. Census of India, 1951, Vol. I, Part 1-B, 1955, p. 207.

8. Wadia/Merchant, Our Economic Problem, p. 85.

9. G. Blyn, Agricultural Trends in India, 1891-1947, p. 117.

10. Ibid.

11. R.P. Dutt, India Today, p. 205.

12. The Royal Commission on Agriculture, 1928, p. 433.

13. See A. Shonfield, Modern Capitalism.

14. "A Plan of Economic Development for India" (known as the Bombay Plan); signatories to the plan were: J.R.D. Tata, G. Biral, Shri Ram Purshottomdas Thakurdas, Sir Ardeshir Dalal, John Mathai, A.D. Shraff, and Kasturbhai Lalbhai; p. 5.

15. Ibid., p. 27.

16. Ibid., p. 28.

17. Ibid., p. 29.

18. Ibid., pp. 9-10.

19. Ibid.

20. Cited in H. Vankatsubbiah, Indian Economy since Independence, p. 292.

21. J. Nehru, Discovery of India, pp. 399-400.

22. Ibid.

23. Ibid.

24. See Report of the National Planning Committee (edited by K.T. Shah), p. 36.

25. Ibid., pp. 139-169.

26. Quoted in "Modes of class struggle and the capitalist state" by G. Epsing-Anderson, R. Friedland and E.O. Wright, in Kapitalistate 4-5/1966.

27. Ibid.

28. See J. O'Connor, The Fiscal Crisis of the State; also A. Shonefield, Modern Capitalism.

29. Cited in P.R. Bramhanand, "Industrial Development and Planning", in G.H. Vakil (ed.), Economic Consequences of Divided India, pp. 369-371.

30. See below, the discussion on the Second Industrial Policy Resolution.

31. Industrial Policy Resolution, April, 1956.

32. See Second Five Year Plan, p. 12.

33. Ibid.

34. J. Nehru, Recent Essays and Writings, pp. 4-6.

35. Ibid., p. 21.

36. J. Nehru, Speeches, 1946-49, p. 92.

37. See A.R. Desai, Social Background of Indian Nationalism, pp. 295-350.

38. Ibid., p. 349.

39. Some, Rajendra, Jagrata Janata, pp. 127-128; see also Nayar, Baldev Raj, The Modernization Imperative and Indian Planning, pp. 127-128.

40. Some, Jagrata Janata, p. 132.

41. J. Nehru, <u>Speeches, 1957-63</u>, p. 139.

42. <u>Lok Sabha Debates</u>, Third Series, Vol. II, p. 2062.

Chapter 5

THE ARTISAN AND SMALL-SCALE INDUSTRIES IN INDIA'S SOCIAL ECONOMY AND THEIR RELATIONSHIP WITH THE STATE

Prolegomena

In the last chapter, we saw that the state in India, following independence, after the indigenous bourgeoisie became free of the metropolitan competition and restraints, could maintain its hegemonic position free of any class control. The state could do this because the economic strength of the indigenous bourgeoisie was too weak at a time when the socio-economic situation, in the form of the employment condition and the standard of living of the masses, demanded a quick pace of industrial progress. The state undertook the task and could monopolise to itself the basic and strategic industries, these being still undeveloped and unoccupied by the indigenous capitalist class.

As we noted, this was done in the name of establishing a socialist pattern of society, and this further augmented the power of the state in manipulating the development of social classes, in particular, in curbing the bourgeoisie. Because the ownership pattern was not abolished, however, the bourgeoisie continued (and still continues) to grow despite all the checks put on it. Simultaneously it waged (and still wages) a relentless struggle to gain control over the state in terms of both inputs and policy formulations (see chapter 6). To understand the dialectic of this interaction, it is necessary to have a clear idea of the structure of Indian industry because the state, in its attempts to restrict the growth of the power of the capitalist class, not only developed the public sector, with which it eventually wanted to wipe out the private sector, but also imposed detailed regulations on the private sector (see chapter 4), and encouraged small-scale production and artisan industries (most of which are unorganised household enterprises) to emerge as serious competitors to the big private enterprises.

In this chapter we will first try to categorise the different types of industries (although the categories do tend to overlap as will be indicated below) that are found in India, and then see how the state action in encouraging the village and small-scale industries and in delimiting the area of development for the large-scale private industry has led to the failure of growing capitalism to integrate the pre-capitalist sectors into its fold, and also how this in turn has further buttressed the continued existence of the post-Asiatic social formation leading to the maintenance of the state's independence and hegemony.

The organised industries can be classified into three subgroups: the industries organised by the state sector; industries organised by the large- and medium-scale private sectors (both of which hereafter will be called large-scale industry); and the small-scale private sector industries which come under the jurisdiction of the Factory Act, the definition of which has changed from time to time.

Unorganised industries normally described as small-scale enterprises fall into three categories: the first category is engaged completely in the production of use values employing almost exclusively the family members and seldom hired labourers; the second category is involved in the creation of both use and exchange values employing both family members and hired labourers; the third category, usually known as the small-scale industry, produces exclusively for the market employing wage labour as well as modern means of production. Almost all units in the first category are located in villages (rural areas) and cater to the needs (use values) of village members. The exchange of products takes place not on the basis of market forces or market principles, but on the basis of local customs. The units in the second category can be found in both urban and rural areas and their market is mostly regional. Production in the third category, which is predominantly located in urban areas, is oriented to meet the demands of both national and international markets. In fact, the third category, or small-scale industry, is organised on the basis of the capitalist principle.

Some of the units in the third category expand enough to come under the jurisdiction of the Factory Act, and are listed under the organised industry. In fact, the third category in the organised industry and the third category in the unorganised sector overlap in respect of the mode of production, to such an extent that it is theoretically difficult to distinguish between the two. In this discussion we would, therefore, include both of them under the term "small-scale industry" and refer to the units of the other two categories in the unorganised sector as "artisan industries". It may be pointed out here that the government documents refer to both artisan industries and small-scale industries as "small-scale enterprises" — a very confusing term — thereby blurring their distinct modes of production. In this chapter we would analyse the main features of the artisan and small-scale industries while the next chapter will be devoted to the analysis of the state sector and large-scale private sector industries.

The state and artisan industries

The first and second categories of unorganised industry have one characteristic in common: they use the traditional techniques of production. In these categories, the investment of physical capital per unit of labour is very low and, hence, productivity is low too. Yet as we noted in the fourth chapter, the share of unorganised industry (mainly composed of these two categories), on the eve of independence, constituted two-thirds of the total industrial production.

In terms of employment, it was estimated in the census of 1951 that more than 16 million out of 21 million non-agricultural rural labourers were engaged in household enterprises.[1] From the following table (5.1), it can be seen that, even after fourteen years of independence, the household industry employed more people than the organised manufacturing industry (including both public and private sectors).

Though we have not been able to ascertain from the 1971 census what is the *real* share of household industry in the employment in industry as a whole,* the White Paper on National Accounts Statistics, released by the Central Statis-

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* - According to the 1971 census, the percentage of workers employed in household industry is 3.5% to the total working population. But the criteria of estimation of the 1971 census is different from that of the 1961 census. "According to Census of India, 1971, the working population formed 32.9 per cent of the total population as against 42.9 per cent of the total population recorded as workers in 1961 Census. The decrease in the working population in 1971 as compared with 1961 is mainly due to the adoption of amended definition of 'workers' in 1971 where-in the persons have been categorised as 'workers' and 'non-workers' according to their main activity. The secondary work is not taken into consideration." (*The Indian Labour Year Book, 1972*.) The ten per cent decrease in the number of workers has been achieved mainly at the expense of rural artisan workers, most of whom are engaged in Secondary work. The point is discussed in detail later in this chapter.

Table 5.1: Distribution of labour, 1961

	1961 %
Agriculture	69.5
Mining, fishing, quarrying, livestock, forestry, fishing, hunting and plantations, orchards and allied activities	2.8
Manufacturing — household industry	6.2
Manufacturing — other than household industry	4.4
Construction	1.1
Trade and commerce	4.0
Transport, storage and communications	1.6
Other services	10.4
Total	100.0

Source: *The Census of India, 1961.*

tical Organisation, provides information which indicates that the ratio of the work force in different sectors of industry has not altered very much since 1960-61. According to the CSO, while the share of industry in the overall domestic product was 19.9 per cent in 1960-61, it has increased to 22.8 per cent in 1975-76. An increase of only 3 per cent, it can easily be inferred, would not radically transform the distribution of labour between various sectors of industry.

In the unorganised sector, the primary sector takes up the biggest portion and it is split up into millions of small atomistic units. These units are scattered into six hundred thousand villages of India. Dr. V.K.R.V. Rao, an eminent statistician of India, has described the nature of these units in the following words (in order to point out the idfficulties involved in computing the income from the primary sector):

> *Agriculture accounts for the employment of the major portion of our active labour force and constitutes practically half of the gross national product. Statistics of output of agricultural commodities are not completely accurate in any country in the world, as by the very nature of the industry, it is not possible to have a census of production comparable to that of manufactures. In India, however, the difficulties are specially great. The number of production units run into many millions (it is estimated that the number is nearly sixty million), most of them do not keep any accounts, a large portion of the output is not sold for cash, being either consumed by the producer and his family or exchanged in barter....*[2]

Household industries of the first category are adjuncts and dependent on the above form of agriculture (in chapter 2 we discussed in some detail how the unity of agriculture and industry provided the base of the Asiatic mode of production). This kind of agriculture, in turn, cannot operate without some kind of internal industry within the village, which provides it with the basic tools, the instruments of production, and services. Only when these prerequisites are met do the villages in India become self-generating and self-sustaining. The village artisans, who produce these tools, are not only employees of the village, along with other service sector servants such as barbers, priests and teachers, they are the integral part of the village.

The unity of agriculture and industry make these villages complete as both production and consumption units and this unity, in turn, makes them self-reproductive and unchangeable. In this connection we again recall what Marx considered as the basic characteristics of the Asiatic mode and its reasons for stability:

> *The chief part of the products is destined for direct use by the community itself, and does not take the form of a commodity. Hence, production here is independent of that division of labour brought about, in Indian society as a whole, by means of the exchange. It is the surplus alone that becomes a commodity, and a portion of even that, not until it has reached the hands of the state, into whose hands from time immemorial a certain quantity of these products has found its way in the shape of rent in kind,** *... This dozen of*

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* Recent studies conclusively prove that taxes used to be paid to the state in both cash and kind. This does not, however, repudiate the basic thesis of Marx, that the Indian villages, based on an organic unity between agriculture and industry, remained self-reproductive.

> *individuals* [the blacksmith, the carpenter, the barber, etc.] *is maintained at the expense of the whole community.... The whole mechanism discloses a systematic division of labour; but a division like that in manufactures is impossible, since the smith and the carpenter, etc., find an unchanging market, and at the most there occur, according to the sizes of the villages, two or three of each, instead of one. The law that regulates the division of labour in the community acts with the irresistable authority of a law of nature, at the same time that each individual artificer, the smith, the carpenter, and so on conducts in his workshop all the operations of his handicraft in the traditional way, but independently, and without recognizing any authority over him. The simplicity of the organisation for production in these self-sufficing communities that constantly reproduce themselves in the same form ... this simplicity supplies the key to the secret of the unchangeableness of Asiatic Societies.... The structure of the economic elements of society remains untouched by the storm clouds of the political sky.*[3]

We have already seen that even today the predominant mode of industry in India is the traditional household industry. Let us now see to what extent this form still corresponds to the Asiatic mode of production, and what changes have taken place in it under the impact of the expanding market forces.

In 1956, the Planning Commission of the Government of India undertook a study to obtain detailed information on economic conditions of the village artisans. The sample villages were taken from Assam, Punjab, Travancore-Cochin, Madras, Saurashtra, Madhya Bharat and Vindhya Pradesh, thus covering almost all four corners and the central regions of India.[4] The crafts which were enquired into were of weavers, carpenters, blacksmiths, cobblers, tanners, potters, brick makers, masons, stone workers, oilmen, tailors, bamboo and cane workers, and coil and rope makers. The study found that 81.5 per cent of carpenters, 97.1 per cent of blacksmiths, 81.8 per cent of masons, 95.9 per cent of weavers and 100 per cent of potters among the artisan household were pursuing their ancestral occupations.[5] Most of the equipment they used was of the indigenous type, the only exception being that of the tailors.[6] Forty-five per cent of the artisan households had their market exclusively within the village; most of the remainder sold goods both in and outside of their village.[7] There were very few cases of households, only 6 out of 401, producing goods for sale exclusively outside the village. The percentage of households selling goods exclusively within the village was highest in the case of blacksmiths (66 per cent). Pottery and carpentry ranked next in this respect. In fact, out of the 401 artisan households covered in the survey, only 175 were found to be producing goods for sale. In case of sale, the entries for direct sale to consumers without any intermediary constituted 88 per cent of the total, while those for sale through merchants were only 11 per cent.[8]

The reason for this slow "commoditification" of artisan-produced goods, particularly that of producers' goods, can be easily referred to the social economy of the village communities. The village cultivators, as explained before, depend exclusively on the village artisans for the supply of production tools as well as their servicing. In return, the artisans are customarily paid fixed remuneration in kind or cash.

In this connection, it should be borne in mind that all village artisans do not receive equal remuneration. The amount is determined by both the nature of their service to the community as well as their caste status. The caste status of occupations also varies from region to region. Local forces of production, to some extent, condition what castes enjoy what status, but there is seldom any occupational group in any village which is beyond the pale of caste.*

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* "Most of the families in a typical village belong to some peasant caste, but the village also contains one or more families from each of a number of castes whose specialty is other than agriculture, though they may do some field

It is not necessary for our purpose here to discuss the caste system in detail. However, what we want to point out is that the caste system, by making occupations primarily hereditary* provided a strong pillar for the stability of the existing mode of production.

Despite caste and community restrictions, however, in the first half of the eighteenth century, a few segments of Indian industry — the weaving, particularly the textile and to some extent silk — were on the verge of tearing asunder

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work too. These include Bramhans, astrologers, soothsayers, barbers, goldsmiths, shepherds, oil pressers, potters, weavers, carpenters, and other artisans. Unlike Western farmers, who usually do many kinds of work besides tilling their fields and who may pride themselves on their versatility, the Indian peasant relies on the specialised services of these other castes. *Although the castes remain separate socially they are close knit together economically.* Traditionally, each peasant family had a permanent hereditary relationship with some family in each non-peasant caste in the village. In return for an annual share in the harvest of grain, these other families would undertake to supply the peasant family year after year with all its annual needs in specified kinds of goods or services. Barbers would give unlimited shaves, and potters would make as many pottery vessels as were required. In the exchange of goods and services, *each village caste was both a patron and a client of other village caste.* They were bound together in a permanent and relatively stable, unequal relationship, in which those were the richest and most powerful were in a position to secure the better bargain in the exchange. There was a certain security in this arrangement known as the jajmani system. Though the peasant might have a bad harvest, his responsibility toward the artisans who served him continued. They would eat less well if he had ill-fortune, so did he." (B.P. Lamb, *India*, p.257, emphasis added.)

* - This, however, seems more customary and circumstantial than legal. There are instances, throughout Indian history, as well as in its legends and myths, of castes pursuing occupations other than their own.

its fetters and developing into the capitalist mode under the impact of international demand (see chapter 3). But before the new mode could fully grow into the womb of the old mode, India was colonised and transformed from an exporter of textile goods to an importer of the same.

With the opening of the sea route to India (1498) from Europe, and with the growing demand for Indian products in Europe — because of the fineness of Indian textiles and sile — the market for Indian products suddenly expanded to such an extent that the quantitative change within the sphere of circulation was about to bring in a qualitative change in the area of production itself. The leading agent of this transformation was the merchant capitalist. In the West, the producer himself, the rural artisan, as he was not bound by the guile, could accumulate enough capital to expand his production and gradually absorb circulation as a mere phase of production.[9] But in India, the rural artisan, like his compatriots in the urban centres, was circumscribed by guild-like caste regulations. Under these circumstances, only the merchant castes in India could operate as the vehicles of change. Although their position in the social structure was not very high, because of their inherited weakness due to their subservience to the state, they were structurally assigned the job of accumulating money through the exchange of commodities. In the pre-capitalist societies, as Marx notes,

> ... *merchants' capital appropriates to itself the overwhelming portion of the surplus product, either in its capacity as a mediator between societies, which are as yet largely engaged in the production of use values and for whose economic organisation the sale of that portion of its product which is transferred to the circulation, or any sale of products at their value, is of minor importance; or, because under those former modes of production, the principal owners of the surplus product, with whom the merchant has to deal, are the slave holder, the feudal landlord, the state (for instance, the oriental despot)** *and they represent the wealth and luxury which the merchant tries to trap.*[10]

As we discussed in detail in the first chapter, the merchant capitalist of India, particularly of Bengal and Gujrat, was able to concentrate huge capital in his hand, primarily as a middleman for the international trade of Indian textile and silk goods. He also took the significant step of bringing in the workers under a common roof;[11] this was over and above the "putting out" system (known as dadni in

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* - It is significant that Marx does not refer to the feudal class as the consuming class in the orient but to the state and by implication makes the state the most powerful social entity (separate from other classes), which appropriated to itself the major portion of the surplus product. The above quote from *Capital*, Vol. III, clearly demonstrates that Marx did not abandon the concept of the "Asiatic Mode of Production" in his later life as many modern Marxists have argued.

India) under which the merchant advanced some money or provided the raw materials to the weavers and later bought the finished products from them at a fixed price deducting from it the amount advanced or the cost of raw materials.* The former system (workers producing under a common roof) was definitely a step towards the introduction of the capitalist mode of production in the sense that the merchant capitalist was gradually transforming himself into an industrial capitalist.[12]

While the operation of the former system was restricted only to urban centres, the second system could be found in both urban and rural areas. The gradual dissolution of the once mighty Moghul State in the eighteenth century (before

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* - "Historically, money is often transformed into capital in quite simple and obvious ways. Thus, the merchant sets to work a number of spinners and weavers who formerly engaged in these activities as subsidiary occupations to their agricultural work, and turns a subsidiary occupation into a principal one, after which he has them under his control and sway as wage labourers. The next step is to remove them from their homes and to assemble them in a single house of labour.... Originally he [the merchant] has bought their labour merely by the purchase of their products. As soon as they confine themselves to the production of this exchange value, and are therefore obliged to produce immediate exchange values, and to exchange their labour entirely for money in order to go on hiring, they come under his domination. Finally, even the illusion of selling him their products disappears. He purchases their labour and takes away first their property in the product, soon also their ownership of the instrument.... The original historical forms in which capital appears at first sporadically or locally, side by side with the old modes of production, but gradually bursting them asunder, make up manufacture in the proper sense of the word." (Karl Marx, *Pre-Capitalist Economic Formations*, pp. 115-118.)

the rise of British power in India) led to the pauperization of a large number of people which included not only soldiers and other state employees but also craftsmen who depended on state patronization. These floating masses of people furnished a base for the development of full-scale wage labour on the basis of which an incipient industrial capitalism was slowly emerging in different urban centres of which many had been seats of Moghul administration.[13*]

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* - Compare: "For instance, when the great English landowners dismissed their retainers, who had consumed a share of their surplus produce of their land; when their farmers drove out the small cottagers, etc., then a doubly free mass of living labour power was thrown on to the labour market — free from the old relation of clientship, viellienage or service, but also free from all goods and chattels, from every real and objective form of existence, free from all property. Such a mass would be reduced either to the sale of its labour power or to beggary, vagabondage or robbery as its only source of income. History records the fact that it first tried beggary, vagabondage and crime, but was herded off this road on to the narrow path which led to the labour market by means of gallows, pillory and whip ..." (Karl Marx, *Pre-Capitalist Economic Formations*, pp. 110-111.)

The significant factor for the development of capitalism in India was that the paupers in urban centres were free labourers, unencumbered by any socio-economic ties. In this respect they had close resemblance with the free wage labourers of the English manufacture. "... before machines were introduced in England, at least the transition had been completed: *the transition from feudally tied labour to free capitalist labour*, from work measured primarily by the amount done to work based on a time unit, from work which chained a man in one specific locality and according to his accomplishments to work forced on him primarily by economic pressure — in other words, without work he could not live. The working classes in the England of 1760, like their forefathers before them, had already had an introduction to capitalist dependence and work discipline. This is the fundamental difference between the modern workers in England and those of all other countries: the same difference exists

Thus, while manufacture was establishing its sway in many urban centres during the eighteenth and early nineteenth centuries, the products of the village artisan, too, were being slowly brought under the sphere of circulation by the merchant capital. However, this was being done without a corresponding change in the mode of production. The village weaver was still tied to the community through the relation of clientship and service (and also to some extent through the mechanism of caste). He was an independent producer outside the domination of capital, but his independence was limited by his obligation and calling to the village. However, the very process of bringing his products under the circulation had the effect of loosening such products from the customary mode of payment.

Merchants' money was thus able to sever the weavers' commodities, but not the weavers' dependency on the community; the products became freely floating but not the producers. This was one of the fundamental reasons why the merchant's capital in India failed to operate as a solvent of the existing mode of production in the rural areas. It subjected the weavers' production, even that of the village artisans, "more

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between the capitalists of England, with all their experience of capitalist development without machines and the capitalists of all other nations." (J. Knezynski, *The Rise of the Working Class*, p.145, emphasis added; see also Karl Marx, *Capital*, pp. 394-404.)

and more to exchange value by making enjoyments and subsistence more dependent on the scale than on immediate use of the products."[14] It "increased the circulation of money;" it "seized no longer upon the mere surplus production" but corroded production itself "more and more, making entire lines of production dependent upon it."[15] However, as Marx pointed out, whether a new mode of production would be able to dissolve the old mode or what new mode would emerge on the dissolution of the old mode does not depend on commerce but on the internal solidity of the old mode and its articulation. In India's case, although urban industries were on the verge of capitalist development as a result of international demand for their products, the rural industries — on the basis of which capitalism grew in England outside the debilitating effect of urban guilds — continued to operate within the framework of the village community and caste calling, and could present a solid rock of stability on the level of production relations on which all waves of commerce had to founder.

Even afterwards, when the penetration of the Indian market by industrial capitalism started in full earnest, through its cheap products of Manchester and Sheffield, even then, as Marx noted, the British commerce was unable to abort completely the solidity of the Asiatic mode which was based on the unity of industry and agriculture.

> *The obstacles presented by the internal solidity and articulation of pre-capitalistic, national, modes of production to the corrosive influence of commerce is shown in the intercourse of the English with India and China.* ***The broad basis of the mode of production is here formed by the unity of small agriculture and domestic industry****....* *The English commerce exerts a revolutionary influence on these organisations* [the village communities] *and tears them apart only to the extent that it destroys by the low prices of its goods the spinning and weaving industries, which are an archaic and integral part of this unity.* ***And even so the work of dissolution is proceeding very slowly****....* *On the other hand, Russian commerce unlike the English, leaves* ***the economic basis of Asiatic production*** *untouched.*[16] (Emphasis added.)

Long before Marx jotted these lines in *Capital*, Vol. III, he had written (in 1853):

> *We know that the municipal organisations* and the economical basis of the village communities have been broken up, but their worst feature, the dissolution of society into stereotyped and disconnected atoms, has survived.*
>
> *The British have broken up (the) self-sufficient inertia of the villages, railways*

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* - i.e., village Parabyats formed on the caste principle.

> *will provide the new want of communication and intercourse. Besides, one of the effects of the railway system will be to bring into every village affected by it such knowledge of the contrivances and appliances of other countries, and such means of obtaining them, as will first put the hereditary and stipendary village artisanship of India to full proof ot its capabilities, and then supply its defects.*[17] (Emphasis added.)

However, it seems from our earlier quote from *Capital* that Marx modified his views and admitted that the process of dissolution even in respect to the economic basis had been far from complete and it had been subverted only to the extent of the spinning and weaving industry. Nearly a century later we find that the situation in the Indian villages has changed very little.* Villages in India today are still stereotyped

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* - It should be borne in mind that the capitalist penetration of the metropolitan bourgeoisie remained restricted only to the levels of exchange. Through the creation of private property in land, in the form of rentier classes and its appendage moneylenders, the surplus from the agriculture (i.e., the only productive sector in the country in the absence of industrialisation) was siphoned off to pay for consumer products imported from metropolitan centres. The commercialisation of Indian agriculture did not result in a higher capitalist mode of production. Exploitation was carried on through the circulation of money and commodities between two unequal spheres of production, one pre-capitalist, and the other capitalist. Intense surplus extraction through the mechanism of market led to the gradual impoverishment and ruination of Indian agriculture and its corrollary, the village artisans. That is one of the reasons why, when the artisans were asked to enumerate the difficulties they had faced in selling their commodities, the most frequent answer

little atoms, more or less having the same self-perpetuating economic base, at least, in terms of unity between cultivation and producers' goods. In 1956, the Promgramme Evaluation Organisation under the Planning Commission, to whose (1956) investigation on the condition of village artisans we had referred before, observed:

> *The system of customary payments in kind or cash in lieu of services rendered by artisans and others, is a distinctive feature of the Indian rural society.... In two crafts, masonry and weaving, it is entirely absent.... The system is the strongest in blacksmithing followed by carpentry. Nearly all the blacksmiths and about 62 per cent of carpenters follow the customary payment system. The services of these two categories of artisans are most essential for cultivation purposes, because without ready and timely availability of these, cultivation would suffer seriously. No other class of artisans is as indispensable to the cultivator as these two. This leads one to venture the thought that the system is best preserved at the point where the cultivators productive activities and his economy are most vitally affected and is comparatively weak in case of artisans catering merely to his consumption requirements.*[18] (Emphasis added.)

(36 per cent of the total) was the low demand for products, not the competition of factory goods (*Study of Village Artisans*, p.13).

This indicates that, although under the impact of commerce, weaving and to some extent other consumer productions* have been separated from the customary mode of payment and brought under the rule of the market, the basic features of the Asiatic mode of production in India have retained their vitality which underlies a kind of organic integration between cultivation and producers' industries, and this is manifest in the still prevailing customary payment basis in respect of tools of cultivation.

It is also noteworthy that even in the case of weaving, which Marx thought had been destroyed as a component of the village whole, it was found,

> *... all the producers (in the craft) in Erode-Madras and Manavadar-Sourashtra produce for sale both in and outside the village. But in Arunachal-Assam where there is a large number of female weavers, about one-third of the producers are producing exclusively for disposal within the village.*[19]

Weaving is, thus, still a living part of the village economy in India, though its dependence has been removed from the village confines.

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* - The study on village artisans mentions a few other consumer goods, such as bamboo and cane work, tailoring and masonry in which the customary payment system is gradually eroding.

The industrialisation policy of the Government of India, since independence, has been directed toward shoring up these village artisan industries as well as the small-scale industries to make them viable competitors against the large-scale private industries. This deliberate policy, in conjunction with the agrarian reforms* (see chapter 7), has resulted in the further buttressing of the Asiatic mode in rural areas, despite the tremendous impact on it from the capitalist development flowing from the urban centres.**

The government's policy has been, in short, the following: what consumer goods can be produced by cottage industries (and household enterprises of the first category) should only be produced by it, what it cannot produce, small-scale industry will; what neither small-scale nor cottage industry can produce will be left open to private large-

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* - According to the *All India Report on Agricultural Census*, published in 1975, out of 70 million agricultural holdings in the country, 64 million holdings or 92 percent are wholly owned or self-operated. This makes evident that whatever capitalist development has taken place in Indian agriculture is insignificant compared to the predominant peasant economy.

** - In this connection, it should also be noted that the growing monetization of the Indian rural economy does not necessarily mean that the old Asiatic mode is being replaced by a developing capitalist mode. The circulation of money and commodities between the two spheres of rural and urban economies and consequently between the two spheres of production can be independently carried on until institutional factors are removed to make possible for the circulation to seize hold of production in rural areas or production to develop, to such an extent, as to absorb circulation as a part of it.

scale industry. This policy, as we mentioned earlier, was given a clear exposition in the Industrial Policy Resolutions of 1948 and 1956.

Following the first Industrial Policy Resolution which promised household industries "safeguards against intensive competition by large-scale industries," the First Five Year Plan (1950-55) included provisions to protect them by the reservation of spheres of production. Limitation was also placed, by the mechanism of licensing, on the expansion of large-scale industries. A number of agencies were set up by the Central Government to help the household industries. These were: the Khadi and Village Industry Board, All India Handicrafts Board, All India Handloom Board, the Central Silk Board, and the Coir Board.[20]

In the Second Industrial Policy Resolution (1956), the policy of strengthening the village and small industries and increasing their competitiveness vis-a-vis large private industries was further emphasised.

> *The state has been following a policy of <u>supporting cottage and village and small scale industries by restricting the volume of production in the large-scale sector, by differential taxation, or by direct subsidies</u>. While such measures will continue to be taken whenever necessary, the aim of the state policy will be to ensure that the decentralised sector acquires sufficient vitality to be*

> *slef supporting and its development is integrated with that of large-scale industry. The state will, therefore, concentrate on measures designed to improve the competitive strength of the small-scale producer.*[21] (Emphasis added.)

This policy of consolidating the village artisan and small-scale industries at the cost of large private industries got further impetus from the report of the Karve Committee (1955). The committee was appointed to recommend schemes for the development of village and small-scale industries and to suggest means for the best utilisation of resources to be allotted in the plans for this purpose. The committee's terms of reference included the objective

> *... that the bulk of the increased production during the Plan period of the consumer goods in common demand has to be provided by the village and small scale industries.*[22]

The committee accordingly recommended that "a ceiling should be imposed on the growth of large-scale consumer goods."[23] This, they thought, would have an effect of channelling the growing demand for consumer goods to the household and small-scale sector. It is significant that the committee also recommended a proposal to provide the basis for establishing an essentially decentralised society (in other words, to keep the society dispersed and divided into atomistic little villages as had been the situation for centuries), although its terms of reference did not include any such objective.[24] Was this a subconscious attempt on the part of the committee to legitimise the state of the economy, or to subvert the growth of the capitalist centralisation? Or did it spring from the desire to implement the Gandhian ideology which regarded village industries, particularly the "Ambar Chakra", i.e., the hand spinning and weaving, as the panacea for all economic ills in India? Whatever might have been the motives, almost all recommendations of the Karve Committee — for example, the stoppage of issuing licenses for additional spindleage in the large private industries till the results on the Ambar Chakra are known[25] — had two effects. First, they helped to sustain and nourish the pre-capitalist mode and, second, as a result this created a built-in resistance in the economy against the spread of modern capital goods, even those produced in the state sector. The Reserve Bank of India's review of the Karve Committee's report minced no words to make it explicit that the over-emphasis placed on the village artisan industries by the government was a regressive attempt to support a pre-capitalist mode of production.

> *Perhaps the most serious drawback of the Report is the lack of reference or regard in the formulation of its proposals, to fundamental economic trends or forces.... For ex-*

> *ample, the decline of hand pounding of rice, as of hand-grinding of wheat, is an incident of the commercialisation of agriculture.... The need for large-scale, increasingly mechanised operations has grown with the inexorable course of this process of commercialisation. Maybe, then, it is commercialisation which is the villain, and a halt ought to be put to any furtherance of that vicious process! But let us not forget that the 380 million of India's population could not survive on a basic pattern of self-sufficiency of production of the type when hand-pounding and hand-grinding were in their hey-day. In the circumstances, self-sufficiency remains an utterly inadequate basis for a worthwhile rate of increase of production; and the vital shortcoming of such philosophy as one can discern behind the Committee's proposal is that it appears to be rooted logically in a self-sufficient economy.*[26]

It can be added that the Karve Committee would not deny the truth in this accusation, but would argue that its main concern was not so much production, but the maintenance and increase of the level of employment without disturbing the eixsting structure of the economy. It was opposed to big industry, and consequently to capitalist and post-capitalist modes of production, because "the process of adoption of modern techniques involves *changing the structure of economic society.*"[27]

The state and small-scale industries

Now we turn from the artisan industries to small-scale industries which, along with the artisan industries, were required by the Industrial Policy Resolutions and Plans to provide the major portion of consumer goods. In fact, in terms of organisation and techniques of production, the small-scale industry has closer affinity with large- and medium-scale than with village household industries. Small-scale industries use modern machines to produce modern products. They employ more wage labourers than family hands; raw materials are procured from long distances, even from abroad. The investment of capital per unit of labour is many times higher here than in the artisan industries; and good are manufactured entirely for sale.

The government's definition of small-scale industry is primarily based on capital investment. However, the definition has undergone changes during the last twenty-five years. In 1953, all undertakings with a capital investment up to Rs 100,000 were designated as small-scale.[28] In 1956, the ceiling was raised to Rs 500,000.[29] In 1966, a new definition was adopted:

> *Small scale industries will include all industrial units with a capital investment of not more than Rs 7.5 lakhs [Rs 750,000] irrespective of the number of persons employed. Capital*

investment for this purpose will mean an investment in productive plant and machinery only.[30]

Although Indian planners lump together artisan industries and small-scale industries under the common name of "small-scale industries", the two are distinct in many respects, as enunciated above. However, there may be one reason for including them in one category: the petty commodity production in the rural sector under government patronage has the potential to develop into small-scale industries, but the odds, as we already discussed, are more against them. To refresh the memory, it may be mentioned that household industries have not yet been able to come out of the confines of the village, while most small-scale industries are situated in the towns. Nevertheless, it may be quite possible for some of the upper-crust, rural, petty producers to migrate to nearby towns and establish their own workshop.

Because of many types of assistance provided by the central government and state government agencies (see below), the rate of growth in small-scale industry has been spectacular since the beginning of the Second Five Year Plan. During the Second Five Year Plan, despite shortages of certain basic raw materials like pig iron, steel and non-ferrous metals, the growth rate in certain small-scale industries such as sewing machines, electric fans, bicycles, builders' hardware and hand tools, varied from 25 to 50 per cent and, in some cases, even higher.[31] In 1960, small industries accounted for "over 92 percent of all registered factories and ... employed over 1,330,000 persons, or 38 per cent of total employment."[32] This growth rate steadily increased during the Third and Fourth Five Year Plans. According to a recent survey (1976), conducted by the Small Industries Development Organisation,

> ... *the share of the small scale units' production in the total production has risen more than 40 per cent and* ***this trend is likely to become stronger in the years to come.***[33]
> (Emphasis added.)

The survey says the continuous growth of the small sector is indicated by the rise in the value of fixed capital investment from Rs 10,540 million in 1972 to Rs 13,200 million in 1975.[34] The number of registered factories in the small-scale sector had been increasing during the same period at an average rate of 17 per cent per year.[35] In 1976, the small-scale industries in the factory sector alone provided employment for two million persons.[36] Apart from the quantitative growth, the small-scale industry has also been able to expand its sphere of production to many non-traditional items including engineering goods.

In the export field, too, small-scale industry is emerging as a competitor to large-scale industry. In 1971-72 it exported goods worth Rs 1,550 million. The amount rose to Rs 6,000 million in 1975-76. For the same year, its share in the total export was estimated at 15 per cent.[37]

In short, the increasing importance of the small-scale industries in the Indian economy is an undeniable fact and, to a great extent, this has been accomplished at the cost of large-scale private industry. One of the noteworthy aspects of Indian small-scale industry is that many items exclusively reserved for it* could have been easily, and probably more efficiently, produced by private large-scale. industry. The productivity in large-scale industry, as pointed out in a survey conducted by the Central Statistical Organisation in 1967, is definitely higher per unit of labour than in small-scale industry (this is not only due to more capital investment per unit of worker; see below).

In the normal course of capitalist development — as we find in the developed industrialised nations — this trend would have meant the ruin and constriction of small-scale production. But in India, instead, small-scale industry has been able to sustain and in most cases increase its total

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* - The central government has kept reserved 177 items for exclusive production in the "small-scale sector" (inclusive rural artisan industies) of which the majority are produced by the small-scale industry (*India, 1975, A Reference Annual*, compiled by the Research and Reference Division, p.249).

employment as well as its share in the national income. This has been due to two reasons. First, while large-scale industry is regulated and controlled by an elaborate licensing system and other means such as controls on profit, restriction on the expansion of output, import limitations on raw materials, fixation of prices, etc. (see chapter 6), small-scale industry is not encumbered by any restraints. Second, while the tax burden on large-scale industry is quite extensive, small-scale industry enjoys subsidies, tax-holidays and priority in the allocation of raw materials. These measures of the government have obstructed the free development of capitalist forces, leading to the enlargement of the small-scale capitalist sector instead of this sector's gradual absorption into large-scale industries.*

Furthermore, to encourage small-scale industry, the government has provided assistance in respect of technology, credit and marketing of products. During 1972-73, the Small Industries Development Organisation** gave technical assis-

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* - As has been elaborately discussed by James O'Connor, in "Fiscal Crisis of the State", even in the most advanced capitalist country, the U.S.A., small-scale enterprises have been able to survive, but they have been able to survive only in those areas in which large-scale industry had no interest or technical advantage. In advanced capitalist countries, small industries are normally ancillary to large-scale industries.

** - Small Industries Development Organisation operates through 16 service institutes, 16 branch institutes, 55 extension production and training centres. These agencies "... will not merely provide technical advice in response to tance to 100,413 entrepreneurs.[38] The National Small Industries Corporation which was set up in 1955, procured machinery for small-scale industries on a hire-purchase basis on concessional terms. During 1972-73, the agency delivered machines worth more than Rs 90 million to various small-scale units.[39] It also assisted the small-scale sector in obtaining orders from many government departments and agencies; the total value of these orders amounted to Rs 370 million in 1972-73.[40] Until March 31, 1973, 585 industrial estates were set up in various parts of the country to accomodate small industrial units in a more congenial atmosphere where specialisation, externalities in the form of easier transportation, marketing facilities, procurement of raw materials, etc., could be provided.[41]

These government measures have induced many merchants, money lenders and upper strata of the rural artisan class, some elements of the petite-bourgeoisie (such as many unemployed engineers, university and college graduates) to

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enquiries from small units regarding improved types of machines, equipment and processes, use of raw materials and methods of reducing costs, but their technical staff will contact small units and advise on their problems, thus providing a useful extension service. The institutes will also arrange to give demonstrations in the use of improved technical services and machines through their own workshops as well as through model workshops set up in centres outside the institute.... They will also provide marketing services by giving advice and information to small industries on existing and potential markets and on adaptation of their production to suit such markets." (*Second Five Year Plan*, p.451.

invest money in the small-scale industry and to transform themselves into entrepreneurs.[42] The *Economic Times* describes this broadening of the small-scale entrepreneurial base in the following words:

> *A large number of new modern small scale industries have come into existence and a new entrepreneurial class has come into being, which is drawn from various walks of life and different levels of society. The government's development programme for small-scale industries has been responsible for stimulating the growth of over 300,000 new enterprises, many of which have the potentiality to grow into medium industries.*[43]

However, despite the fact that the subsidised small-scale industry involves more capital expenditure in the form of market subsidies, supply of machines on concessional terms, creation of risk-bearing funds, establishment of industrial estates and loss of tax (which could have been realised from large industries if they were allowed to operate in the products reserved for the small-scale sector), the government's main argument in favour of small-scale industry is that they generate more employment. This argument has been aptly repudiated by P.N. Dhar and F.H. Lydall in research conducted on behalf of the Institute of Economic Growth in 1961.

> *The principal argument put forward in favour of small enterprises is that they "give employ-*

> *ment". This, although true, is irrelevant, since the problem facing India is how to save capital and other scarce resources, not how to use abundant resources.... Within the modern sector of manufacturing industry — with which we are primarily concerned — available evidence suggests that small factories use more capital and more labour per unit of output than large factories. The difference in the output-capital ratios is particularly marked when account is taken of the fact that large factories can more easily be organised on a multi-shift basis than small factories. From the point of view of saving capital, medium or large multi-shift factories give the best results, and small factories usually the worst.*[44]

Moreover, they argue,

> *It is obvious that, if one wants to increase employment, there is no need to search for industries (or sizes of firms) that require a large amount of employment per unit of output. Employment as such can be "created" by adding on extra workers at any point one likes in the productive (or non-productive) process. The important problem, in other words, is not how to absorb surplus resources, but how to make best use of scarce resources.*[45]

Other government arguments in support of small-scale enterprises, according to Dhar and Lydall, are social and political in nature. The social argument is that small-scale enterprises are less exploitative and more inclined towards equal distribution of income. In fact, the reverse is true. "In general, wages in small firms are lower than in large firms."[46] Besides, small-scale enterprises tend to be more exploitative in over-populated countries like India where labour is so cheap. Unlike large-scale enterprises, workers are not protected here by unions. Thus, workers in small-scale industries are very often forced to work beyond their normal hours.* Extraction of absolute surplus value is definitely higher in small-scale enterprises than in large industries.

The "political arguments" seem to be more cogent and express the real reason why the government is more favourably disposed towards small-scale industry. The argument is: the existence of a large number of small-scale industries "is a guarantee of the maintenance of democratic institutions, *an obstacle to the domination of trade unions, and a barrier to communism*."[47] It may also be added that their existence undermines the capitalist concentration, and creates the favourable situation for the state to maintain its hegemony over the two contending classes, the bourgeoisie and the petite-bourgeoisie.

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* - The author himself knows two small industrialists who quite often make their workers work more than ten hours a day.

From the foregoing discussion we find that industrialisation in India is not a uniform process. It is not treading the same path that had been followed by industrial capitalism. In the West, the capitalist mode overcame the pre-capitalist mode and in the course of its further development large-scale enterprises gradually swallowed up the small-scale industry. Wherever small-scale enterprises survived, they usually survived either as ancillary to large-scale industry or in areas which were not technically viable for the operation of large-scale sector. In India, on the other hand, the free development of capitalist concentration has been thwarted and small-scale industry shored up as a competitor to the large-scale industry. Moreover, in India, the capitalist mode and the pre-capitalist mode which, in fact, is partially dissolved Asiatic mode, are co-existing, the former in the urban and the latter in the rural areas. The special characteristic of the Asiatic mode, as we noted above as well as in the first chapter, is its integral unity between agriculture and artisanal industry. The fact that has buttressed the Asiatic mode in India is that after independence, the change that occurred in Indian agrarian relations failed to bring agriculture under the rule of capital (see chapter 7). The abolition of the zamindari did not basically alter the agrarian scene characterised by small peasant holdings whose small needs for producers' goods could only be met from the customary source. His poverty also kept him dependent on the local artisans even for consumer articles such as earthen utensils, etc.

In the West, the industrial revolution occurred when the capitalist class had been able to integrate the whole economy — rural, agriculture and insutry — under the capitalist mode of production. The demand for capitalist agriculture was met by capitalist industry and vice versa. Agriculture ceased to have any independent industry beyond the capitalist sphere. In India, on the other hand, industrial capitalism has been established only in the urban sector; its reproduction cycle is thus totally different from the reproduction cycle in the rural artisan industry. In the rural areas, the reproduction of pre-capitalist industry is most often simple reproduction. While the average rate of profit determines the nature of investment in various sectors of capitalist urban industry, the rural artisan industry depends on the purchasing capacity of the village cultivators. Thus there is no continuum between the rural and urban industrial spheres.

Notes to chapter 5

1. Census of India, 1951.

2. Papers on National Income and Allied Topics, II, p. 2.

3. K. Marx, Capital, I, pp. 392-394.

4. Study of Village Artisans, Programme Evaluation Organisation Planning Commission, pp. 2-4.

5. Ibid., Appendix, Table II.

6. Ibid., p. 8.

7. Ibid., p. 12.

8. Ibid.

9. Marx, Capital, III, p. 386.

10. Ibid., p. 389.

11. See chapter 2.

12. Bengal: Past and Present, Vol. X, p. 10.

13. T. Raychowdhuri, Bengal Under Akbar and Jahangir, p. 200.

14. Marx, Capital, III, p. 389.

15. Ibid.

16. Ibid., pp. 392-393.

17. Marx, "The Future Results of the British Rule in India", New York Daily Tribune, August 8, 1853.

18. Study of Village Artisans, p. 11.

19. Ibid., p. 12.

20. India: A Reference Annual, 1965, p. 248.

21. The Industrial Policy Resolution, April 6, 1956.

22. Karve Committee Report, 1955.

23. Ibid.

24. Ibid.

25. Ibid.

26. Ibid.

27. Ibid.

28. See H.G. Lakhani, Problems of Economic Development of India, p. 231.

29. Ibid.

30. India: A Reference Annual, 1975, p. 248.

31. Planning Commission, Third Five Year Plan, A Draft Outline, p. 196.

32. A. Hanson, The Process of Planning, p. 504.

33. The Economic Times, Calcutta, February 21, 1977.

34. Ibid.

35. Ibid.

36. Ibid.

37. Ibid.

38. India: A Reference Annual, 1975, p. 250.

39. Ibid.

40. Ibid.

41. Ibid.

42. The Economic Times, Calcutta, February 21, 1977.

43. Ibid.

44. Dhar/Lydall, The Role of Small Enterprises, p. 84.

45. Ibid., p. 11.

46. Ibid., p. 25.

47. Ibid., p. 34.

Chapter 6

THE STATE AND THE GROWTH OF THE PUBLIC AND PRIVATE SECTORS

Prolegomena

The public sector was the most important mechanism through which the state in India has been able to maintain its independence and contain the aspirations of the bourgeoisie which is still engaged in a relentless struggle to take control of the state. Unlike the developed countries, the public sector in India was not an appendage to the capitalist sector. As we noted in chapter 4, the public sector in India was developed to curtail the economic power of the private corporate sector and to strengthen the state's economic muscle by concentrating in its own sphere the development of the basic and strategic industries.

The means whereby the state accomplished this task and let the public sector occupy the commanding height of the economy involved four principles. First, the development of basic large-scale industries was restricted to the state (see chapter 4). Second, private sector investments (in this chapter, private sector means large-scale private industries) and expansions were controlled through a licensing mechanism (see below). Third, the state also determined the growth of the private sector through import quotas, allocations of foreign exchange, price fixing, capital issues, and other governmental measures. Fourth, the state monopolised to itself all financial resources through the nationalisation of large banks and insurance companies, thus opening an abundant access to capital for the public sector enterprises while limiting the access to capital for the private sector.

In this chapter we will examine what mechanisms the state employs to control and regulate the development of the private sector, the relative growth of the public and private sectors, and the contributions of the public and private sectors to the national income, saving and capital formation. This information will throw light on the state's ability to preserve its independence.

The main thrust of the argument will be that the state sector in India, unlike in the West, is not operating to provide social capital or social expenses for monopoly capital to grow. On the contrary, the state in India is trying to liberate itself fiscally, as well as economically, by developing its own enterprises.

The state-control measures

In accordance with the Industrial Policy Resolution of 1948, an act, known as the Industries (Development and Regulation) Act, was enacted in 1951.[1] This act provided the state with virtually unlimited powers to control and regulate private industries. Under the provisions of this act, all industries above a certain size (listed in the first Schedule to the Act) are required to obtain a license from the Licensing Committee before they can begin operations. Under the act, no new unit can be set up or old plants be expanded without a prior license from the state. The government is empowered to refuse a license or invalidate an existing one on various grounds.

The act also authorises the government to examine the working of any industrial undertaking and issue instructions. In the case of a violation of these instructions, or mismanagement, the state can take over the undertaking. On the strength of this act, the government can fix prices, regulate the channels of distribution, debar production of certain commodities and prescribe the volume of production.

In addition to the Industries (Development and Regulation) Act of 1951, another law known as the Companies Act was brought into being in 1956 (and amended later) to further regulate and control the private sector.[2] According to Hanson, the Companies Act "constituted one of the most detailed and stringent codes of business legislation to be found anywhere in the world."[3] One of the main purposes of the enactment of this act was to restrict the practice of a managing agency system which had been facilitating the growth of monopolies.

We have already noted in chapter 2 how the managing agency system in the formative period of industrial development in India promoted the joint stock companies by providing capital, technical know-how, marketing facilities, etc. But later on, the system gave birth to an Indian variety of trust through the interlocking of funds and directorships. Moreover, the managing agents often charged the client companies 20 to 50 per cent of their profits as remuneration for their managerial services. In addition, some managing agents also charged "office allowance", and "extra remuneration for extra services" (such as for procurement of machines from abroad, etc.).[4]

Through the provisions of the 1956 Companies Act, attempts were made to contain the concentration of economic power in a few hands. The following provisions are important in this regard:

(i) that overall managerial remuneration shall be limited (clause 198);

(ii) that government approval shall be required for the appointment of any managing or whole-time director (clause 269);

(iii) that no person shall be a director of more than 20 companies (clause 275);

(iv) that no person, except with the permission of the government, shall be appointed managing director of more than two companies (clause 316);

(v) that no managing director shall be appointed for more than five years at a time (clause 317);

(vi) that the government, at its discretion, shall have the power to order a special audit of a company's accounts and, on receipt of the auditor's report, take such action on it as is considered "necessary in accordance with the provisions of this Act or any other law for the time being in force" (clause 233A).

The Industries (Development and Regulation) Act of 1951, along with the Companies Act of 1956 (as amended), were formidable tools in the hands of the government to keep in check the ascension of the bourgeoisie. The government's licensing committee was formed in 1952 with representatives from all ministries dealing with economic affairs.* This committee was the final clearing authority for all licenses submitted to the government. However, before an application could be placed before the licensing committee for approval, it would have to be passed by another government bureau — The Director General of Technical Development (DGTD).

The task of the Director General of Technical Devel-

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* - The ministries which are normally represented in the Licensing Committee are: Finance, Industry, Railways, Labour, Steel, Mines, Fuel, and the Planning Commission.

opment is to examine the technical implications of all applications that seek permission to establish new industrial units or expand the old ones. The Ninth Report of the Estimates Committee has described its functions as follows:

> *The D.G.T.D. makes a technoeconomic appreciation of the applications for industrial licensing, indicating inter-alia --*
> *a) if there is need for more capacity for the item of production proposed in the application, also keeping in view import substitution and export possibilities;*
> *b) if the scheme of manufacture is technically sound;*
> *c) whether the capacity asked for by the entrepreneur is commensurate with the capital goods to be installed, taking into consideration the capital goods which the party may already possess;*
> *d) whether the scheme as submitted or as further modified in the light of discussion with D.G.T.D. will ensure reaching the maximum possible indigenous content within a reasonable time;*
> *e) whether the plant to be installed and/or method of manufacture to be adopted is modern and economic;*
> *f) whether the location lends it to economic viability and disposal of effluents.*[5]

Based on the aforesaid basic considerations, the DGTD recommends to the Licensing Committee either acceptance or rejection of the application.*

The other hurdles a prospective investor must cross before he can set up an industry include clearance from the Capital Issue Committee, the Capital Goods Committee, the Controller of Imports and Exports, and the Reserve Bank of India. In the case of foreign collaboration, the approval of the Foreign Agreements Committee is also needed.

The Capital Issue (Control) Act of 1947 makes it obligatory to obtain permission from the government for the issue of all types of shares and debentures. All joint stock companies of India and abroad (issuing stocks in India) fall under the jurisdiction of this act. The act empowered

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* - In 1966, the Administrative Reforms Commission made the following suggestions to make the DGTD more efficient in dealing with industrial applications: "319(a) The work of the Director General of Technical Development (DGTD) should be divided among a number of directorates, each directorate being responsible for advisory service to a group of related industries. Above the level of directors, there should be three or four deputy-directors-general, each of them having under him a few directors dealing with broadly related subjects. (2) In ministries which have to deal with sizeable areas of industrial development or one or more major industries, there should be a complement of technical officers at senior levels drawn from the field, i.e., from the public undertakings and other organisations throwing up technical talents. (3) The advisor service provided by the DGTD should extend to sugar and vanaspati.

"321 The Director-General of technical development should be specifically charged with responsibility for promoting modernisation.

"322 The DGTD, though placed in the Ministry of Commerce and Industry, should be viewed as a common service agency to the entire government of India. Ministries dealing with individual or sectoral industries or public undertaking should be able to draw upon this service directly."

the government to limit the concentration of investment in any industry.*

After the receipt of approval for issuing stocks, the next step for an entrepreneur is to obtain a capital goods license from the Chief Controller of Imports and Exports who is to find out whether the goods and equipment can be procured from indigenous sources. If the items are not available in India, the entrepreneur may get the approval to import them.

Under the Foreign Exchange Regulation Act and the Import and Export (Control) Act of 1947, however, no commodity can be imported from abroad without the prior permission from the Controller of Import and the clearance from the Reserve Bank of India. So what kind of capital goods and where they can be procured depend upon the amount and the kind of foreign exchange released.

The Essential Commodities Act of 1955 gave authority to the government to fix prices on almost all products. In 1966, the Administrative Reform Commission advised the government to set up a "Commission on Prices, Cost and Tarriff" for undertaking the following functions:

> *Cl. 321.1(a) determination of prices of industrial products and industrial raw materials*

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* - The control of capital issues has been considerably liberalised since 1966.

and intermediates with a view to assisting the government in evolving a rational price policy; (b) conducting studies on the costs of production of selected industrial products and locating the areas in which reductions in costs are feasible and necessary, and making recommendations for the achievement of such reduction; and
(c) conducting inquiries relating to tariff protection and making recommendations to government on the basis of such inquiries.[6]

Furthermore, it was suggested,

> *Cl. 321.3: The commission should be invested with the powers similar to those enjoyed by the Commissions of Inquiry Act, 1952.*[7]

In most cases, the prices of industrial goods in India used to be fixed by the Tariff Commission;* since 1970, they are being regulated on the basis of advice rendered by the Bureau of Industrial Costs and Prices. This Bureau was constituted in January, 1970, in accordance with the recommendation of the Administrative Reform Commission. The operation of price controls in India is not uniform in respect to all industries or products. In respect to some products, the government determines the factory, wholesale and retail

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* - Price controls could also be imposed under the Industries Development and Regulation Act. The price, sale and distribution of motor cars were controlled under this act from May, 1959.

prices; in others, factory and wholesale prices; and in some, only the factory prices. However, the price control is applicable evidently only in the case of large-scale factories.

In brief, what should be the role of the government in the economic administration or physical control of the organised private sector has been succinctly described by the Administrative Reform Commission in its delineation of the subjects to be looked after by the Ministry of Commerce and Industry.

> *Cl. 311: The subjects of Commerce and Industry should be combined into a single Ministry of Commerce and Industry. This ministry should be responsible for formulating broad policies and strategy for industrial and commercial development in the public as well as private sectors. It should, however, not be in any administrative control of any public sector industrial undertakings.*[8]

The state's functionaries and private corporate capital

Thus, we find that the state's controls over the organised private sector are varied and extensive. And these control are exercised primarily through the executive branch of the state and especially through the bureaucracy.* So,

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* - "It is the executive in India which plays a

in order to understand the operation of the private sector industry (organised) in India, it is necessary to find out the private sector's (organised) relationship with the state. Stanley A. Kochanek, an American scholar, has made a thorough study of the patterns of business' access to the government. In his view,

> *Business lacks direct elite representation and has been unable, so far, to influence the selection of the top political leadership. And so business is forced to rely on indirect influence through formal and informal channels to government decision-makers. Because business played a behind-the-scenes role (so far as it played any role at all) in the freedom movement, the post independence political leadership was drawn predominantly from the urban intellectual elite which had all along dominated the leadership of the Congress party. As one senior civil servant put it, "By training and background, the political leadership in India has no background in modern business. Perhaps the only exception was T.T. Krishnamachari. No other minister has had that kind of background. This has resulted in a lack of rapport between the political leadership and business."*[9]

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dominant role, not only in initiating new policies but also in administering the vast powers delegated to it by the legislature in the planned and highly regulated Indian economy." (S.A. Kochanek, *Business and Politics in India*, p. 265.)

Kochanek further maintains that the process of access to the higher bureaucracy has been even more precarious:

> *Indian business did not enjoy the rapport with the colonial bureaucracy that English business easily maintained. Thus, there were no long-term personal contacts, no long established strategies of access to fall back on when bureaucracy became, after independence, a center of power in its own right, by virtue of its pivotal position in a planned and controlled economy.*[10]

The most important factor which limited the influence of the private sector on the bureaucracy could be traced to the tradition of bureaucracy that developed during the days of the British Raj. In fact, the British administrative system in India was built upon the model of the earlier Moghul administration. When the British replaced the Moghuls as the rulers of India in the eighteenth century, they did not at first introduce any fundamental change in the administrative system they inherited. As it has been said by the historian, Percival Spear, "The British found the wreck of this (former) system and admired it even in decay."[11] Without going into details of how the Indian bureaucracy evolved in the nineteenth century* from this wreck, which remained more

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* - It is interesting to note that the term "civil service" originated in India and was later exported to Europe. As Tyagi says, "The term civil service, itself, owes its origin

or less unchanged even in independent India, it can be said that the fundamentals of both Moghul and British administrations had a great deal in common. Both concentrated on the collection of the revenue, law and order, and dispensation of justice.[12] Even the British retained Akbar's revenue division of the country into subas, sarkars, parganas, and mahals. Under the British, the district officer, who was designated as the collector of revenue, had as much power as that of a Moghul subadar or fouzdar.

> *Local administration under British rule was built around the position of the collector. Based on a system developed by the Moghul rulers, the post was created to give the civilians more power in overseeing the Empire. The English first utilized it in 1769. Abolished in 1773, it was finally reinstituted in 1781. By 1790, it had developed the essential form it was to maintain until the 1930s. Because of the nature of its responsibilities, the position*

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to the Company's [East India Company] rule. The term was first used to designate those servants of the Company who were engaged in mercantile work. This was done in order to distinguish them from those servants of the Company who were engaged in military or naval duties.... But when the Company changed from a trading corporation to a territorial government and its mercantile servants were engaged in civil administration, the term, civil service, got automatically widened in scope and came to connote not only a non-combatant status but also a status of civil administration. The term, having thus originated in India, was imported to the 'home' country from where it quickly spread to Prussia and later on to other European countries." (A.R. Tyagi, *The Civil Service in a Developing Society*, p.7.)

> *was central to the structure of the ICS (Indian Civil Service), and a contributor to the status of the ICS in India. It was to become the keystone of British rule and, perhaps more importantly, the symbol to the people both in India and in England of that rule.*[13]

The Indian Civil Service was not developed on the model of the English Civil Service; rather, it differed from the "home government" or the English Civil Service in several important respects. In the home government, the civil servants in most cases executed the policies adopted by the politicians. In India, the civil servants were responsible not only for executing but also for formulating the policies.[14] The English civil servant was employed in a civil capacity. Unlike the Indian civil servant, he was not a holder of political or judicial office. Often called "the greatest civil service", the Indian civil servant was trained in a literary generalist tradition, with the object of imparting virtues of Platonic guardianship. As true guardians, they were educated in ways to hold India in a benevolent but tight grip.[15]

The Indian Civil Service had a dual role. On one hand, they determined the policy of the government in the secretariat; on the other, they served as the executive arm of the government in the field. It was also provided by law that one-third of High Court and Supreme Court judges should be civil servants.[16] Thus, the Indian Civil Service had all-pervasive power. Why? H.F. Goodnow, in a recent book on the Civil Service of Pakistan, thinks that the British, to maintain their rule in India,

> ... *had to occupy the important positions, and all offices held by natives must be supervised by a British officer. The simplest type of organizational pyramid was established. The District Officer was delegated extensive power within his district. The tougher or more volatile problems might be reviewed by his senior at division headquarters or even by the governor of the province. At the top was the Governor-General. It was very simple hierarchy — at least in the beginning. As the problems became more complex, the size of the Governor's staff was increased; ultimately it became a secretariat.*[17*]

In Goodnow's view, the British, in their anxiety to control violence, gave the civil service unlimited power.

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* - "The present administrative structure of the Indian Union and the states is taken for granted by most politicians and administrators and its fairly recent historical roots are usually forgotten. It is necessary to understand these roots as much for practical as for academic reasons. To put it briefly, the British built up over the years a centralised administration together with enormous freedom and initiative for the man on the spot — the district collector." (V. Subramaniam, "Administrators and Politicans: Emerging Relations", *Economic and Political Weekly*, November, 1977.)

This argument is partially true and touches only the surface. L.S.S. O'Malley has given the real reason underlying the power of the civil servants; it was rooted in the social economy of India.

> *One very important distinction between them (i.e., the Indian civil servants) and the civil servants elsewhere is that they are the local representatives of a government which is not only the supreme administrative authority, but also the supreme landlord. Its position as such has been inherited from previous governments. In India the right of the state to a share in the produce of the soil has been recognised from time immemorial. This right takes the form of payment of land revenue, which historically is older than private rent.*[18*] (Emphasis added.)

So, we find that even under the British, the civil servants derived their power as the representatives of the state which was the supreme landlord or owner of the soil. As we have already observed, the patrimonial bureaucrats of Moghul India, such as the Fouzdars or Subadars, had un-

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* - Here O'Malley makes a distinction between the private rent concept under the system of feudalism in Europe and that portion of the produce of the land which was appropriated by the state as land revenue in the Asiatic States (see chapter 2).

limited power* because they were agents of a state whose power, unlike in Europe, was never curtailed by the development of feudal or bourgeois classes in the proper sense of the terms.** The nobility, i.e., the revenue collectors (fouzdars, subadars, etc.), had no independent existence outside the state or the grace of the sovereign. Their remuneration was paid from the share of the state's revenue. They had no independent claim to rent, as was the case in feudal Europe. In Brief, in India the state's control was

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* - "The district collectorate system as originally evolved by Mogul and British practice was skillfully designed to provide the basic framework for imperial occupation and stable rule. After subdividing a region or an empire into provinces, the land was further subdivided into units, the districts. Upon this bedrock, the governance of the area rested. A corps of specially trained officials, loyal to the central power and usually not from the area, was placed in charge of a district. Each officer was given nearly absolute authority. Within the guidelines of the center, the district was ruled by a plenipotentiary, an agent of the center expressing the sovereign's will throughout the periphery. Frequent transfers, a well organized central bureaucracy, and well trained district officers could maintain large areas with minimum staff. The duties of revenue collection and maintenance of law and order, the historic function of the district official, required intimate knowledge of local affairs, and when well-established and running smoothly, this system facilitates an intensive amount of information and collection at the bottom and relatively easy control from the top. The mediator and the linchpin was the district officer...." (Elliot L. Tepper, "The Administration and Rural Reform", an essay included in *Rural Development in Bangladesh*, edited by Robert D. Stevens, Hamza Alavi, and Peter J. Bertocci, p.37.)

** - In Europe, the state's right to impose taxes was dependent on the consent of the estates, particularly the nobility whose growing power led to the development of parliament and of the slogan, "no taxation without consent".

so complete that there was no scope for centrifugal forces to develop to challenge the power of the state.

It is noteworthy that even under the British the bureaucracy was recruited from the traditional literati classes which, unlike Europe, had little organic relationship with trade and industry. As B.B. Misra points out:

> *Except for the educated and salaried employees in business, the bulk of the Indian professional classes excluded those engaged in trade and industry, who in England constituted powerful groups among the educated classes. Moreover, except during the three most recent decades, the increase in the number of Indian lawyers and public servants, doctors and teachers, writers, scholars and members of other recognised professions was due to educational, judicial and administrative development rather than to technological or industrial progress. In fact, from the peculiar circumstances of their growth the professional classes in India <u>continued to comprise</u> those who also ranked high in the hierarchy of caste.*[19*] (Emphasis added.)

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* - From a sample survey conducted by Taubin Orrissa, it is found that the predominance of upper castes in professions has not changed in India even after two decades of independence. "Bramhins, the highest group, traditionally were priests, teachers and advisors to Kings. As priests, they have had the sole right to perform rituals. Ksatriyas were traditionally the warrior and ruling classes. Some scribe castes also claim Ksatriya status.... The Vaisyas are the business castes; and the Sudras who represent the bulk of the population are the agriculturists and other forms of labourers

These higher caste people (in the pre-British period), as we can recall from our discussion in chapter 2, were mostly hangers-on to the state or community; they were seldom related to production directly. In the British period, too, in the absence of large-scale industrialisation, the educated middle class from which the Indian component of the bureaucracy was recruited failed to establish a link with the producing classes. That is why V. Subramaniam characterises it as a "derivative middle class";[20] he also thereby finds the reason for its differential development from its counterpart in the West in the very nature of class formation in India under the British rule.

> *It is unlike the natural middle class of Western Europe or America which evolved naturally through social evolution without foreign conquest. This natural middle class has two balancing wings: the economic wing of distributors, rentiers, small-scale industrialists and such other types of petit bourgeoisie,*

(the reader should note, however, that these divisions represent the prescription of a theological system. It is not clear that in practice the divisions were ever adhered to strictly. Historically, there have been exceptions, such as Bramhin and Vaisya kings).... With this brief description completed, we turn to the sample. Among the Hindus in the IAS, 15 of 23 (65%) are Bramhins. Six of the 10 Hindu engineers (60%) are Bramhins, and 5 out of 9 of the Hindu educators (56%) are Bramhins.... A further breakdown is interesting. Among the IAS, 15 members are Bramhins, 7 are Ksatriyas, and 1 is Vaisya. There are no Sudras among this group.... By comparison, the engineers include 1 Sudra among their ranks ... and educators contribute 2 each." (Richard P. Taub, *Bureaucrats Under Stress*, pp. 63-65.)

> *and a professional wing of lawyers, civil servants, school teachers, etc. Each wing supports the other —— commercial lawyers are needed to sort out differences in commerce and commerce is needed to pay for the lawyers. In a colonial situation however, this derivative middle class develops only the professional wing because the rulers will not allow a commercial or industrial wing to develop too soon and hence become top-sided.*[21]

Kochanek also holds the same position and argues that the Indian bureaucracy is independent because the economic interests have failed to colonise it. He says:

> *A final factor which limits intervention in the bureaucracy has been the inability of modern economic and social in terests to colonise the bureaucracy. The bureaucracy is independent, enjoys a very high social status and is, above all, committed to accomplishing its own institutional missions.*[22*]

Thus, the Indian bureaucracy is recruited from the traditional literati castes (who evolved as the ideologues of the Asiatic Mode of Production), and having no connection with trade and

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* - Subramaniam refers to this commitment to institutional mission as "the professional consciousness of the middle class.... The Indian middle class had built up a strong professional consciousness and a commitment to non-interference by non-professionals in the professions." ("Administrators and Politicians: Emerging REIations", *Economic and Political Weekly*, November 26, 1977.)

industry, has little interest in advancing the cause of private capital. In fact, the bureaucracy, as well as the people in general in India, share a common distrust if not contempt towards private business. In a sample survey of the people's attitudes toward business in India, Taub found that "... most of the community viewed businessmen as greedy and dishonest." Furthermore, most respondents

> *... who answered the question "Is the government achieving the proper balance between public and private sector?" (68.6%), said that the government should take on more responsibility in the business areas; that is, the public sector should be enlarged. Turning to the question of whether businessmen are hampered by too many rules and regulations, 53 of the 63 people who answered the question (84.1%) thought that businessmen needed to be controlled in every sphere by rules that limit their behavior.*[23]

Turning to the bureaucrats' attitudes toward business, Taub noted that their demand for further control of business stemmed from ICS tradition as well as self-interest:*

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* - Bhagawati has given an example how the controls benefit the state functionaries (the politicians and the civil servants). "For example, the distribution and sale of motor-cars was controlled from May, 1959 under the Industries (Development and Regulation) Act and an informal but effective price control was exercised. An important part of the distributive system was the allocation of a quota for official allotment to civil servants and politicians in government on a priority basis." He adds the following as a

> *The IAS has a tradition, inherited from the ICS, of controlling whatever means are related to their goals. In this context, attitude against free enterprise seems inevitable. The officer who made the following statement spoke for many when he observed that "... resources in the private sector are not available to the planners. That is, they have no control over them. Several attempts are being made to regulate private business through licensing policy and control of some materials. But this is neither enough nor the proper way."*[24]

The growth of private corporate capital and the monopoly houses

The state control measures over private capital, however, have not been successful in curbing its expansion, though they might have slowed down its pace of development. This fact is adequately demonstrated by the growth of the monopoly houses in the last two decades. P.C. Mahalanobis'

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footnote to the above statement: "From a sociological point of view, it is interesting that controls (such as on cars), which redounded to the benefit of the groups recommending and implementing the controls, were more readily implemented than the controls (on food grains distribution, for example) which would have far greater, and ethically more acceptable, impact on income distribution. (Bhagwati/Desai, *India, Planning for Industrialisation*, pp. 276-277.)

Committee on the Distribution of Income and Levels of Living reported in 1964 that, in 1960-61, the total number of companies each having a paid-up capital of less than Rs 5 lakhs (half a million) constituted 86% of the total number of companies, but their share in the total paid-up capital was only 14.6 per cent. At the same time, companies each having a paid-up capital of Rs 50 lakhs (5 million) and above constituted only 1.6 per cent of all companies but owned 53 per cent of the total paid-up capital[25] (see table 6.1).

Dr. R.K. Hazari, in a study on the structure of the corporate private sector, found that twenty selected complexes or groups dominate this sector.[26] He defined a corporate group as consisting of units or companies which are subject to the policy decisions of a common source. Each company is a separate legal entity but policy decisions on investment, production, sale, profits, etc., originate from a common authority and are coordinated by it. The controlling authority very often does not own the majority of shares in every company, but, through intercorporate investment, acquires control over a number of companies with little investment. It was found by Dr. Hazari that the twenty groups had an iterest of one kind or another in 983 companies with a share capital of Rs 236 crores in 1951, and 1073 companies with a share capital of Rs 352 crores (1 crore = 10 million) in 1958. Table 6.2 brings out how the twenty groups increased

Table 6.1: Number and Amount of Paid-up Capital of Non-government Companies at Work by Size Classes of Paid-up Capital

Size class of paid-up capital (Rs lakhs)	Companies				Paid-up Capital			
	number		% of total		Rs. crores		% of total	
	1951-52	1960-61	1951-52	1960-61	1951-52	1960-61	1951-52	1960-61
below 5	26,785	22,363	91.8	86.0	202.0	185.1	24.0	14.6
5 - 50	2,170	3,222	7.4	12.4	337.2	409.7	41.6	32.3
50 - 100	148	239	0.5	0.9	107.6	157.9	13.3	12.4
100 and above	80	185	0.3	0.7	162.6	517.0	20.1	40.7
all classes	29.183	26.009	100.0	100.0	809.4	1269.7	100.0	100.0

Source: Department of Company Law Administration (unpublished); cited as Table 4.3 in Mahalanobis Committee's *Report on Distribution of Income and Levels of Living*.

Table 6.2: Share of Twenty Groups in Share Capital, Net Capital Stock and Gross Physical Stock of all Non-government Public Companies (public only)

Groups	Share capital		Net capital stock		Gross capital stock		Difference in percentage share between 1951 and 1958		
	1951	1958	1951	1958	1951	1958	share capital	net capital stock	gross capital stock
Total non-government companies:	100.0	100.0	100.0	100.0	100.0	100.0			
20 complexes	38.97	47.96	36.48	45.05	37.05	44.85	8.99	8.57	7.80
10 complexes	29.35	34.53	26.99	32.62	27.21	31.83	5.18	5.63	4.62
4 complexes	22.13	26.75	20.55	26.60	21.20	25.20	4.62	6.05	4.00

Source: *Report of the Committee on Distribution of Income and Levels of Living*, p.41.

their share capital, net capital stock and gross physical stock of all non-government companies from 1951 to 1958.

Further, it could be seen from table 6.2, that four groups controlled more than 25% of all share capital and net as well as gross capital stock.

Thus, it was realised by the functionaries of the state that, despite the operation of the Industries (Development and Regulation) Act, the growing concentration of economic power in the hands of a few has continued. To find out the lacunae in the Industries Act, Dr. Hazari was made an honorary consultant of the Planning Commission in 1966. In a detailed report,[27] Dr. Hazari pointed out how the big industrial houses were able to subvert the intent of the Industrial Act. What the leading houses did was to submit a number of applications for a license on each product. In this way, they could appropriate the licensable capacity of any industry. His indictment was particularly severe on Birla applications:

> *It is to some extent legitimate to infer that Birla enterprise, justifiable or not in terms of ultimate performance, does tend to pre-empt licensing capacity in many industries. The sheer pressure to multiple applications for each product must be such as to yield positive results for at least two or more applications.*[28]

Another committee — the Industrial Policy Licensing

Committee — was appointed by the government of India in 1967 to inquire into the actual operation of the licensing system. The committee submitted its report in July, 1969. Its observations were more or less similar to those of the Hazari Committee. It found that the two biggest industrial houses, Tata and Birla, did not always use the licenses which they pre-empted. The number of licenses not acted upon were 164 for the Birla house and 47 for the house of Tata. The house of Birla also came under severe reprimand by the Industrial Licensing Policy Inquiry Committee (ILPIC):

> *From our aggregative analysis and case studies, we have found that among the Houses which were responsible for various forms of pre-emption, the most prominent is the House of Birla. They held the largest number of unimplemented licenses, made repeated attempts to obtain a large number of licenses for many products, created excess capacities and tries to have them regularised afterwards and also produced more than authorised capacities.*[29]

According to ILPIC, there were 73 large industrial houses having assets of Rs 5 crores or more each and they had controlling authority over 1125 units in 1964. In addition to this, 60 large concerns were identified with assets above Rs 5 crores. Of the 73 industrial houses, 20 were designated as "large Industrial Houses", the criterion being the possession of assets of Rs 35 crores or above. In 1966, the government of India granted 7445 licenses to the private corporate sector; out of this, 2800 licenses were grabbed by the large industrial houses.

From the reports of the ILPIC and Hazari committees, it became clear that the impressive gains by the large industrial houses were made on the basis of middle scale consumer goods industries catering to the urban population. In 1970, a new industrial policy was declared by the government incorporating most of the recommendations of the ILPIC. The new policy did not change the Industrial Policy Resolution of 1956, but divided all industries into a number of sectors: the public sector, the private sector, the joint sector, the core sector, the heavy industry sector, the middle-scale sector, the small-scale sector, and the co-operative sector. The large industrial houses under the new licensing system were debarred from investment or expansion of investment in the middle sector, which consists of mainly consumer goods industries, except for maintaining a minimum level of economic operation. However, they could invest in the core sector, and the non-core heavy industries sector (requiring Rs 5 crores or more in investment), excluding those reserved for the public sector in the schedule A of the 1956 Industrial Policy Resolution. The addition of the core and heavy industries sectors in the new industrial policy was motivated by two considerations: the curtailment of concentration of economic power of the large industrial houses and the economic growth of the country. The industries in the core and non-core heavy industries sectors need heavy investment, long gestation periods, and not-so-easy profits, as in the middle sector industries. The core sector consists of industries such as synthetic rubber or certain chemicals which are important in terms of links to other industries. The government declared its decision to release inputs for these industries on a priority basis for growth reasons.

It was also decided in the new industrial policy that the public sector should establish industries beyond the areas reserved for it in the Industrial Policy Resolution of 1956, particularly in the short gestation consumer goods sector, thus removing at the same time both the government's and the consumer's dependence on the private sector.

Further, it was found by each and every committee that the reasons for quick expansion of the large industrial houses also lay in their greater ability to take loans from the state financial institutions and private banks. The Committee on Distribution of Income (the Mahalanabis Committee) reported:

> *The growth of the private sector in industry and especially of the big companies has been facilitated by the financial assistance rendered by public institutions like the Industrial Finance Corporation (IFC), the National Industrial Development Corporation, etc. Thus on*

> *30th June, 1963, loans had been approved by the IFC for a total sum of Rs 127.7 crores. The number of concerns to which loans had been sanctioned was 244; 143 of these concerns were given loans of less than Rs 50 lakhs each, the total amounting to Rs 32.7 crores, while 101 concerns were given loans exceeding Rs 50 lakhs, the total being Rs 94.9 crores. Loans exceeding Rs 1 crore each were given to 22 concerns and accounted for Rs 34.8 crores. ... Lending by NIDC which totalled Rs 3 crores up to March, 1963, would also generally be to bigger companies.*[30]

The ILPIC also noted that the 20 larger industrial houses received 17 per cent and the 73 large industrial houses 44 per cent of all assistance provided by the financial institutions to the corporate sector for the period 1956 to 1966. Loans were advanced on the criterion of efficient uses of the loan. Large concerns enjoying the economy of scale could more fruitfully use the loans than the small establishments. So they were automatic choices for the receipt of loans. But the whole idea that the large industrial houses would expand their economic realm on the basis of finance provided by the government was repugnant to the functionaries of the state and contrary to their professed goal of establishing a socialist pattern of society.

The ILPIC, headed by an ICS officer, provided an easy solution to this dilemma (efficiency vs. non-concentration of economic power): as the governmental institutions furnish assistance, they should own and control the concerns up to the amount they provide. Thus, the ILPIC recommended that the government financial institutions should be entitled to convert their loans into equity and also have the prerogatives to actively participate in the planning and management of the concerns.

In short, existing private enterprises in which investments of government financial institutions are predominant should be for all practical purposes considered as the public sector and, hence, the government should have the final say in planning and top appointments of these concerns; these enterprises are to be known as the "joint sector". The "joint sector", the committee thought, would be able to prevent the concentration of economic power in industries of B and C schedules of the 1956 Industrial Policy Resolution, particularly in those industries which require heavy investments, by letting the government provide the bulk of the funds and reserving to itself the final control.*

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* - Some of the important features of the joint sector are: (i) The joint sector will not be allowed in the Schedule A of the 1956 IPR or in the areas reserved for small-scale industry. (ii) If any of the participants in the joint sector belongs to a large industrial house or a foreign majority concern, the authorisation from the Central Government will be needed. (iii) No private concern or person should be allowed to own more than 25% of the paid-up capital without prior approval from the Central Government.

As was expected, the new industrial policy (1970) came under heavy attack from the large industrial houses. J.R.D. Tata of the House of Tata, then occupying the number one position in terms of assets and sales among the larger houses, submitted a memorandum to the Prime Minister in May, 1972, protesting the exclusion of the large industrial houses from the middle sector. He also suggested some fundamental revisions in the joint sector. The following lines of the memorandum bring out the anxiety of the large industrial houses:

> *Finally, we come to the most important factor inhibiting investment, which is government's industrial policy introduced in February, 1970, to prevent the growth of the larger houses with a view to avoiding the further growth of economic power....*

The memorandum further contends that this policy, by

> *... drastically curbing the growth of companies forming part of large houses and foreign controlled companies which between them represent over 50 per cent of organised private industry's total physical assets, automatically deprives the private sector of half of its investment and growth potentiality.*[31]

As the banks were the other most significant source of finance for the private sector, another significant step taken by the state in 1969 to bring the corporate sector under its control was the nationalisation of 14 major commercial banks (with deposits of Rs 50 crores or more), many of which belonged to the larger industrial houses. Through these banks, the larger industrial houses could use the small savings of the people to expand their industrial empires. The Mahalanobis Committee reports:

> *Analysis of the bank credit thus made increasingly availabe for the financing of industrial expansion during the last few years shows that the main beneficiaries have been the big and medium enterprises.*

The same committee further added:

> *The dependence of private industry on banks for financing its expansion is confirmed by a purposewise analysis of advances by scheduled banks.*[32]

With the banks nationalised (along with other organised financial institutions, most of which were already state-owned), the state acquired a "... tremendous power of intervention, in every type of business enterprise, both large and small, and a widespread power of control and planning over the entire economic field."[33]

So, it was not an exaggeration when Kochanek says:

> *One official estimated that 75 per cent of the decisions affecting business are made by the bureaucracy. The colonial raj has thus*

> *given way to what has been called "the permit, license, quota raj" and its princes are the top bureaucrats.*[34]

Moreover, he adds:

> *The bureaucracy has in its hands such tremendous power to regulate and control business that business is afraid to offend government by intervening excessively or tactlessly. Business is too dependent upon administrative actions to risk antagonizing government to the point of retaliation. There is too much that the bureaucracy in a controlled economy can do, or fail to do, in the way of regulatory, licensing, and enforcing actions. The majority of businessmen, therefore, still come to government as supplicants. Only the largest have begun to approach government in the manner of the self-confident industrialist; and threats, even on the part of the most powerful industrialists lack credibility.... Thus, for example, government did not take seriously the threat by the drug industry to stop production of particular drugs if price controls were imposed. Nor does government quake when business talks of a strike in the capital market. Because most businessmen receive large portions of their funds from government credit agencies, this threat, too, lacked credibility.*[35]

Thus, it was not unexpected that the large industrial houses were not able to expand as rapidly in recent years as they had been doing before the nationalisation of the banks in 1969 or the imposition of new restrictions on their investments in the new industrial policy of 1970.* Table 6.3 indicates their rate of growth since 1963-64.**

The table also indicates that, in terms of expansion of assets, the rate of progress of the twenty larger industrial houses has been uneven. While in 1966-67 the Tatas topped the list of the leading industrial houses, since 1972-73, the Birlas have outgrown the Tatas both in assets and sales.

Needless to say, in the Indian economy where private ownership has not been abolished, the growth of the private sector would continue unabated (if there is no recession, or other economic constraints), despite all state attempts to curb its development; but its rate of growth, direction, and decisions about who would get the opportunity to expand,

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* - "In the last two years there has been very little investment activity in the private sector, particularly the organised sector. In fact, additional investment in the organised sector has almost come to a stand-still. At the same time the public sector has proceeded ahead with its Plan outlay and has allocated to itself for purpose of Plan expenditure Rs. 4026 crores the first two years of the Fourth Plan ." ("A Critiquie of the Fourth Five Year Plan by Indian Institute of Pulbic Opinion", Vol. XI, No. 10, reprinted in *Some Problems of India's Economic Policy,* edited by Wadva, p.147.) The *Economic Times* (Calcutta, February 14, 1974) agrees with the above assertion and states that the large "industrial houses were not allowed to expand for several years except under certain circumstances."

** - If we take into consideration the galloping rate of inflation since 1966-67, it is very likely that the increments in the total assets are not as significant as the figures indicate.

Table 6.3: Big Business Houses in India

Names of Houses	Total Assets (Rs Crores) as per MIC Report 1963-64	L.P.I.C. 1966-67	E.T. Estimate 1972-73	E.T. Estimate 1975-76	Percentage increase 1975-76 over 1972-73	1972-73 over 1966-67	1966-67 over 1963-64
Birlas	282.9	446.9	725.8	1064.6	46.7	62.4	58.0
Tatas	375.0	520.6	685.5	974.6	42.2	31.7	38.8
Mafatlal	39.5	106.5	218.9	284.3	29.9	105.5	169.6
J.K. Singhania	54.5	63.8	136.8	224.1	63.8	114.4	17.1
Scindia	46.3	63.9	127.0	217.1	70.9	98.7	38.0
Thapar	63.3	85.3	132.0	204.1	54.7	54.7	34.7
Bangur	62.5	97.9	139.9	195.9	40.0	42.9	56.6
Shri Ram	50.3	73.2	137.8	186.9	35.6	88.2	45.5
Sarabhai	33.8	56.7	129.5	182.5	40.9	128.4	67.8
I.C.I.	36.9	49.0	146.0	181.5	24.3	198.0	32.8
Kirloskar	19.1	45.9	114.4	177.1	54.8	149.2	140.3
A.C.C.	76.9	91.3	137.2	169.1	23.3	50.3	18.7
Parry	11.7	72.7	111.2	148.1	33.2	53.0	521.4
Mahindra	20.1	42.5	83.1	143.9	73.2	95.5	111.4
Bajaj	16.7	40.3	94.8	143.2	51.1	135.2	141.3
Killicks	38.3	51.4	93.7	139.4	48.8	82.3	34.2
Walchand	52.7	83.1	99.6	135.1	35.6	19.9	57.7
Modi	11.3	19.4	62.3	116.1	85.4	221.1	71.7
Larsen & Toubro	n/a	29.4	54.3	113.5	109.0	84.7	
Kasturbhai Lalbhai	33.9	49.3	85.8	109.2	27.3	74.0	45.4

Source: M.I.C. — *Monopoly Inquiry Committee Report*; L.P.I.C. — *Licensing Policy Inquiry Committee Report*; E.T. Estimate — The Economic Times Estimate (*The Economic Times*, February 14, 1977.).

to a great extent depends on state patronage. It was not by virtue of more efficiency that the Birlas went ahead of the Tatas in both total assets and sales; the cause of their success lies in their greater ability to secure a larger number of licenses and more loans from the nationalised banks and state financial institutions. While in 1973 the outstanding loans to the Birlas from the nationalised banks stood at 77.3 crores, the same to the Tatas amounted to Rs 50 crores.[36] We have already referred to how the Birlas were able to acquire the lion's share of licenses issued to the private corporate sector. In fact, in respect to the capital output ratio, the Tatas were not inferior to the Birlas. Still, for reasons mentioned above, the Birlas could outgrow the Tatas.

The public sector's growing command over the economy

The main mechanism through which the state has been able to maintain its hegemony over the private corporate sector is through the expansion of the public sector. In the last two decades, the public sector has emerged to occupy the commanding height of the economy. This has been mainly due to bigger investments in the public sector since the Second Five Year Plan (see Table 6.4).

In the Second Five Year Plan, the total outlay amounted to Rs 6750 crores; of this, the public sector's total share

Table 6.4: Public and Private Sector Investments (in Rs crores)

	Total Actual Outlay	Private Sector Actual Outlay	%	Public Sector Actual Outlay	%
Second Plan	6.750	3,100	45.9	3.650	54.1
Third Plan	10.400	4,100	39.4	6.300	60.6
Fourth Plan	22,635	8,980	39.7	13,655	60.3

Source: Relevant Plans.

Table 6.5: Growth in Investments in the Central Public Sector

	Total Investment (Rs crores)	Number of Enterprises
At the commencement of the First Five Year Plan	29	5
At the commencement of the Second Five Year Plan	81	21
At the commencement of the Third Five Year Plan	953	48
At the end of the Third Five Year Plan (31-3-66)	24,15	74
As at 31-3-67	28,41	77
As at 31-3-68	33,33	83
At the commencement of the Fourth Five Year Plan (31-3-69)	39,02	85
As at 31-3-70	43,01	91
As at 31-3-71	46,82	97
As at 31-3-72	50,52	1,01
As as 31-3-73	55,71	1,13
As at 31-3-74	62,37	1,22
As at 31-3-75	72,61	1,29

Source: *Annual Report on the Working of Industrial and Commercial Undertakings of the Central Government, 1974-75*, Vol. I.

(including irrigation, power, etc.) came to Rs 3650 crores. In the Third Five Year Plan, the total outlay was Rs 10,400 crores and in the Fourth Plan Rs 22,635 crores. Of these, the public sector investments accounted for Rs 6300 crores and Rs 13.655 crores respectively. The expected outlay for the Fifth Five Year Plan is Rs 53,411 crores. Of this amount, the public sector has been allocated Rs 37.250 crores and the private sector Rs 16.161 crores. The share of investments in industry and minerals in the public sector is expected to rise to Rs 8,939 crores in the Fifth Five Year Plan.

As a result of this huge investment in the public sector, the number of public sector enterprises in operation increased from only 5 in 1950 to 129 in March, 1975; the investments comprising equity and loan capital in the public sector enterprises also increased from Rs 29 crores in 1950 to 7,261 crores in 1974-75 (see Table 6.5). Thus, it was not at all surprising that eight public sector companies, each having more than Rs 100 crores in total assets, were twice the size of the top 20 larger industrial houses put together.[37] While the total assets of the top 28 public sector concerns, according to an estimate of *The Economic Times*, amounted to Rs 10,250 (see Table 6.6), the aggregate assets of the top 20 business houses was Rs 5,110 crores. Moreover, in the private sector, there were only two industrial houses, each of which had assets exceeding Rs 300 crores (Table 6.3),

Table 6.6: Total assets and Net Sales of Top Twenty-eight Undertakings of the Central Government

	Total Assets	Net Sales
1. Hindustan Steel	1270.6	851.9
2. Bokaro Steel	1081.1	52.7
3. Fertiliser Corp. of India	907.2	159.7
4. Bharat Heavy Elec.	836.2	171.7
5. Shipping Corp. of India	680.9	211.6
6. Food Corp. of India	650.6	1871.4
7. Indian Oil	608.1	1856.3
8. Hindustan Aeronautic	386.0	115.2
9. Central Coalfields	340.9	96.0
10. Heavy Eng. Corp.	292.1	53.1
11. ONGC	280.7	123.8
12. Coal Mines Authority	261.1	194.1
13. Damodar Valley	249.5	48.5
14. Indian Petrochemicals	225.4	36.3
15. Air India	222.8	187.4
16. Hindustan Copper	220.3	28.4
17. Bharat Aluminium	196.0	10.5
18. Indian Iron	172.3	98.3
19. State Trading Corp.	171.6	956.0
20. FACT	171.0	53.4
21. Neyveli Lignite	138.5	33.7
22. NMDC	150.9	21.9
23. MMTC	148.3	642.8
24. Bharat Electronics	129.0	54.8
25. HMT	123.1	83.5
26. Mogul Lines	118.9	21.2
27. Hindustan Petroleum	115.2	281.2
28. Indian Airlines	102.5	92.2
Grand Total	10250.8	8417.6

Source: *The Economic Times*, March 12, 1977.

while in the public sector there were nine enterprises each having more than Rs 300 crores in assets (Table 6.6). It is also noteworthy that, in the private sector, the number of houses each possessing more than Rs 100 crores in assets was twenty, while in the public sector, twenty-eight companies enjoyed the same status. The comparison between the larger industrial houses and the big concerns in the public sector clearly brings out the relative strength of the private and the public sectors.

The bulk of investments in the public sector are made by the Central Government in the form of equity capital and long-term loans. State (provincial) governments have also been allowed to participate in the equity capital. The general principle followed by the government is to maintain an approximate parity between equity and long-term loans. In the total government investments of Rs 7,261 crores up to 1974-75, the equity capital amounted to Rs 3,839 crores and long-term loans Rs 3,422 crores.[38] Since the nationalisation of 14 large commercial banks in 1969, the public sector enterprises have been

> *... empowered to have cash credit arrangements with the nationalised banks. It is open to each enterprise to deal with one public sector bank or a consortium of public sector banks depending upon operational convenience and the extent of cash credit requirements.*[39]

Until March 31, 1975, the public sector enterprises' outstanding loans with the nationalised banks under cash credit arrangements stood at 1,028 crores.[40] These funds were available to the public sector enterprises over and above the investment of Rs 7,261 crores mentioned earlier. To meet working capital needs, the public sector enterprises can take short-term loans from the Central Government. The duration of a short-term loan is two to three years, which, under a special situation, can be extended up to five years but not beyond that. Outstanding short-term loans to the public sector enterprises at March 31, 1975, totalled Rs 175.95 crores.[41]

The government's income from the public sector enterprises is realised in two ways: dividends on equity capital and interest on loans. The rate of interest charged on the public sector enterprises is given below (see Table 6.7). The high rate of interest indicates that the loan to the public sector enterprises constitutes a good source of income to the state.

The duration of a long-term loan is 15 years inclusive of the period of moratorium when, under certain circumstances, the principal or loan cannot be repaid. The repayment of the principal starts one year after the commencement of production.

If we consider the performance of the public sector enterprises on the basis of profits, it was not very commendable until 1971. In fact, until then, many units of the public sector were losing concerns. But the utility of public sector enterprises cannot be measured in terms of profits

Table 6.7: Rate of Interest Charged on Public Sector Undertakings

	(Rate of interest)			
	Industrial & Commercial Enterprises		Financial Institutions	
	Until 31-7-74	from 1-8-74	Until 31-3-74	from 1-8-74
Up to 1 year	7.0	9.5	4.75	6.25
Exceeding 1 year but not exceeding 4 years	7.0	9.5	5.25	6.75
Exceeding 4 years but not exceeding 9 years	7.5	10.0	5.75	7.25
Exceeding 9 years but not exceeding 15 years	8.0	10.5	6.25	7.75
Exceeding 15 years but not exceeding 30 years	—	—	6.5	8.0

Source: *Annual Report on the Working of Industrial and Commercial Undertakings of the Central Government, 1974-75.*

only. Their social returns should also be taken into consideration — such as providing consumer goods or construction materials to the poorer sections at a subsidized rate, or keeping more people on payrolls than is required. Thus, the public sector enterprises, by providing employment to many unemployed, can function as the agents of social harmony.

Moreover, one of the reasons for the low returns on investment in the public sector enterprises was due to the long gestation period of the basic and heavy industries. In fact, many enterprises took long periods to reach their capacity utilisation. However, since 1971-72, the public sector enterprises' performance has been genuinely impressive; they have achieved a considerable growth rate in turnover, profitability, internal resource mobilisation, employment, capacity utilisation and foreign exchange earnings. The turnover of all running concerns increased from Rs 3,310 crores in 1970-71[42] to Rs 6,776.69 crores in 1973-74 (see Table 6.8). It further increased to 10,217.19 crores in 1974-75 (Table 6.8). The gross profit (before interest on loans) of the public sector enterprises was Rs 559.21 crores in 1974-75, compared with Rs 339.59 in 1973-74 (Table 6.8), and Rs 146 crores in 1970-71. The rate of return (gross profit) increased from 6.4 per cent in 1973-74 to 8.4 per cent in 1974-75.

In net profits, too, the public sector enterprises recorded a tremendous growth rate since 1970-71. While in 1970-71 the net profit of the public sector enterprises was only Rs 20 crores, it was Rs 155.92 crores in 1973-74 and Rs 322.34 crores in 1974-75 (see Table 6.8). The total foreign exchange earned by the public enterprises amounted to Rs 1,091.50 crores in 1974-75 compared with Rs 675.06 crores in 1973-74.[43] Many units of the public sector considerably improved their production capacity in 1974-75.

The number of units where capacity utilisation

Table 6.8: Consolidated Profit and Loss Account for the Year 1974-75

Previous Year*		For the year 1974-75 Production Enterprises	Service Enterprises	Total
	To opening stock of finished goods and work-in-progress:			
736.05	Finished goods	509.64	665.76	1175.40
297.01	Work-in-progress	401.50	1.94	403.44
2453.42	To purchase of finished goods	1140.62	3274.46	4415.08
1317.44	To consumption of raw materials, stores and spares	2242.82	118.94	2361.79
773.30	To salaries, wages, welfare and other benefits to employees	879.78	163.96	1043.74
75.92	To repairs and maintenance	72.15	29.49	101.64
1443.76	To power, fuel, royalties, freight, handling charges, removal of overburden and other expenses	354.39	469.27	923.66
258.85	To depreciation, amortisation of development expend.	255.70	49.06	304.76
38.01	To write-off of development, commissioning & deferred revenue expenditure	28.23	1.54	29.77
333.59	To Gross Profit brought down	364.33	194.88	559.21
7727.35		6249.16	5069.33	11318.49
	By Sales/Operating Income:			
6776.69	Gross sales & other operating income	5909.91	4307.28	10217.19
17.22	Less commission & discount	9.15	11.02	20.17
6759.47		5900.76	4296.26	10197.02
563.42	less excise duty	847.65	0.01	847.66
6196.05		5053.11	4296.25	9349.36

(continued ...)

Table 6.8 (cont'd.):

Previous Year*		For the year 1974-75 Production Enterprises	Service Enterprises	Total
	By closing stock of finished goods and work-in-progress:			
1132.09	Finished goods	770.58	770.54	1541.12
399.21	Work-in-progress	425.47	2.54	428.01
7727.35		6249.16	5069.33	11318.49
	To interest on loans:			
111.30	(i) from Central Govt.	112.53	20.84	133.37
13.93	(ii) from Foreign parties	5.74	13.71	19.45
8.97	(iii) from other parties	5.17	10.76	15.93
61.10	(iv) from Banks as cash credit	55.80	3704	92.84
10.39	(v) Less interest capitalised	(14.47)	(0.39)	(14.86)
184.91		164.77	81.96	246.73
84.26	To provision for tax	70.79	58.14	128.93
0.12	To share of loss on partnership account	--	--	--
155.92	To Net Profit (of undertakings carried down)	254.20	68.14	322.34
425.21		489.76	208.24	698.00
333.59	By Gross Profit brought down	364.33	194.88	559.21
91.62	By net loss (of undertakings carried down)	125.43	13.36	138.79
425.21		489.76	208.24	698.00

* 1973-74 figures for 115 undertakings retained as such.

Source: *Annual Report on the Working of Industrial and Commercial Undertakings of the Central Government, 1974-75.*

has been higher than 75% increased from 41 in 1972-73 to 45 in 1973-74 and to 54 during the year 1974-75 indicative of sustained improvement over these three years.

The number of units where capacity utilisation ranged between 50% to 75% increased from 16 in 1972-73 to 23 in 1973-74 and to 27 during the year 1974-75.

The number of units recording less than 50% capacity utilisation decreased from 25 in 1972-73 to 16 in 1973-74 and remained the same in the year 1974-75.[44]

For the state to maintain its independence from the bourgeoisie, it was imperative that the state sector should generate resources in order to be able to gradually expand the public sector. This aim was categorically stated in the Industrial Policy Resolution of 1956:

> *Public enterprises will augment the revenues of the State and provide resources for further development in fresh fields.*[45]

In this task, too, the public sector enterprises have been gradually improving their performance. In the third plan period, the internal resources generated by the public sector enterprises amounted to Rs 287 crores; the fourth plan target was Rs 1,265 crores. The target was realised to the extent of 99.6 per cent, the amount generated being Rs 1,260 crores (see Table 6.9).

Table 6.9: Gross Internal Resources Generated by Public Sector Enterprises

		Depre-ciation	Retained Profits	Total
(i) Plan Target		896	369	1265
(ii) Actual Resources Generated:				
Year	No. of Enter-prises			
1969-70	47	146	48	194
1970-71	55	149	55	204
1971-72	68	169	46	215
1972-73	75	193	67	260
1973-74	84	233	154	387
Total		890	370	1260
(iii) Achievement of Plan Target		99.3%	100.0%	99.6%

Source: *Annual Report on the Working of Industrial and Commercial Undertakins of the Central Government, 1974-75.*

Table 6.10: The Contribution of Public Sector Enterprises (in Rs crores)

	Dividends	Interest on Central Govt. loans	Income tax	Excise duty	Total
Fourth Plan					
1969-70	12	104	19	347	482
1970-71	14	104	23	394	535
1971-72	15	121	41	438	615
1972-73	16	124	63	514	717
1973-74	13	111	84	563	771
Total	70	564	230	2256	3120
Fifth Plan					
1974-75	20	133	129	848	1130

Source: *Annual Report on the Working of Commercial and Industrial Undertakings of the Central Government, 1974-75.*

Over and above the internal resource mobilisation for their own expansion, the public sector enterprises have been substantially contributing to the Central Government exchequer by way of income tax, excise and other duties, interest payment on loans and dividends (see Table 6.10), thus fiscally liberating the state from the dependence on the private corporate sector.

The state's increasing control over the economy could further be gleaned from the income, savings, and capital formation of the public and private corporate sectors in the national economy. According to the White Paper on National Accounts Statistics for the period 1960-61 to 1974-75, released by the C.S.O. in 1977, the income of the organised sector in 1960-61 amounted to Rs 3,409 crores; of this, the public sector's share was Rs 1,422 crores compared with the private sector's earnings of Rs 1,987 crores (see Table 6.11). In 1974-75, the public sector's income surpassed that of the private sector; it was Rs 9,063 crores compared with the private sector's income of Rs 7,790 crores (see Table 6.11). The C.S.O. also provides recent data on savings. In the total net savings for 1975-76, the household sector's contribution came to 73 per cent, the public sector's 22 per cent, and the private corporate sector's only 5 per cent. It should, however, be borne in mind that the major portion of the household sector belongs to the unorganised primary and sec-

Table 6.11: Distribution of Incomes among various Sectors (percentages)

	Net Domestic Product	Primary Sector	Secondary Sector	Tertiary Sector	Organised Sector	Unorganised Sector	Organised Public & Private Sector: Public Enterprises and administrative depts.	Organised Public & Private Sector: Private enterprises
Total Rs crores								
1960-61	13335	6965	2549	3821	3409	9926	1422	1987
1974-75	58485	29167	11592	17726	16853	41632	9063	7790
Employees' Compensation								
1960-61	33.7	25.4	47.8	30.5	66.7	22.4	71.3	55.6
1974-75	32.9	20.0	52.3	41.8	70.8	17.7	73.7	57.7
Interest								
1960-61	3.2	3.3	4.4	2.3	5.8	2.3	13.6	3.9
1974-75	4.5	3.2	10.5	2.7	9.1	2.6	13.9	8.5
Rent								
1960-61	5.2	2.9	1.3	11.9	1.3	6.5	0.4	2.1
1974-75	3.3	2.2	1.4	6.2	1.5	4.0	1.3	2.3
Profits & Dividends								
1960-61	6.7	2.7	19.2	5.6	26.2	--	14.7	38.4
1974-75	5.4	2.3	14.3	4.5	18.6	--	11.1	31.5
Mixed income of self-employed								
1960-61	51.2	65.7	27.3	40.7	--	68.8	--	--
1974-75	53.9	72.3	21.5	44.8	--	75.7	--	--

Source: *White Paper on National Accounts Statistics, 1960-61 - 1974-75*, C.S.O., 1977.

Table 6.12: Public Sector Net Product and Related Data (at current prices)

	(Rs crores)		
	1970-71	1973-74	1974-75
1. Net domestic product - total	34746	49720	58485
2. Net product of public sector	5048	7217	9063
3. Share of public sector - (2) as % of (1)	14.5	14.2	15.5
4. Net savings - total	4499	6764	8500
5. Net savings of public sector	830	1158	1969
6. Share of public sector savings to total - (5) as % of (4)	18.4	17.1	23.4
7. Net capital formation - total	4893	7156	9576
8. Net capital formation of public sector	2346	4062	4771
9. Share of public sector capital formation to total - (8) as % of (7)	47.9	56.8	49.8
10. Distribution of factor incomes of Public Sector:			
(a) Compensation to employees	4052 (80%)	5927 (82%)	7430 (82%)
(b) Operating surplus	996 (20%)	1290 (18%)	1633 (18%)

Source: *The White Paper on National Accounts Statistics, 1960-61 —— 1974-75*, The Central Statistical Organisation, 1977.

ondary sectors. In fact, since 1970-71, the public sector's share in capital formation has been about half of the total net capital formation (see Table 6.12).

The factor incomes of the public and the private sectors are also noteworthy in determining the sources of capital formation in these sectors. Apparently, in this regard, the private sector is in a more advantageous position than the public sector. According to the Central Statistical Organisation's data, in 1974-75, as high as 73.7 per cent of the income of the public sector was spent on employee's compensation and 13.6 per cent on interest on loans. Only 11.1 per cent was retained for dividends and profits. During the same period, the private sector earned as dividends and profits 31.5 per cent, while it paid only 57.7 per cent as employees' compensation (see Table 6.11). But the moot point is: while profits, dividends and interest of the public enterprises can be reinvested for the expansion of the same industry or for the establishment of other industries, the profits of the private sector are distributed as dividends among shareholders; a significant portion of these dividends are spent on consumption. Thus, the private sector's superiority in mobilising resources might be more illusory than real.

Now we turn to employment. Here too, the state sector is the largest employer (in the organised sector). Its employment is double the size of the private sector's employment as shown in Table 6.13.

In short, as a result of huge investments and rapid

Table 6.13: Estimated Employment in the Public Sector and Private Sector, 1974 and 1975 ('000 persons)

<table>
<tr><th rowspan="2"></th><th colspan="2">Public Sector</th><th colspan="2">Private Sector (including small-scale industries)</th></tr>
<tr><th>1974</th><th>1975</th><th>1974</th><th>1975</th></tr>
<tr><td>Agriculture, hunting, forestry and fishing</td><td>324</td><td>340</td><td>806</td><td>818</td></tr>
<tr><td>Mining and quarrying</td><td>606</td><td>694</td><td>134</td><td>123</td></tr>
<tr><td>Manufacturing</td><td>1027</td><td>1019</td><td>4179</td><td>4108</td></tr>
<tr><td>Gas, electricity and water</td><td>537</td><td>507</td><td>42</td><td>39</td></tr>
<tr><td>Construction</td><td>997</td><td>956</td><td>121</td><td>127</td></tr>
<tr><td>Wholesale and retail trade and restaurants and hotels</td><td>449</td><td>53</td><td>318</td><td>309</td></tr>
<tr><td>Transport, storage and communications</td><td>2313</td><td>2362</td><td>77</td><td>79</td></tr>
<tr><td>Financing, insurance, real estate and business services</td><td rowspan="2">6232</td><td>492</td><td rowspan="2">1118</td><td>168</td></tr>
<tr><td>Community, social and personal services</td><td>6444</td><td>1032</td></tr>
<tr><td>Total</td><td>12484</td><td>12868</td><td>6794</td><td>6804</td></tr>
</table>

Source: compiled from *The Pocket Book of Labour Statistics, 1977.*

expansion during the last two decades, the public sector has attained the commanding heights of the economy in all facets.

It should be borne in mind that the public sector in India, unlike the West, has expanded at the cost of the private sector. Here it is not an appendix to the monopoly capital to provide "social capital" or "social expenses" for the expansion of the private corporate sector. Because of the weakness of the bourgeoisie at the time of independence, the autonomy of the state enabled the state managers to vigourously pursue the goal of augmentaion of state capital. The state not only actively participated in the productive spheres of the economy, it also restricted the private sector's operation in basic industries. In fact, the state sector enterprises in most vital areas of the economy are monopoly concerns (see chapter 4 re the Industrial Policy Resolutions). In the West, these sectors normally belong to the "natural territory" of private monopoly capital. The state's monopolisation of these sectors in India clearly indicates the state's independence from the bourgeoisie's control. Moreover, the monopolisation of productive capital and internal resource mobilisation have made the state virtually fiscally liberated from the dependence on the private corporate sector. This independence has been further reinforced by the state's emergence as a financial capitalist through the nationalisation of insurance companies, banks and other financial institutions. The state's control over finance along with its predominance in basic industries have made the private corporate sector totally dependent on the state for the supply of finance* as

* - Despite the fact that the state can tap capital from other sources than banks which, along with the state financial institutions are the only source of capital for the private corporate sector (except, of course, the ploughing back of profits and dividends), increasing proportions of

well as basic inputs.

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bank loans in recent years are being diverted towards the public sector enterprises. "There has been a distinct shift in the deployment of commercial bank credit in favour of the public sector vis-a-vis the private sector in recent years. One out of every four rupees lent by commercial banks today is accounted for by the public sector compared with one out of every twelve rupees seven or eight years ago. Actual borrowings by the public sector outstanding as at the end of June 1976 amounted to Rs 3342 crores, whereas they stood at just Rs 267 crores in June 1968 i.e., on the eve of nationalisation of the large commercial banks , representing a rise of 1150 per cent.... Since the extent in the rise in borrowings in the public sector has been much more marked than in the private sector, the share of public sector in the aggregate bank credit has gone up from 8.6 per cent in June 1968 to 29.0 per cent in June 1976, while that of the private sector has dwindled from 91.4 per cent to 71.0 per cent.... The growing share of the public sector in the deployment of commercial bank credit is also well illustrated by the sharp increase in the amount of credit authorised in respect of this sector under the Reserve Bank's Credit Authorisation Scheme since March 1973 when the public sectors undertakings including State Electricity Boards were brought under the purview of the scheme. The total credit limits in respect of these undertakings in force as at the end of June 1972 amounted to barely Rs 742 crores, representing 17.2 per cent of the aggregate credit limits of Rs 4,306 crores. By the end of June 1976, they had gone up to as much as Rs 4,440 crores, representing no less than 42.5 per cent of the aggregate credit limits of Rs 8,476 crores." (*The Economic Times*, Calcutta, March 28, 1977). See also the following table:

		(Rs crores) as at the end of June			
	1972	1973	1974	1975	1976
Working capital*	683	1870	2254	2890	4157
Sale of machinery on deferred payment basis	13	14	21	21	34
Term finance	56	131	208	233	249
Total — public sector units	742	2015	2483	2644	4440
Total credit limits — all units	4306	5857	6699	7253	8476
Share of public sector units in total credit limits (%)	17.2	34.4	37.1	36.4	52.4

* - Includes cash credit/overdrafts, bills purchased/discounted, and export finance.
Source: *The Economic Times*, (Calcutta: March 28, 1977).

The difference between the state sectors in India and the West could be best understood from the following detailed quote from James O'Connor's *The Fiscal Crisis of the State*, where he brings out in brief the essential characteristics of the state sector in the West:

> *In American capitalist society, state investments are normally confined to indirectly productive projects. Obviously it is in the interest and within the reach of monopoly capital to seize all profit-making opportunities for itself and to resist the encroachment of state capital on its own "natural territory". Indirectly productive investments (i.e., social capital) increase private profits and expand monopoly capital's natural territory. Monopoly capital also wants the state to remain dependent on tax revenues and thus fiscally weak — to reduce the possibility that a popular government would reorder the allocation of material resources. Finally, it is ideologically important for private capital to monopolize profit-making activities in order to perpetuate the myth that the state is too incompetent to manage directly productive capital.*
>
> *Monopoly capital employs many and varied methods and techniques to prevent the state from acquiring and managing directly productive capital. Economic domination gives the owning class ideological domination as well — that is, the entire legal system is based on the interests of the monopoly capital.*

This means that the equity financing of state enterprise often is ruled out, which denies an enterprise a financial cushion and exposes it to real risks when interest charges on loan capital exceed earnings. the pinch can be especially painfull if state enterprise is managed on the principle of balanced budget pricing (i.e., if it is forced to set prices at levels that will just cover costs, no more, no less). For example, unable to raise equity capital and forbidden to generate internal surpluses, British nationalized enterprises increased their debt five times over through 1961. At that time the government modified its financial policies, but one legacy of British nationalization is still a swollen debt structure.... In Europe many state enterprises are allowed to issue marketable equity stock. But the legal framework within which these enterprises operate mitigates against their self-actualization. In Austria, France and Germany nationalized industries have an indeterminant status in law * *— and in some cases there are no statutes governing their operation....*

European governments normally have responded to ***general or specific economic and political crises*** *by setting up mixed enter-*

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* - In India the public sector enterprises have definite status in law. As described in the *Annual Report on the Working of Industrial Undertakings of the Central Government (1974-75)*, they are "... statutory Corporations or Companies registered under the India's Companies' Act" (p.1).

*enterprises or decreeing nationalization, not by providing indirect subsidies, underwriting investment, and so on. In France (except for the nationalized railroads), the first major group of enterprises coming under public ownership were victims of the financial crisis of the 1930s.**

During the Great Depression there was little resistance to the nationalization of directly productive industries; in Italy (as in most European countries) the state supported the Banks and evolved "mixed companies" to protect the value of private shares. In the context of European capitalist development it was natural for the state to give massive support, including outright purchase, to private capital -- not to remove capital

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* - "... the depression of the 1930s had had disastrous effects on French industry — alone among the industries of the advanced Western countries, it had not managed to get back to the level of output reached in 1929, the high point of the prosperity of the 1920s. The First Plan of Modernization, launched by Monnet in 1946, formulated its production targets in relation to the 1929 figures. This was the summit of French economic achievement which now had to be recaptured" (Andrew Shonefield, *Modern Capitalism*, p.125). Thus, French planning was, to a great extent, a response to a crisis in capitalism. Speaking on the nature of planning Shonefield says: "One of the senior officials of the Commissariat du Plan once described the actual process of planning during the 1950s as 'a rather clandestine affair'. It relied essentially on the close contacts established between a number of like-minded men in the civil service and big business. Organized labour, small business and, most of the time, the ministers of the government of the day were passed by" (p.131). Moreover, Shonefield clearly states that the aim of economic planning in France as well as in other capitalist countries was to generate confidence in the ubsiness community so that they would make further investment (see *ibid.*, p.134).

from the private sphere, but to keep productive activities in operation.

It was not until immediately after World War II that the British Government nationalized industries that had been particularly hard hit by the Great Depression. Nationalization rescued most of the industries (particularly rail transport and coal) from bankruptcy....

Because of its largely conservative character, European state enterprise has not promoted the fiscal liberation of the state, but rather has strengthened private capital. Many state enterprises -- especially the nationalized sector in Britain, the Italian state railways and some French state corporations (e.g. coal production) are forbidden by law to generate profits or are otherwise financially hamstrung.

Even when state industries generate surpluses, the surpluses typically are not available to the state treasury because ***the enterprises normally are not managed by government representatives, but rather by autonomous administrations.****

* - In India the situation is reversed. Here the chairmen or managers of the public enterprises enjoy the status of a joint secretary or a secretary of the Indian Administrative service. In India, the stranglehold of the state over the public enterprises through these bureaucrats is so complete that even a leftist journal EPW, in a past editorial, bemoans the lack of autonomy of the public enterprises. The journal contends that the very bestowal of the status of secretary or joint secretary on a manager of a public enterprise means that "the professional leader of

> *Another factor confining the state fiscally is that a great part of productive state capital consists of backward industries that under the best of circumstances cannot generate a large surplus year in and year out. As for the dynamic industries monopolised or participated in by state capital, legislation and administrative rulings limit the state's ability to **develop** an overall industrial policy that might finance the general state budget. For example, British laws have been amended to prohibit nationalized firms from producing equipment for their own use.*[46] (Emphasis added.)

Thus we find that, in the U.S.A., the state enterprises are confined to indirectly productive projects which cannot, or are not allowed to, generate profits, because they depend on loan capital rather than on equity financing; in most cases they operate on a "no loss and no profit" basis. The main purpose served by the state enterprises in

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an industry was not worthy of recognition in his own right but acquired authority and status only by virtue of his designation in the administrative hierarchy. *The secretary and the secretariat remained supreme and in command in the arrangement* [emphasis added].... There were occasions when discussion in the SAIL board [a public sector enterprise] and at other levels in the undertaking, were choked by Wadud Khan [the chairman of the enterprise] by contending that his ruling would prevail, however strong the reservation of others, because he was putting to them the directive of the government from his position as Secretary to the government" (*EPW*, October 16, 1976, p.1649).

the U.S. is to provide the cusion for the expansion of the private monopoly capital. But as the state enterprises do not generate any internal surplus, the state's fiscal dependence on the private corporate sector remains unchanged. In the U.S. as well as in Europe, the state sector began to emerge as a result of the Great Depression of the thirties of this century, in Europe mainly through the process of nationalisation of the bankrupt companies. Although in Europe some state enterprises could issue equity capital and earn profits and dividends, the environment of private capital or the capitalist ideology did not let them actualise their potentiality.

Although the European state enterprises are different in appearance from the same in the U.S., in operation they are identical. Failure to generate surpluses in the state sector make the state budgets in Europe equally dependent on the tax revenue from the private sector. Even in France — eulogised by Shonefield as the leader of capitalist planning — where the state bureaucracy has played a relatively more independent role (for various historical reasons) than in any other capitalist country, the planning has been essentially a "conspiracy" between it and the big business interests. And the task of planning has been mainly to generate business confidence so that the private sector does not feel shy to invest.

In India, on the other hand, the state sector was not developed as a response to financial crises of private capital. It developed because the bourgeoisie was weak. From the beginning, the state capital wanted to expedite industrial growth through the augmentation of its own capital very often at the cost of private capital formation. The gradual expansion of the public enterprises and the monopolisation of the sources of finance enabled the state to maintain its independence not only in the capital market but also enabled it to generate a cultural environment conducive to the augmentation of state capital. As we noted above, this cultural environment was highly suspicious of the private capital. If the state became dependent on the private capital, the cultural environment would have changed, as in the U.S. and Western Europe, and instead would have become critical of the expansion of the state apparatus and supportive of the private corporate sector's enlargement. In India, the overall cultural environment, that was hostile to the business community, is indicative that the continuing struggle of the bourgeoisie to take control of the political and ideological superstructures has not yet been crowned with success.

It should, however, be noted in this connection, that the state's ownership of the basic means of production has not led to any improvement in the real income of the working population in industry (see Table 7.12). Nor has the state been able to transfer the increasing burden of population from agriculture to industry (see next chapter). The strong state in India which maintains its hegemony over the social classes is not thus founded on a strong social economy. This is the paradox in the character of the state in India and its social formation; the reasons for this paradox we will discuss in detail in the next chapter.

Notes to chapter 6

1. The Industries (Development and Regulations) Act, 1951, (amended later), Delhi, 1966; also see Shirokov, Industrialisation of India, pp. 66-88.

2. Report on the Working and Administration of the Companies Act, 1956.

3. A.H. Hanson, The Process of Planning, p. 486.

4. See: Report of the Managing Agency Enquiry Committee, 1966; The Monopolies Enquiry Commission, 1964; R.K. Hazari, "Ownership and Control: A Study of Intercorporate Investment", Economic Weekly, April 26, December 3, February 2, 1960.

5. Ninth Report of the Estimate Committee, pp. 200-201.

6. Report of the Administrative Reform Commission, 1966.

7. Ibid.

8. Ibid.

9. S.A. Kochanek, Business and Politics in India, p. 265.

10. Ibid.

11. Percival Spear, India: A Modern History, p. 238.

12. See: L.S.S. O'Malley, The Indian Civil Service; H.F. Goodnow, The Civil Service of Pakistan; A.R. Tyagi, The Civil Service in a Developing Society; B.B. Misra, The Administrative History of India, (2 vols.).

13. R.P. Taub, Bureaucrats Under Stress, p. 8.

14. L.S.S. O'Malley, The Indian Civil Service, p. 158.

15. Ibid.

16. Ibid.

17. H.F. Goodnow, The Civil Service of Pakistan, p. 35.

18. L.S.S. O'Malley, The Indian Civil Service, p. 161.

19. B.B. Misra, The Indian Middle Classes, p. 307.

20. B. Subramaniam, "Administrators and Politicians", Economic and Political Weekly, (November 26, 1977).

21. Ibid.

22. S. Kochanek, Business and Politics in India, p. 270.

23. R.P. Taub, Bureaucrats Under Stress, p. 167.

24. Ibid., p. 170.

25. Report of the Committee on Distribution of Income and Levels of Living, p. 30.

26. R.K. Hazari, Structure of the Corporate Private Sector, 1966.

27. Industrial Planning and Licensing Policy, Final Report, 1967.

28. Ibid.

29. Report of the Industrial Licensing Policy Inquiry Committee, 1969, p. 95.

30. Report of the Committee on Distribution of Income and Levels of Living , p. 39.

31. Tata Memorandum to Prime Minister Indira Gandhi, May 17, 1972.

32. Report of the Committee on Distribution of Income and Levels of Living, p. 33.

33. G.D.H. Cole, What Everybody Wants to Know About Money, p. 511.

34. S. Kochanek, Business and Politics in India, p. 267.

35. Ibid., p. 269.

36. The Economic Times, (Calcutta: February 14, 1977).

37. See tables 6.3 and 6.6.

38. Annual Report on the Working of Industrial and Commercial Undertakings of the Central Government, 1974-75, p. 3.

39. Ibid.

40. Ibid.

41. _Ibid._, p. 6.

42. The data on turnover, gross profit and net profit of the running concerns in the Public Sector Undertakings for the year 1970-71 have been taken from the _Annual Report on the Working of Industrial and Commercial Undertakings of the Central Government, 1971-72_.

43. _Annual Report on the Working of Industrial and Commercial Undertakings of the Central Government, 1974-75_, p. 88.

44. _Ibid._, p. 126.

45. _Industrial Policy Resolution, 1956_.

46. J. O'Connor, _The Fiscal Crisis of the State_, pp. 180-188.

Chapter 7

THE SOCIAL ECONOMY OF INDIAN AGRICULTURE AND ITS EFFECT ON INDUSTRIALISATION AND THE STATE.

Prolegomena

In the last two chapters, we have discussed the process of industrialisation and the nature of the development of the bourgeoisie and the state's role in this process. However, no analysis of the social economy, class formation, and industrialisation of a country is possible without an analysis of its agrarian structure, particularly if the country is primarily agricultural, as India is. As we noted in an earlier chapter, according to an estimation by the Central Statistical Organisation, about 50 per cent of India's GNP today comes from the primary sector, and 70 per cent of her population is employed in it. So it is of fundamental importance to know what is the mode of production in agriculture in India and how the surplus that is being generated in this sector is being appropriated and used.

This examination is of particular significance because the industrialisation of a country is dependent on its agricultural sector in three ways: for raw materials, for the supply of labour (especially in the formation period of industrialisation), and for the farm sector's demand for industrial products. In this chapter we will attempt to analyse these issues. We will also try to point out why the capitalist class has failed to bring agriculture, as a whole, under its control. This failure has important ramifications, not only in respect to the development of the Indian economy, but also in terms of the political power of the capitalist class.

The impact of colonial heritage on the modes of production in Indian agriculture.

In the second chapter, we observed that, prior to the rise of British power in India, the Indian rural economy was characterised by self-sufficient villages based on an organic unity between agriculture and artisan industries. The surplus of the villages used to be extracted by the state in the form of revenue. The British inherited this (revenue) system from the Moghuls, but introduced major changes to increase revenue, as this then constituted the primary source of income of the state (see chapter 3). In some parts of India, they established the zamindari system whereby "private landlords" were created, and the state bestowed on them some features of private ownership of land, but not all. The zamindars and the subordinate tenants (created by the zamindars) acted as intermediaries between the state and the tillers. In other parts, ryotwari or temporary land settlement was introduced whereby the state collected revenue directly from the peasants. In the ryotwari areas, the tillers were given the right to inherit, mortgage and sell the right of occupancy, but they were not given exclusive private property rights in the land (in the western sense of the term).

In both systems, the state remained the supreme landlord (see chapter 2). These tenurial changes, however superficial they might have been in changing the organisation of production, had the effect of transforming the land into a commodity. This process facilitated the reduction of India's agriculture into a continuous source of primitive capital accumulation for the metropolitan centre (see chapter 2 and below). The peasants' need for cash to pay the increasing land revenue to the zamindars or to the state made him an easy victim of usurers, whose rates of interest ranged from 100 to 300 per cent.* As land became the only source of livelihood (in the absence of industrialisation), and as land could be alienated as a commodity for the non-payment of revenue or the moneylenders' interest, etc., it became a

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* -"Large landholders can raise loans, due to approved security, at rates varying from 9 to 12 per cent in most provinces. But in the case of small cultivators who constitute the bulk of the cultivators, rates charged ... may be up to 300 per cent. The rate of interest charged per annum on grain loans is generally 50 per cent, but rises up to 100 per cent in several cases." ("Economic Background of Social Policy", *ILO Report*, 1947, p.46.)

common practice for the small and even middle peasants to rush to the market immediately after the harvest to pay the state's rent and moneylenders' interest, just to be able to cling to their miserable patches of.land.

The situation was further exacerbated by the deteriorating land/man ratio and increasing intermediary rent-receiving interests (see below). These rentiers were parasites; many of them lived in cities thriving on the rents collected from the direct producers. Referring to the debilitating effect of this kind of rent on production, Marx wrote:

> *This rent may assume dimensions which seriously threaten the reproduction of the conditions of labour, of the means of production. It may render an expansion of production more or less impossible, and grind the direct producers down to the physical minimum of means of subsistence. This is particularly the case, when this form is met and exploited by a conquering nation, industrial as India is by the English.*[1]

Rents in India continued to be collected on the basis of the earlier mode of extraction, but on a larger dimension; i.e., the extraction of surplus was on a far bigger scale (see below).

Thus, the existing mode of production, with some changes in property relations, was ideally suited to meet the industrial capital's demand for markets as well as raw materials. The growing number of rentiers meant not only more surplus extraction but also that the industrial capital found in them, at least for the time being, an expanding market.* Similar was the role played by usury. According to the census of 1921, the number of people living on rent was 3.7 million; it went up to 4.1 million in the enumeration of the 1931 census. The Simon Commission Report of 1930 noted:

> *In some districts the sub-infeudation has grown to astonishing proportions, as many as fifty or more intermediary interests having been created between the zamindar at the top and the actual cultivators at the bottom.*[2]

Khan Bahadur S.M. Hussain, a member of the Floud Commission, estimated that in 1793 the net income of the zamindars in Bengal amounted to Rs 20 lakhs; in 1940 their income was Rs 832 lakhs, an increase of more than 4,000 per cent.[3]

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* - The growing impoverishment of many colonies, and as a result their declining buying power (i.e., the relative diminishing surplus extraction), forced the colonising countries in recent years to seek their markets elsewhere. Despite the availability of low-priced agricultural products, particularly food, from the commonwealth countries or her erstwhile colonies, England had to forego this privilege to be eligible to enter EEC where her industrial products could find a market in the face of a relative decline of the colonial market. The erstwhile colonial markets have shrunk (for the metropolitan centres) not only as a result of increasing tariff barriers for foreign products, but also due to these countries' declining buying power.

To this exploitation was added the exploitation of usury. In the Indian villages there was a class of money-lenders long before British rule was established. In the past, they performed, in a limited sense, a necessary economic function by providing loans to the cultivators in times of need. This changed drastically under the new legal system introduced by the British. They could now expropriate the cultivators' land for the non-repayment of loans — a practice virtually unknown under the village community system. Moreover, customary limits on interest also became extinct. As Nanavati and Anjaria point out:

> *With the increasing adoption of the cash nexus and the introduction of the British system of jurisprudence which laid down rigid laws of property and contract, the human basis of creditor debtor relationship in the village was destroyed. Consequently, new opportunities for exploitation were opened up for the moneylender.... The rule of Damdupat which prohibited him from receiving a sum double the sum became extinct. The new laws of Incian Contract Act and Civil Procedure Court were always in favour of the moneylender and enabled him not only to secure his exorbitant claims but attach the debtor's cattle and implements and even to arrest and imprison him. The Registration of Documents Act (1864) and the Transfer of Property Act (1882) enabled claims to be systematically*

> *recorded and led to the growth of mortgages in number and value. Any appeal to the law by the farmer was therefore sure to lead to his own destruction. In the words of Sir Malcolm Darling, "... by 1880 the unequal fight between the peasant and moneylender has ended in a crushing victory for the latter. For the next thirty years the moneylender was at his zenith and multiplied and prospered exceedingly to such good effect that the number of bankers and moneylenders and their dependents increased from 55,263 in 1868 to 193,890 in 1911."*[4]

The Famine Commission reported in 1880 that one-third of the peasants was in deep debt; another one-third was in debt, but with the power to redeem their debt.[5] Table 7.1 indicates how the rural debt in India continued to grow.

In a study of a south Indian village by N.S. Subramanian (Congress Political and Economic Studies, No. 2, 1936), we get a clearer picture of the mechanism and the degree of exploitation of the Indian peasantry.[6] The study was conducted in a village named Nerur in the district of Trichnpoly. The population of the village was 6200. The net income of the village from agriculture amounted to Rs 212,000 after deducting all expenses of cultivation. Net income from other sources (artisans' incomes, salaries and wages remitted to the village earned outside, etc.) was

Table 7.1: Rural Debt in India

Name of Committee	Year of Enquiry	Character of debt
Famine Commission	1880	One-third of peasants in debt but can repay the debt, another one-third in deep debt with little possibility to redeem the debt.
Famine Commission	1901	About one-fourth cultivators lost their land to money-lenders in Bombay. Only one-fifth free from debt.
Central Banking Enquiry	1929	Rs. 900 crores (Total amount of rural debt).
Agricultural Credit Dept.	1937	Rs. 1800 crores (total amount of rural debt).

estimated at Rs 24,000. Total income of the village from all sources thus came to Rs 236,000. Out of this income of the village,

> *... the following outgoings of the village were noted: land revenue, irrigation and allied cesses, Rs. 30,000; rent to owners of land outside the village, Rs. 70,000; interest on debt (calculated at the lowest rate of 8 per cent), Rs. 40,000; rentals to government for toddy and arak shops, tree taxes, rent to tree owners, Rs. 12,000. This makes*

> *a total of Rs. 152,000 for government revenue, taxation, rent and interest. Together with minor outgoings of Rs. 4,000, the total payments from the village of Rs. 156,000 leave a balance for the village of Rs. 80,000 or under Rs. 13 a head. It will be seen that each inhabitant of this village earns an average of 38 rupees or 2 pounds 17 shillings for the year. After the tax collector, landlord, and moneylender have taken their share, he is left with under 13 rupees or 19 shillings to live on for the year. He is left with one-third; two-thirds are taken.*[7*]

Thus, two-thirds of the peasants' (most small and medium peasants) products had to be brought into circulation to pay for their rent and interest. From these surpluses, India's exports were made and they also formed the basis from which India's import needs (coming from the metropolitan centre) of the consuming classes were met (see chapter 2). In this way, the products of the Indian peasants were brought under the demain of the world capitalist market.

However, the peasant's mode of production did not change. The peasant continued to cultivate his land in the

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* - The Simon Commission reported in 1930 that the self-sufficiency of the Indian villages limited the scope of internal excess to a few articles such as salt, kerosine oil, and alcoholic liquors, for which the rural areas are dependent on extraneous supply.

same way he had been doing for centuries. The implements of cultivation — the plough, the spade, etc. — were (and still are) the same as in the past. the most important source of power to supplement human labour was (and still is) the bullock. Yet, the method of cultivation was not inferior to what was prevailing in Europe in the nineteenth century. Nor was the cultivator slothful and lazy. But the pesant's growing poverty prevents him from investing in inputs needed for increasing the productivity of his land and labour. Dr. J.A. Voelcker, consulting chemist to the Royal Agricultural Society, was appointed to investigate the agricultural techniques in India in 1880, and wrote the following about the Indian peasants:

> *At his best the Indian Ryot or cultivator is quite as good as and in some respects the superior of, the average British farmer; whilst at his worst, it can only be said that this state is brought about largely by an absence of facilities for improvement which is probably unequalled in any other country, and that the Ryot will struggle on patiently and uncomplainingly in the face of difficulties in a way that no one else would....*
>
> *But to take the ordinary acts of husbandry nowhere would one find better instances of keeping land scrupulously clean from weeds, of ingenuity in device of water raising appliances, of knowledge of soils and their capabilities, as well as the exact time to sow and*

> *to reap, as one would in Indian agriculture, and this is not at its best alone, but at its ordinary level. It is wonderful too, how much is known of rotation, the system of mixed crops and of fallowing. Certain it is that I, at least, have never seen a more perfect picture of careful cultivation, combined with hard labour, perseverence and fertility of resource, than I have seen in many of the halting-places in my tour.*[8]

Similarly, Sir John Russel wrote:

> *The Indian ryot compares favourably with any of the peasant populations I have met in different parts of the world.*[9]

The Indian peasant's poverty did not stem from his indolence or lack of knowledge of cultivation. It arose from his economy being incorporated into the world capitalist system without letting him have the benefits of the capitalist mode of production in agriculture. His surplus was extracted and exchanged for commodities from abroad to satisfy the consumption of the indigenous rentiers and other parasites; it was not ploughed back into agriculture in the form of industrial inputs.

It must be kept in mind that it was the requirements of the same motion of capital which expropriated the English peasants from their soil and dragged them off to become clogs in machines, also drove the Indian town artisans back to the village to become a drag on its agriculture. The same capitalist class who used the machines in England to extract surplus value from its labour debarred their introduction in India because it better suited their interests to let the Indian peasants produce the surplus in the form of raw materials, rent, interest, etc. If the metropolitan centres are what they are today as a result of capitalist production, Indian and other third world countries are what they are today because of capitalist exploitation. If it is the motion of capital which has concentrated (approximately) 70 per cent of the people in North America and Western Europe in industry, it is the same capital motion which has accumulated 70 per cent (approximately) of the people in India and other third world countries in agriculture.

Thus, with the growing burden of the people on the land (in the absence of occupational opportunities in industry), the land/man ratio began to decrease with the natural increase of the population. Dr. Harold Mann, the Director of Agriculture in Bombay, wrote in 1917:

> *It is evident from this that in the last 60 or 70 years the character of the land holdings has changed. In the pre-British days, and in the early days of the British rule, the holdings were usually of a fair size, most frequently, more than 9 or 10 acres, while*

> *individual holdings of less than 10 acres were hardly known. Now the number of holdings is more than double, and 81 per cent of these holdings are under 10 acres in size, while no less than 60 per cent are less than 5 acres.*[10]

It is evident that the above process of diminution of holdings could not lead to the development of capitalist farming. Poor peasants who operated small patches of land could hardly afford the advanced techniques of production or modern scientific inputs. Moreover, as we noted, their surpluses were drained out in the form of rent and interest. How the size of holdings continued to decrease in India could be gathered from table 7.2, which was computed on the basis of a study of 72 villages in the Borsad Taluka in Gujrat. A similar picture emerges from the evidence before the Agricultural Commission in 1927; it was based on a study of a district (area 1 million acres) in Bombay (see table 7.3). In the process of enquiry, the government witness significantly added:

> *These figures referring only to a period of five years appear to me to show a very marked increase in the number of agriculturists cultivating holdings up to 15 acres, which except in a very few soils is not an area which can economically employ a pair of bullocks.... There is also a drop in the holdings of 25 -*

Table 7.2: Increase in the Number of Small Holdings

Size (in acres)	1901 Number	1901 %	1921 Number	1921 %	% change since 1901
5 and under	7,740	58	19,740	82	+125
6 to 25	5,107	38	3,916	16	- 23
26 to 100	570	4	432	2	- 3
101 to 500	30	--	29	--	--
Total	13,447	100	24,117	100	+ 79

Source: Wadia/Merchant, *Our Economic Problem*, p.210.

Table 7.3: Change in the Number of Holdings

Average holding	Number of holdings 1917	Number of holdings 1922	Change %
Under 5	6,272	6,446	+2.6
5 to 15	17,909	19,130	+6.8
15 to 25	11,908	12,108	+0.9
25 to 100	15,532	15,020	-3.3
100 to 500	1,234	1,117	-9.5
Over 500	20	19	-5.0

Source: *Agricultural Commission Report*, Vol. II, Part I of Evidence, 1928, p.292.

100 acres, which means a decrease in the comparatively substantial agriculturist class who can with luck lay by a little capital.[11*]

* - Thus, instead of an increase in the size of holdings as in the capitalist countries, Indian agriculture witnessed a reverse process.

Table 7.4: Distribution of Holdings According to Size, 1950

	Madras	Punjab	U.P.	Bengal	Bombay	Mysore	Assam	Orissa
Average size of holding (in acres)	4.5	10	n.a.	4.4	13.3	6.2	4.8	4.9
% of holdings to the total:								
Below 5 acres	82.0	63.7	81.2	71.3	41.9	65.9	66.4	79.2
" 10 "	89.0	80.0	93.0	88.3	60.9	86.7	87.4	89.5
" 15 "	n.a.	87.9	n.a.	n.a.	72.5	n.a.	n.a.	94.3
" 25 "	n.a.	93.7	99.1	n.a.	85.2	n.a.	n.a.	97.8

Source: *Agricultural Legislation in India*, Vol. II, "Consolidation of Holdings", p.11.

The increase in the number of small holdings, it seems, continued unabated. Just after independence (1950), the nature of the distribution of holdings by size in different states is reflected in table 7.4.

Now, from the above-mentioned tables, we find that, although the small and medium peasants operated most of the holdings, there were a few landholders who, owning more than 25 acres of land, were in a position to adopt capitalist farming. Why did they not do that? The simple answer is: they could earn more by letting out the land to poor tenants and sharecroppers than by cultivating the land themselves.

It was found in a study conducted in a co-operative farm in West Bengal in 1959 that the average cost of production of an acre of land on the basis of the capitalist method of employing wage labour was Rs 290 and output amounted to Rs 332; the profit was thus Rs 42 or 14% of the outlay.[12] Now, a landowner in West Bengal could easily lease out his land at that time to a sharecropper and legally demand 40 per cent of the produce from the tenant, who would contribute both labour and capital. Why, then, should the landowner invest his capital on cultivation?

It was further found from various NSS studies that poor farmers (below the size group of 5 acres) who rented land from landlords on such exorbitant cost did so just to eke out a living.[13] In a deteriorating land/man ratio, where the threat of total pauperisation haunts the peasant, it is quite natural for him to ensure his minimum income through the ownership of a small piece of land and supplement his income by renting land from other sources. As access to land secures the bare minimum for himself and his family, a peasant would agree to surrender to the landowner whatever he produces on that land above the bare subsistence level.*

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* - The Indian peasants' situation is comparable with that of the Irish peasants in the nineteenth century who, probably, were not as thoroughly exploited as in India. "We are not now speaking of conditions, in which ground-rent, the form of landed property adapted to the capitalist mode of production, formally exists without the capitalist mode of production itself, so that the tenant is not an industrial capitalist, nor the mode of his management a capitalist one. Such is the case in Ireland. The tenant is here generally a small farmer. What he pays to the landlord in the shape of rent absorbs frequently not merely a part of his profit, that is, of his own surplus-labour, to which he is entitled as the possessor of his own instruments of production, but also a part of his normal wages, which he would receive under different conditions for the same amount of labour." (Marx, *Capital*, III, p.733.)

In other words, what the peasant gets from his labour on the land is less than what he can get by selling his labour power to a capitalist. But the problem is, in the non-existence of industrial avenues, as in India, there is no buyer for his labour power. Hence, he has no other alternative but to depress his consumption and surrender major portions of his product of labour on the land (as absolute rent) to the landlord just to have an access to the means of production (land). It has been observed in studies in the Economics of Farm Management in India (1953-58) that when values are imputed to the family labour on small holdings at the current wage rate, income generated from these holdings is less than their cost of production inclusive of imputed wages. On the basis of imputed wages farms below 10 acres constituting about 80 per cent of total farms in India are operating at a constant loss. Why, then, are they being operated? It is because family labour cannot get employment outside of agriculture.

Thus, the income a landowner in India derived from his ownership or monopolisation of land, was not the capitalist ground rent that a capitalist renant pays to the landlord. Capitalist ground rent is the surplus over the average rate of profit on capital invested by the capitalist tenant. In cases where the tenant is the owner, he pockets the surplus or the ground rent. In India the surplus that was being appropriated by the landowners and the state through sharecropping or other means, either in cash or in kind, was precapitalist ground rent. Marx explains this kind of rent as follows:

> *By money rent we mean here —— for the sake of distinction from the industrial and commercial ground-rent resting upon the capitalist mode of production, which is but a surplus over the average profit —— that ground rent which arises from a mere change of form or rent in kind, just as this rent in kind, is but a modification of a labour rent. Under money rent, the direct producer no longer turns over the product but its price to the landlord (who may be either the state or a private landlord).*

Marx also explains the basis of this kind of absolute rent: the direct producer

> *... has to perform for his landlord, who is the owner of the land, of his most essential*

> *instrument of production, forced surplus labour, that is, unpaid labour for which no equivalent is returned.*[14]

In India, this forced surplus labour was paid not only to the landlords but also to the moneylenders, traders and rich peasants. The poor peasants had to turn to these sources for their cash requirements to pay their ever-increasing rents. Moreover, interest on usury capital was not capitalist interest; it was forced labour which was obtained from the direct producers just to let them reproduce themselves on the barest minimum biological level.

During the colonial period in India, the property relations which were imposed were not bourgeois relations of property, because bourgeois relations of property can only emerge when there are bourgeois relations of production.*

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* - "Landed property is conditioned on the monopolisation of certain portions of the globe by private persons, for the purpose of making these portions the exclusive spheres of their private will and keeping all others away from it. With this in mind, the problem is to ascertain the economic value, that is, the employment of this monopoly on the basis of capitalist production. *With the legal power of these persons to use or misuse certain portions of the globe nothing is settled. The use of this power depends wholly upon economic conditions,* which are independent of their will. The legal conception itself signifies nothing else but that the landowner may do with the soil what the owner of commodities may do with them. And this conception, this legal conception of free property in land, arises in the ancient world only with the dissolution of the organic order of society, and in the modern world only with the development of capitalist production. Into Asia it has been imported by Europeans in but a few places. In that part of

By introducing a restricted form of private property in land, the English introduced into India (see chapter 2) a base for the future development of bourgeois property which could develop only with the development of the capitalist mode of production. That was why Marx hailed the introduction of private property in land in India as the greatest

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our work, which deals with primitive accumulation,... we have seen that this mode of production [capitalist mode] presupposes on the one hand the separation of the direct producers from their position as mere attachments to the soil (in their capacity of bondsmen, serfs, slaves, etc.), on the other hand the expropriation of the mass of the people from the land. *To this extent the monopoly of landed property is a historical premise, and remains the basis of capitalist mode of production*, just as it does of all other modes of production, which rests on the exploitation of the masses in one form or another. *But that form of landed property, which the capitalist mode of production meets in its first stages, does not suit its requirements.* It creates for itself that form of property in land, which is adapted to its requirements, by subordinating agriculture to the dominion of capital. It transforms feudal landed property, tribal property, small peasants' property in mark communes, whatever may be their legal form, into the economic form corresponding to the requirements of capitalism. It is one of the great outcomes of the capitalist mode of production, that it transforms agriculture from a merely empirical and mechanically perpetuated process of the least developed part of society into a consciously scientific application of agronomics.... that it detaches property in land on the one side from the relations between master and servant, and on the other hand totally separates land as an instrument of production from property in land and landowners, for whom it represents merely a tribute of money, which he collects by force of his monopoly from the industrial capitalist, the capitalist farmer...." (Marx, *Capital*, III, pp. 722-724, emphasis added.)

In India, what the landowners extract from the tenants (peasants, sharecroppers, etc.) is not the capitalist ground rent (i.e., the surplus over the average rate of profit on capital), but the pre-capitalist forced surplus labour. In this sense, the property in land in India has failed to generate the capitalist property relations.

desideratum. This, he thought, would lay the foundation for the future development of the capitalist mode of production. At the same time he ridiculed the land systems established by the colonial government as the caricature of British landlordism and French peasant property. British landlordism was then founded on capitalist ground rent, while the French peasant was normally a small peasant proprietor outside the debilitating effect of the feudal mode of production.

In India, by letting the state appropriate the major portion of rent (nine-tenths in the permanent settlement areas) and also by letting it determine the future appropriation on an arbitrary basis (in the Ryotwari areas) and at the same time enabling the landowners to usurp the major portion of the surplus over and above the state's demands, a kind of feudalism was grafted onto the Asiatic system (a point clearly made by Marx in his characterisation of the British-introduced land systems in India — see chapter 3). While the revenue farmers in the Asiatic system were granted only a portion of the state's revenue as their remuneration and could not raise their demand over the customary level, the new system, by bestowing "ownership rights" on the subordinate landlords below the supreme landlord (i.e., the state), enabled them to appropriate the major portion of the peasants' surpluses in fact, even part of their normal wages, subjecting them under the constant threat of ejection from the land. The extraction of surplus was done through two modes: the Asiatic and the feudal. The peasant had to satisfy the ever-growing needs of the state as well as the needs of the private landlords, not to speak of the usury which can be found in any pre-capitalist formation as a cancerous appendage.

Merchant capital mediated between this formation of Asiatic and feudal modes and the advanced industrial capital. As a result, banking, credit, and commerce penetrated the pre-capitalist formation and acted as a corrosive influence on its constituting modes. But the extension of the market or the development of merchant capital, and, hence, the expansion of the circulation of commodities cannot by itself make possible the transition of one mode of production into another. As Marx says:

> *The extent to which production ministers to commerce and supplies the merchants, depends on the mode of production. It reaches its maximum under a fully developed capitalist production, in which the product is primarily produced as a commodity, not for direct subsistence. On the other hand, on the basis of every mode of production, commerce promotes the production of surplus products destined for exchange, for the purpose of increasing the enjoyments of the wealth of the producers (who are here understood to be the owners of the products). Commerce impregnates production more and more with the character of a*

production for exchange.

The metamorphasis of commodities, their movements, consist, 1) materially of an exchange of different commodities for one another; 2) formally, of a conversion of commodities into money by sale, and a conversion of money into commodities by purchase. And the functions of merchants capital resolve themselves into these functions of buying and selling commodities. It promotes merely the exchange of commodities, which must be conceived at the outset as being something more than a bare exchange of commodities between direct producers. Under slavery, feudalism, vassalage, so far as primitive organisations are concerned, it is the slave holder, the feudal lord, the tribute collecting state who are the owners and sellers of the products. The merchant buys and sells for money. In his hands are concentrated purchases and sales, and purchase and sale cease consequently to be dependent on a direct necessity of the buyer (as a merchant).... all development of merchant's capital tends to give to production more and more the character of a production for exchange and to impregnate the products more and more with the character of commodities. But the development of merchants' capital by itself is incapable of bringing about and explaining the transition from one mode of production to another.[15]

Marx further maintained that the impact of commerce on a pre-capitalist mode of production may or may not change the nature of its organisation of production but can change conceivably its purpose. He says as follows:

> *In the antique world the effect of commerce and the development of merchants' capital always result in slave economy; or, according to what the point of departure may be, the transformation may simply turn out to be the transformation of a patriarchal slave system devoted to the production of direct means of subsistence into a similar system devoted to the production of surplus value. However in the modern world it results in the capitalist mode of production.*[16]

But this is not always so in many colonial economies. In India, as we have already pointed out, the impact of merchant capital resulted in the increasing production of surplus value but on the basis of the same mode of production. The reason why the mode of production did not change could be found in the nature of accumulation and its investment. The surplus generated in Indian agricluture did not lead to an accumulation here; the accumulation was taking place in the metropolitan centre via the merchant capital who tapped the increasing resource extracted by the rentiers and the usury capital. (Included in it, too, was the unequal exchange between primary products and industrial products.)

As we already noted, there was no equivalent return to the peasant sector of what was being taken out. In short, neither the rentiers, nor the state in India who commanded the surplus ploughed it back into agriculture to make further accumulation. The distinction between an Indian and an English or a German landowner was that the Indian landowner failed to transform himself into a capitalist farmer. As a rentier, his consumptive needs had been continuously exploited by the merchant capital, and via merchant capital the process led to the capital formation in the metropolitan centres. The cycle of production in India's agriculture remained simple reproduction, despite introduction of private property in land it was not transformed into an extended reproduction.

It must also be borne in mind that, although merchant capital operates as the main form of capital in pre-capitalist social formations, it is subordinate to the industrial capital of the metropolitan countries. While merchant capital was dominant in India (in the absence of developed industrial capital), its operations were subordinate to and determined by the industrial capital of the metropolitan centres. Hence, the merchant capital, in the service of the metropolitan industrial capital transformed the goal of the appropriation of the surplus in Indian agriculture without changing its form. Although the extracted surplus was satisfying the immediate needs of the rentiers, usurers, etc., it was finally being absorbed for the extended reproduction of the industrial capital in the metropolitan areas.

This is the way in which India was integrated into the world capitalist market through the medium of merchant capital. If one understands the Marxian analysis of merchant capital and industrial capital and their interaction with pre-capitalist formations, one need not indulge in a futile search for a colonial mode of production as has been done by Hamza Alavi or Jairus Banaji.[17*] The hegemony of the capitalist formation over the pre-capitalist one has been clearly spelled out by Marx in *Capital*.

Social formation and the social classes in post-independent Indian agriculture

If we turn from the colonial period to the post-

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* - In this connection it may be pointed out that it was the merchant capital in Europe which first emerged as capital (in money form) by tapping its own rentier classes' consumption. The consumption requirements of rentier classes increased with the increasing commodity circulation with the opening of long distance trade in Europe in the twelfth and thirteenth centuries. As we noted in the first chapter, the growth of trade not only augmented the coffers of the merchants, it also increased the exploitation of the peasants by the feudal lords whose needs for surplus continued to increase with the availability of more consumer goods resulting from an expanding commerce. Thus, capital in Europe first appeared in the form of merchant capital long before it could bring production under its sway. However, this accumulation took place on the basis of an internal colonisation of agriculture.

independence period, do we observe a great transformation in Indian agriculture? Has the social formation undergone a change? What are the changes — if there are any — in the class configuration of Indian agriculture after independence? We will try to answer these questions in the following pages. The answers are relevant in the light of perspectives raised in the beginning of this chapter.

At the time of independence, the masters of the countryside in most parts of India were the semi-feudal landlords or the intermediary rent-receiving interests. One of the first and foremost of the new state's decisions was to abolish these intermediaries between the state and the tillers. These intermediaries, as we noted before, were mainly created by the colonial state and their power was mainly derivative in nature. They had no independent power base on the strength of which they could protect and safeguard their interests when the colonial state withdrew.

A new constitution for independent India was adopted in 1950. In this constitution, land reform legislations came under the jurisdiction of the states.[18] However, in 1951, the Central government provided a broad framework for tenancy legislations to be adopted by the states in conformity with local requirements. The salient features of the guidelines were: the abolition of intermediaries; the transfer of land to the tillers and as many owner cultivators as possible; the fixing of a ceiling on the size of holdings; the reduction of rent by fixing upper limits and the security of tenure to the cultivators.[19]

As a result of this legislation enacted by the states to emplement these recommendations, the intermediaries, that is, those who collected rent on behalf of the state, were more or less eliminated in most parts of India by 1956.[20] This, however, did not lead to any revolutionary change in India's agrarian structure. The main objective of the tenancy legislation was to remove the intermediaries between the state and the tillers.

Land which was under "personal cultivation" of the intermediaries did not come under the jurisdiction of the new law. The lacunae in the law enabled many intermediaries (but not all) to retain the land they would cultivate "personally" (either by employing hired labourers or cropsharers or by letting out to tenants without permanent rights). Of course, a ceiling was imposed on owner-cultivated land, but the ceiling did not contribute much to the redistribution of land, as many erstwhile intermediaries and rich peasants could easily bypass the laws by transferring ownership to other members of their family.[21]

With regard to rent, laws were passed to delimit what the landowners could exact from the producers. In West Bengal and Tamilnadu, a landowner was legally allowed to demand

40 per cent of the produce even though the cropsharer (i.e., the cultivator) supplied inputs; in Bihar, the landowner's share could not exceed seven-twentieths of the gross product; in Punjab, Jammu, and Kashmir, the maximum was one-third; in Assam, Karnataka, Tripura, Orissa and Manipur, one-fourth; and in Maharastra and Rajasthan one-sixth.[22]

These rent laws could hardly be regarded as beneficial to the direct producers, i.e., the tenant farmers or the cropsharers. The fourth Five Year Plan recognised the shortcoming of these cropsharing and tenant-farming statutes enacted by various states, and considered:

> *The rents as fixed by law are still high in Andhra area, Jammu and Kashmir, Tamilnadu, Punjab and West Bengal and should be brought down to the level recommended in the Plans — to one-fourth or one-fifth of the gross produce.*[23]

Even the small concessions which were granted to the direct producers in the tenancy legislation could not be implemented in the situation of the acute land hunger prevailing in India. Poor cultivators could hardly be expected to assert their legal rights in the courts of law. As the Third Five Year Plan pointed out:

> *When there is pressure on land and the social and economic position of the tenant is weak, it becomes difficult for them to seek the pro-*

> *tection of law. Moreover, resort to legal processes is costly and generally beyond the means of tenants. Thus, in many ways, despite the legislation, the scales are weighted in favour of the continuance of existing terms and conditions.*[24]

In fact, in certain respects, the terms and conditions under which tenants could lease their lands worsened. The ban on the leasing of land to permanent tenants and at the same time allowing the system of sharecropping, transformed open tenancies into concealed ones (such as from contractual to oral tenancy).

Despite various legislation by the states during the last two decades, the concentration of landholding did not show any fundamental change. The data collected by N.S.S. in 1954-55, and by Agricultural Census in 1970-71 give us an idea of the trend in land concentration.

According to the N.S.S. data (8th round, July 1954 - April 1955), the number of marginal farmers who operated less than 2.49 acres of land constituted 45.2 per cent of the total households and they accounted for 5.9 per cent of the total operated area. The small farmers owning 2.5 acres to 4.99 acres of land comprised 15.5 per cent of households and the controlled 10.6 per cent of the total operated area. The farmers belonging to the 5 to 9.99 acres (medium) size group had under them 19 per cent of the operated land and they numbered 14.3 per cent of households. The well-to-do farmers in the size group of 10 to 19.99 acres consisted 8.5 per cent of households and operated 22.5 per cent of the total area. And rich landowners who had 20 acres and above made up only 5.6 per cent of households but total land under their ownership amounted to 41.9 per cent of the operated area.

According to the All-India Report on Agricultural Census (1970-71), which is not strictly comparable to the N.S.S. data, but which nevertheless enlightens us about the trend in the concentration of land, the following picture emerges (see table 7.5). The marginal farmers belonging to the size group of less than 1 hectare or 2.5 acres (approximately) constitute 50 per cent of the total operational holdings and they own 9 per cent of the operated area. The small farmers, 1 to 2 hectares (2.5 acres to 5 acres) size group, constituting 19 per cent of holdings have 11.9 per cent of the operated area. The medium group who owns 2 to 4 hectares (5 to 10 acres) comprise 15.2 per cent of operational holdings and own 18.5 per cent of the operated area. The well-to-do peasants in the range of 4 to 10 hectares (10 to 25 acres) account for 11.3 per cent of operational holdings but own 29.7 per cent of the operated area. The rich farmers belonging to the size category of 10 hectares and above (25

Table 7.5: Size distribution of operational holdings 1970-71.

Size Group	Number (000's)	%	Area (000 ha.)	%
Marginal: less than 1 ha.	35,682	50.6	14,545	9.0
Small: 1.0 - 2.0 ha.	13,432	19.0	19,282	11.9
Semi-medium: 2.0 - 4.0 ha.	10,681	15.2	29,999	18.5
Sub-total: small and semi-medium: 1.0 - 4.0 ha.	24,113	34.2	49,281	30.4
Medium: 4.0 - 10.0 ha.	7,932	11.3	48,234	29.7
Large: 10.0 ha. & above	2,766	3.9	50,064	30.9
All categories:	70,493	100.0	162,124	100.0

Source: Government of India, Ministry of Agriculture and Irrigation, *All India Report on Agricultural Census 1970-71.*

acres and above) constitute 3.9 per cent of the operational holdings but they own 30.9 per cent of the total area under cultivation.

The classification of farmers into marginal, small, medium, well-to-do, and rich has been made here not only on the basis of landholdings but also the basis of the farmer's family members' work on their own farms or on others' farms, and also on their command over agricultural inputs such as cattle, buffaloes, ploughs, etc. (land, cattle and draught animals were adopted by Lenin as categories to differentiate the peasantry in Russia).

Farm management studies indicate that there is a positive correlation between the size of holding and other farm-input endowments. Later studies conducted by the N.S.S. in the seventies (the 26th round) confirm the validity of this finding. The viability of holdings also depends upon the size of the family. However, the smaller the size of holding the greater is the possibility of the farmer's and his family members' seeking other sources of income or selling their labour power to other farmers.[25] On many occasions, marginal and small landholders find it more convenient to lease out their land and seek employment in secondary or tertiary sectors.

The main distinction between a marginal farmer (with land up to 2.5 acres) and a small farmer (2.5 to 5 acres) is that, while a marginal farmer or his family members are very often forced to sell their labour power to others and in the process convert the household's status into that of an agricultural labour household, members of small households sell their labour power to other farmers but the extent of this sale seldom leads to the change of their family status. A study undertaken by Sheila Bhalla on the household origin of agricultural labourers in three regions of Haryana makes this point very clear (see tables 7.6 and 7.7).

However, small households in the size group of 2.5 to 5 acres are very poor in the sense that they do not even possess two draught animals, the minimum requirement for the cultivation of any plot of land. Many of them share draught

Table 7.6: Employment on and outside the Farm on the basis of Landholding (in 8-hour days)

Size group (in hectares)	Employment on the farm	Employment outside the farm
Andhra Pradesh (West Godavari) 1957-60		
0 - 0.51	89	104
0.51 - 1.01	126	68
1.01 - 2.02	154	60
2.02 - 3.03	186	43
3.03 - 4.05	177	42
4.05 - 6.07	189	15
6.07 - 8.09	214	10
8.09 and above	191	--
Orissa (Sambalpur) 1957-60		
0.01 - 1.01	49	94
1.01 - 2.02	94	49
2.02 - 4.05	122	16
4.05 - 8.09	135	3
8.09 and above	198	0
Rajasthan (Pali) 1962-63		
0.01 - 1.01	84	122
1.01 - 2.02	127	69
2.02 - 3.03	192	92
3.03 - 4.05	138	62
4.05 - 6.07	178	39
6.07 - 8.09	193	11
8.09 - 10.12	162	15
10.12 and above	185	14

Source: Farm Management in India, April 1966.

cattle or rent them from others.[26] Their per capita expenditure is below subsistence as is the case with members belonging to marginal households.[27]

Medium households (5 to 10 acres) are self-sufficient in resource position and can employ their family labour mod-

Table 7.7: Household origin of male permanent agricultural labourers by main income source of household and acreage class.

	Region A	Region B	Region C
Total Permanent	72,240	37,744	4,820
(1) From landless agricultural labour households	54,984	25,363	4,820
(2) From agricultural labour households with land	6,765	8,022	--
(i) 0 - 2.5 acres	6,765	7,120	--
(ii) 2.5 - 5.0 acres	nil	nil	--
(iii) 5 - 10 acres	nil	nil	--
(3) From households whose main income is source cultivation	10,491	4,359	--
(i) 0 - 2.5 acres	2,723	953	--
(ii) 2.5 - 5.0 acres	2,723	953	--
(iii) 5 - 10 acres	3,960	1,602	--
(iv) 10 - 15 acres	1,676	--	--

Source: "New Relations of Production in Haryana Agriculture", *Political and Economic Weekly*, (March 27, 1976).

erately and provide them with an above average subsistence.[28*] The well-to-do household (10 to 25 acres) have near total independence in terms of resource endowments (with reference to the Indian context). These farms have more than three draught cattle, which give them more elbow room than the

* - In 1960, Rs 15 per person per month was considered as just above the subsistence expenditure. According to the FMS (1954-55) the annual living expenses per member belonging to this size group (5 to 10 acres) covered the minimum required subsistence expense of Rs 15. The marginal and small households' expenditures on per member per month was below this level.

medium peasants who become dependent on others in case one of their draught cattle falls sick or dies.[29] However, after critically examining the FMS survey, we find that this group is left with little surplus after incurring all expenditures including the cost of production of cultivation and family expenses.[30] In other words, this group seldom has any accumulation to reinvest in agriculture for extended reproduction.

Finally, there is a minority of rich households, each of which cultivates 25 acres or more land.[31] Their command over land is matched by their command over other farm resources. The value of their investment in livestock for each household is nearly four times that of a small peasant's; the rich household's investment in implements of cultivation is also three to four times higher.[32] Their farms are normally not only self-sufficient but also generate a surplus (after meeting all expenses including the family's) which can be used for ploughing back into agriculture. Needless to say, these farmers depend, to a great extent, on outside labour to cultivate their land.

The way we have described the differentiation among the peasantry in India is not wholly satisfactory because we have not been able to take into consideration the cropping pattern, the nature of the soil (wet or dry, irrigated or unirrigated, etc.), or the size of family. However, that this classification of the peasantry on the basis of size holding of land is not far off the reality could be found from the fact that the resource positions of the peasants' households are closely related to the size of land they own.

What is clear from the above class analysis of the peasantry is that, while 4 per cent of the rural households own about 30 per cent of the land, 50 per cent of the rural households are nearly destitute and own only about 9 per cent of the total land. Of the rest, the condition of the 19 per cent of rural households that own 12 per cent of the land is pitiable; the remaining 27 per cent of households just manage to maintain a tolerable level of living on the remaining 48 per cent of the land.

The important question is: what is the effect of this kind of social classification on the forces of production? Could the capitalist mode of production emerge in this social structure? As we noted above, 96 per cent of the rural households does not generate any surplus. So very few among them (maybe some among the medium or well-to-do households) have the potential to grow as capitalist farmers. Approximately 70 per cent of the land, therefore, has little possibility of being brought under capitalist agriculture.

What about the 4 per cent made up of households that have concentrated in their hands 20 per cent of the land. The answer to this question has been indicated. In the presence of the tremendous land hunger of the marginal and small peasants, there is no reason why the rich peasants would invest in capitalist farming if his capitalist profit does not exceed the pre-capitalist ground rent (which varies from 40 to 60 per cent of produce) which he can easily extract from the sharecroppers or the attached farm servants. A farmer would agree to invest an extra amount of capital only when that would give him an extra amount of profit over and above the pre-capitalist ground rent. That is possible if the productivity of the land can be increased substantially in a sudden leap. That has been achievable only in a noticeable way in Punjab and Haryana because of the large size of the holdings and the availability of irrigation water in these regions.

The new inputs — known as the techniques of green revolution: a complex of new varieties of seeds, fertilizers, pesticides, and improved equipment — can raise the productivity of the land if the supply of water is constant and adequate.* Unfortunately, water in the required quantities is not plentiful except in Punjab, Haryana and some areas in

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* - "The size of holdings in Punjab are comparatively bigger. It is estimated that 35% of the holdings in Punjab are of 6 hectares or above and cover about 65% of the area, and as such they can justify the use of small agricultural machinery. The gross irrigated area in Punjab in 1970-71 was about 65 per cent. The feriliser consumption in Punjab in 1968-69 was 35 Kg. of nutrient per hectare as compared to 1.1 Kg. in the country. As a result of all this food grains production in Punjab has been more than doubled in the last six years." (Twenty-First National Conference of the All-India Kisan Sabha, Bhatinda, 19th to 23rd September, 1973, p.16.)

Andhra, U.P., Rajasthan and Tamilnadu. Moreover, in most of India, the small size of the average holding makes it very difficult for the farmers to employ modern methods of cultivation or the techniques of the green revolution. Even the rich peasants in the size groups of 25 acres and above seldom have their land in a single plot. Holdings are fragmented and dispersed throughout the village.* On these tiny plots, the use of small machinery or scientific cultivation is uneconomic. The best practicable way to maximize the income from this kind of holding is to lease them out to sharecroppers or to engage attached farm servants.

It may be pointed out in this connection that, what the owners extract from the attached farm servants is more in the nature of pre-capitalist ground rent than capitalist profit. This is one of the reasons why human labour is disproportionately high compared with mechanized techniques in Indian agriculture. The majority of these farm servants is recruited from the marginal landholders or landless agricultural labourers.** Profits of the landowners are derived

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* - "The average size of an operational holding of 2.66 hectares was made up of 5.74 fragments (parcels of land) on the average." (*Progress of Agriculture in India*, Directorate of Economics and Statistics, Ministry of Agriculture, October 1972, p.6.)

** - In many parts of India, attached farm servants are recruited from the lower castes and the "scheduled" castes. The nature of exploitation of these weaker sections of the Indian society and the character of their growing resistance have been vividly brought out by Kathleen Gough in her article on "Harijans of Tanjavur. (See K. Gough and H.P. Sharma (eds.), *Imperialism and Revolution in South Asia*, pp. 222-245.)

not as a result of increasing labour productivity from more capital investment, but through the payment of barest reproduction remuneration to the farm servants, both in kind and cash, and the forcible appropriation of the major part of the surplus produced by them.

Another reason why the landowners do not want to introduce technological improvements in land, despite possible economic gain to themselves, has been pointed out by Amit Bhaduri:

> *Indeed, in certain circumstances, the semi-feudal landowner ... may be put off from a big improvement because it makes the kisan* [peasant] *free from perpetual debt and destroys the political and economic control of the landowners over his kisan, even though on exclusively economic grounds it may be profitable to him.*[33]

It is not at all certain whether even on economic grounds he is a gainer. As we noted above, the landowner might decide to invest his capital in usury because here the rate of return may be higher than in agriculture.

Another important reason for the perpetuation of the pre-capitalist mode of production in India, noted by Marx long ago, has received little attention from the analysts of Indian agriculture. This is the unity of agriculture and industry, or the mutual patron-client relationship between the cultivators and the rural artisans — the phenomenon characterised by Marx as the determining feature of the Asiatic mode of production. As most cultivators are marginal or small peasants, their needs for producers' goods are mostly met by the village artisans. The cultivators secure their equipment from (or get them repaired by) the artisans at the time of ploughing and sowing, and pay them for their services in cash or kind on a customary basis after the harvest. This practice is also prevalent among the medium and well-to-do peasants. As they are obliged to pay customary dues to the artisans, whether they take their services or not, and most of them are left with virtually no surplus before another crop, it is very natural that they would seek implements from the artisans. Bijan Sen, in his field survey, came across a rich farmer in West Godavari district who owned 40 acres of fertile land and was in a position to use developed instruments of cultivation; but instead, he "... employed simple wooden ploughs and other implements replaced annually by the village carpenter in exchange for a bag of paddy."[34]

This instance clearly indicates that even the rich peasants in India are reluctant to adopt advanced methods of technology because of this traditional dependence on the village artisans. (In chapter 3, we have described in detail how the carpenters, blacksmiths, etc. are paid on a customary basis for the services they render to the cultivators.) The interdependence between the cultivators and the village artisans is also indicated by the fact that even in 1961 forty-five per cent of the Indian economy was not monetised.[35] Furthermore, as we noted in chapter 5, about 16 million people were engaged in artisan industries at that time. In 1974, the number increased to approximately 20 million.[36] Today, in a village of, say, three hundred people, there are about ten artisans to serve the villagers' needs of producers' as well as consumers' goods.

The dependence of India's agriculture on its artisans can also be indirectly derived from the fact that, according to Ashok Rudra's calculation made on the basis of data collected by the Indian Statistical Institute, "In 1960-61 inputs from industry amounted to no more than 1.1% of total production of agriculture proper,"[37] (see Table 7.18).

Table 7.8 indicates that the total inputs expended came to Rs 575.8 crores for the output of Rs 6071 crores. Out of this, industry constituted only Rs 68.1 crores, the bulk of which was again expended on fertilizers. There is no separate column for agricultural implements; this is included under the heading "other industries" and amounted to only Rs 8.9 crores. The insignificant contribution of modern implements by organised industry underlies agriculture's dependence on the traditional tools of production

Table 7.8: Dependence of agriculture on industries for current inputs (1960-61), (figures in rupees crores at 1959-60 prices).

Input from sectors:	Output Sectors: Planta-tions	Animal Husban-dry	Agricul-ture proper	Forestry
Packing materials: Jute textiles and wooden products	4.3		2.9	
Chemical fertilizers	6.3		24.0	
Petroleum products	0.4		18.2	
Food industries	--	55.0	--	
Chemicals	1.6	19.0	5.9	
Electricity	0.2		7.8	
Coal	0.6		0.4	
Other industries	11.4		8.9	9.0
All industries	24.8	74.0	68.1	9.0
Agriculture proper		97.0	507.7	--
Total of all inputs	24.8	171.0	565.8	9.0
Output	196.0	1130.0	6071.0	180.0
Proportion of industrial inputs to outputs (%)	9.4	6.5	1.1	5.0

Source: A. Rudra, *Relative Rates of Growth: Agriculture and Industry*, p.16.

included under the heading "agriculture proper". In recent times, the use of thrashers and power pumps has increased considerably in the green revolution zones. But the main impediment against their use in other areas, as we explained above, is the mode of production. The nature of surplus extraction leaves very little in the hands of the marginal and small peasants. They can invest almost nothing for extended reproduction in the form of machinery, etc., and have to depend on the village artisans* for their implements. Even the rich peasants, as we noted, preserve their capital for investment in moneylending, trade, etc., and try to squeeze out as much as possible from the sharecroppers or attached farm servants.

The continued existence of the village artisans or, in other words, the interdependence of agriculture and village artisan industry provides a formidable base fo the persistence of the pre-capitalist technique of production in Indian agriculture. The partially dissolved semi-Asiatic

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* - "The implements and tools used by the cultivators in India are old-fashioned and out-of-date and have hardly undergone any change towards improvement during all these centuries. A majority of the implements and tools used by the cultivators are manfactured and repaired by the local workmen.... The total number of agricultural implements in the country in 1961 were as follows:

Wooden ploughs	38,372,000
Improved ploughs (iron)	2,298,000
Tractors	31,016.

The wooden plough and small implements are owned practically by all the farmers in the country, but improved implements have not become much popular with the cultivators.... One of the most important reasons of our low productivity is that ... our cultivators have been using the same wooden implements and there has been no change in them at all. The wooden plough is an old implement, the furrows of which are only four to five inches in depth and the soil which it moves is at the same depth. It means that only four to five inches deep layer is being used for production of crops." (S.C. Jain, *Agricultural Policy in India*, pp. 40-41.)

mode of production (in the form of interdependence between agriculuture and the artisan industry) reinforces the semi-feudal mode of production and vice-versa; the semi-feudal mode of production buttresses the semi-Asiatic mode of production — by keeping capital away from the domain of agriculture.

The continuous one-way outflow of surplus from agriculture without even a little return — particularly in the form of producers' goods — that was its characteristic during the pre-colonial and colonial days has, therefore, still remained unchanged. During the colonial period, the extracted surplus was leading to the capital formation in the metropolitan centres via the consumption of the rentier classes. The same kind of pre-capitalist ownership (changed in form but not in essence) has led to capital accumulation in the organised sector of India's industry (through import substitution), but has retarded the development of capitalist agriculture.

So, unlike the agriculture of economically developed countries, the organic composition of Indian agriculture is characterised by little use of constant capital. Because of this, while the productivity of labour in the organised industrial sector (both public and private) is increasing, the productivity of labour in agriculture is virtually stagnant. The pre-capitalist nature of technology is also responsible for the identical labour productivity in big and small farms.[38] Interestingly, the productivity per acre of land is sometimes higher in the small farms than it is in the big farms.[39]

In Europe, while capitalism was expanding, it brought under its sway both the agricultural* and industrial sectors. It was not an accident that approximately four thousand capitalist landlords owned the major portion of arable land in England in the late eighteenth century.[40] Similarly, the Junker landlords of Prussia cleared their land for its capitalist transformation.**

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* - "The two methods of 'solving' the agrarian question in developing bourgeois Russia corresponds to two paths of development of capitalism in agriculture. I call these two paths the Prussian path and the American path. The first is characterised by the fact that medieval relationships in landownership are not liquidated at one stroke; they gradually adapt themselves to acpitalism and for this reason czpitalism for a long time retains semi-feudal features. Prussian landlordism was not crushed by the bourgeois revolution; it survived and became the basis of Junker economy, which is capitalist at bottom, but which still keeps the rural population in a certain degree of dependence, as for example the Gesindeordnung, etc. As a consequence, the social and political domination of the Junker was strengthened for many decades after 1848 and the development of the productive forces of German agriculture proceeded very much more slowly than in America. On the contrary, in America, it was not the slave economy of the big landlords that served as the basis of capitalist agriculture (the Civil War crushed the slave estates) but the free economy of the free farmer working on free land, land free from all medieval fetters, free from serfdom and feudalism, on the one hand, and free from the fetters of private property in land, on the other. Land was given away in America out of an enormous land fund, at a nominal price, and it is only on a new, capitalist base that private property in land has now developed there." (V.I. Lenin, *Selected Works*, Vol. I, pp. 210-211.)

** - In the U.S., the clearing of land was not necessary for the introduction of the capitalist method of farming.

These changes in the relations of production in agriculture in the West were accompanied by changes in the forces of production. New inputs were introduced which began to increase the productivity of labour in agriculture.[41]

One of the primary motivations for the development of capitalist agriculture in the West was provided by the development of industries, with their consequent expanding demand for labourers, raw materials, and food. The basis for this was the emerging capitalist social division of labour between agriculture and industry. The expropriated paupers in agriculture were gradually absorbed into the ever-growing industries. The increasing number of wage labourers in industries created a home market for its agricultural products. The law of development of the industrial population at the expense of agricultural population as enunciated by Marx (and employed by Lenin in his analysis of the development of capitalism in Russia) is based on the fact that,

> ... *in industry variable capital increases absolutely (the increase of variable capital implies an increase in the number of industrial workers and an increase in the total commercial and industrial population), whereas in agriculture the "variable capital" required for the exploitation of a certain piece of land decreases absolutely.*[42]

In India, industry (both public and private) cannot expand at a very rapid rate, not only because of the lack of necessary capital, but also because, as we noted above, its consumers' base is very thin. The base is composed of the upper strata of rural society who are mainly rentiers, money-lenders, and traders, and the upper echelons of state employees, the commercial bourgeoisie and successful professionals. Most of these groups are parasites, and as such their demand for industrial goods remains more or less static. Thus, the natural increase in population in agriculture can hardly be reduced by the increase of employment in industries (see Table 7.13).

What is more, as India is a late starter in industrialisation, the organic composition of her industry is very high. This restricts the possibility of the large-scale absorption of variable capital (or workers) into industry at a rapid pace, even if its rate of development becomes brisk. The large-scale growth of capitalist agriculture is, therefore, hindered by the extreme weakness of the internal market for agricultural goods in the absence of the fast expansion of the industrial population.

Industry provides a stimulus to the development of capitalist agriculture as follows: it creates a demand for agricultural goods, which leads to the expropriation of the peasants from their land through economic means such as buying up their land and squeezing them out through competition, or through extra-economic means of forcible ejection. The absorption of these landless peasants as wage workers into industries creates a demand for agricultural goods. As a result, the rise in the income of agriculture leads to an increase in the investment of constant capital which leads to the further decline of employment in agriculture, leading to a renewed spurt of pauperisation or the expansion of the industrial reserve army. However, the increase in income in agriculture, leads to an increase in the demand for industrial goods; the expansion of industries, in turn, creates employment for a sizable section of the pauperised cultivators — as the industrial proletariat.

The expropriation of the peasants from their land expands the internal market in another way. The expropriated peasants must now buy their means of subsistence which they previously produced on their own land. To do so, they sell their labour power to the capitalist farmers who pay them a wage with which they procure their means of reproduction which, of course, is less than what they produce for the buyer of their labour power. However, their menas of subsistence is no longer in the form of use-value, but appears as exchange value and thus leads to an expansion of the internal market for agricultural produce.

Moreover, as a consequence of the decline in the variable capital (i.e., workers), the marketable surplus of agriculture increases continuously and this surplus is released to feed the growing industrial population. However, in India, this process is disrupted in various ways. As agriculture is predominantly pre-capitalist, the major portion of produce is consumed by agriculture itself (see Table 7.9).* It is estimated that about two-thirds to three-fourths

Table 7.9: Marketable surplus in India (as percentage of production)

Crop	Marketable surplus as percentages of total production
Rice	31
Wheat	37
Jowar	24
Bajra	26
Maize	24
Gram	24

Source: *Farm Management in India*, April, 1966.

* - In fact, as the variable capital or the number of workers increases in agriculture, whatever growth (average annual growth rate in agriculture was 2.9 per cent for the period 1949-50 to 1970-71 — *Progress of Agriculture in India*, Directorate of Economics and Statistics, p.13) is registered in agriculture is consumed by the increasing population in agriculture. The average annual rate of increase in population for the decades 1950-51 to 1970-71 was slightly less than the average annual growth rate in agriculture (*Census of India, 1971*, paper 1 of 1971, Supplement, p.36).

of the total annual foodgrains are retained by the farmers for their domestic consumption and other requirements (payments to the hired labourer, rent of land, seeds, etc.); only one-third to one-fourth of the produce is marketed.

Moreover, despite the slow growth of industry, the intersectoral terms of trade may move in favour of agriculture due to a slight fall in production resulting from flood or drought or from any other fortuitous reason in one or two states.* In fact, during the last decade, the prices of agricultural commodities have registered a greater increase than those of industrial products (see tables 7.10 and 7.11).

This shift in the terms of trade in favour of agriculture reduces real wage rates in industry (see table 7.12), and this, in turn, leads to a decline in the demand for manufactured goods. The ensuing slow growth of industry results in a slower absorption of rural paupers into industry.

The overpressure of the population hinders the growth of capitalism in agriculture in another way. As employment outside of agriculture is too uncertain, the peasants try to cling to their land at any cost. V.S. Vyas found, on the

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* - "The principal difficulty of India's agriculture is the continued exposure of vast areas in different parts of the country to vagaries of weather reflected by erratic rainfall, droughts, floods which setback occurred in 1965-66 and again in 1966-67, when widespread droughts resulted in sharp declines in the production of foodgrains." (*Progress of Agriculture in India*, p.9.)

Table 7.10: Index numbers of wholesale prices (1961-62 = 100)

	General Index	Change over previous year/month (per cent)	Index for manufactures	Change over previous year/month (per cent)	Index for agricultural commodities	Change over previous year/month (per cent)	Prices of manufactures as per cent of prices of agricultural commodities
Average of months							
1962-63	103.8	--	103.2	--	102.3	--	100.9
1966-67	149.9	+13.9	175.3	+ 7.1	166.6	+17.6	75.2
1967-68	167.3	+11.6	129.1	+ 3.0	188.2	+13.0	68.6
1968-69	165.4	- 1.1	132.8	+ 2.9	179.4	- 4.7	74.0
1969-70	171.6	+ 3.7	139.7	+ 5.8	194.8	+ 8.6	71.7
1970-71	181.1	+ 5.5	149.7	+ 7.2	201.4	+ 3.4	74.3
1971-72	188.4	+ 4.0	160.5	+ 7.2	199.6	- 0.9	80.4
1972-73	207.1	+ 9.9	168.8	+ 5.2	219.7	+20.0	76.8
1973-74	254.2	+22.7	189.3	+12.1	280.6	+27.8	67.8
1974-75	313.0	+23.1	240.7	+27.2	350.8	+25.1	69.5
1975-76							
April	309.2	--	247.7	- 0.*	339.9	+ 0.8	74.2
May	313.2	+ 1.3	247.2	- 0.1	338.8	- 0.3	73.0
June	312.3	= 0.3	247.1	--	339.4	+ 0.2	72.8
July	309.2	- 1.0	248.6	+ 0.6	330.1	- 2.7	75.3
August	311.2	+ 0.6	247.5	- 0.4	332.6	+ 0.8	74.4
Septermber	309.7	- 0.5	247.4	+ 0.2	324.8	- 2.3	76.3
October	308.4	- 0.4	247.9	--	316.4	- 2.7	78.5
November	303.1	- 1.7	247.3	- 0.2	3.708	- 2.7	80.3
December	294.4	- 2.9	246.8	- 0.2	297.3	- 3.4	83.0

Source: "Economic Survey", Government of India, for 1975-76 and 1970-71.

Table 7.11: Consumer Price Index Numbers, 1961-75 (1960 = 100)

	Industrial Workers								Urban non-manual employees	
	All-India				Bombay	Calcutta	Delhi	Madras	General Index	% Change from previous period
	Food Index	% Change from previous period	General Index	% Change from previous period						
1961	109	--	104	--	103	101	103	103	103	--
1966	164	+10.1	151	+10.2	143	144	147	141	142	+ 9.2
1967	192	+17.1	172	+13.9	158	159	168	150	157	+10.6
1968	196	+ 2.1	177	+ 2.9	166	171	178	151	161	+ 2.5
1969	190	- 3.1	175	- 1.1	173	181	182	156	165	+ 2.5
1970	200	+ 5.3	184	+ 5.1	180	185	195	169	173	+ 4.8
1971	203	+ 1.5	190	+ 3.3	188	194	209	178	178	+ 2.9
1972	216	+ 6.4	202	+ 6.3	198	216	218	197	189	+ 6.2
1973	262	+21.3	236	+15.8	224.	279	250	221	212	+12.2
1974	342	+30.5	304	+28.8	275	288	324	281	259	+22.2
1975	357	+ 4.4	321	+ 5.6	303	297	336	325	--	--
January	368	--	326	--	298	289	342	327	280	--
February	365	- 0.8	325	- 0.3	300	279	335	326	278	- 0.7
March	359	- 1.6	321	- 1.2	301	275	335	323	277	- 0.4
April	361	+ 0.6	323	+ 0.6	303	280	339	325	278	+ 0.4
May	366	+ 1.4	327	+ 1.2	308	287	337	325	281	+ 1.1
June	363	- 0.8	328	+ 0.3	309	285	341	328	283	+ 0.7
July	361	- 0.6	324	- 1.2	305	285	341	337	280	- 1.1
August	357	- 1.1	321	- 0.9	303	293	332	334	280	--
September	354	- 0.8	319	- 0.6	301	296	333	330	280	--
October	350	- 1.1	316	- 0.9	305	301	336	320	280	--
November	346	- 1.1	315	- 0.3	303	304	334	322	--	--
December	330	- 4.6	306	- 2.9	296	287	328	304	--	--

Source: Government of India, Ministry of Labour, *Indian Labour Journal*, March 1976, p.610.

Table 7.12: Index numbers of real earnings of employees earning less than Rs 400 per month in manufacturing industries for 1962 - 1971 (base: 1961 = 100).

Year	Index number of money earnings	All-India C.P.I. numbers (base shifted to 1961 = 100)	Index number of real earnings
1962	106	103	103
1963	109	106	103
1964	114	121	94
1965	128	132	97
1966	139	146	95
1967	151	166	91
1968	160	171	94
1969	170	169	101
1970	180	178	101
1971	187	183	102

Source: Government of India, Ministry of Labour, *The Indian Labour Year Book 1972*, p.28.

basis of surveys of the land market in Gujrat, that

> *... the alternative before the small farmers was not migration to urban areas to be absorbed in the urban industrial work force but in supplementing their incomes by auxiliary occupations like agricultural labour and dairying considerably weakened the compulsion to sell off the land.*[43]

Finally, the development of capitalist industry, as well as capalist agriculture in India, is constrained by the small buying power of her rural population, as 50 per cent of them live below the poverty line and 20 per cent just on the verge of it.

The non-development of the capitalist mode of production meant, for India and other colonised countries, an absolute increase in the variable capital in its agriculture which would have been reversed in the case of capitalist development. It has been argued by mainstream economists that, if Japan could develop with a small peasants' agriculture, why not India or other third world countries? The simple fact is that, due to capitalist development, the number of workers (i.e., the variable capital) in agriculture is decreasing in Japan,* or for that matter in any developed capitalist country, while the same is increasing in all pre-capitalist economies (see table 7.13).

The growing number of people in agriculture, as we noted above, helps to sustain the pre-capitalist mode of production in agriculture, and this further acts as a brake on the rapid growth of industries. In the pre-capitalist mode of production, we have also explained above, there is

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* - Japan, as it was not colonised or semi-colonised, could become a full-fledged industrial nation before the First World War when the birth rate began to far outstrip the death rate (due to new idscoveries in medical science) in most third world countries. As a result, the standard of living (including literacy) improved in Japan leading to a falling birth rate. Moreover, by that time, Japan was able to transfer a sizeable section of her agricultural population to the industrial sector (see table 7.16).

Table 7.13: The Number of Male Workers in Agriculture in some countries (in -000s)

Country	Number of male workers in agriculture	
	1955	1965
Argentina	1,411	1,334
Australia	433	392
Austria	369	267
Belgium (and Luxemburg)	266	174
Brazil	7,566	8,911
Canada	625	420
Ceylon	1,131	1,255
Chile	496	533
Colombia	1,704	1.957
Denmark	338	273
Finland	201	173
France	2,969	2,205
Germany, Red. Rep.	1,780	1,273
Greece	1,083	1.096
India	66,165	91,339
Ireland	393	316
Israel	90	80
Italy	5,129	3,364
Japan	5,745	4,405
Libya	n.a.	na.a
Mauritius	55	57
Mexico	4,778	5,998
Netherlands	451	351
New Zealand	117	109
Norway	118	95
Pakistan (and Bangladesh)	17,233	23,206
Paraguay	191	248
Peru	711	797
Philippines	3,305	4,183
Portugal	1.060	1,047
South Africa	1,351	1,493
Spain	3,868	3,442
Surinam	n.a.	n.a.
Sweden	274	201
Switzerland	267	219
Syria	420	508
Taiwan	1,095	1,320
Turkey	4,122	4,907
U.A.R.	3,960	4,509
U.K.	961	799
U.S.	4,584	3,088

Source: Hayani/Ruttan, *Agricultural Development: an International Perspective*, p.321.

little scope for the use of constant capital where the small cultivators predominate. Also, there is less incentive on the part of the rich peasants to reinvest capital (the same can earn more profit in usury or trade). As Marx stressed,

> *In the case of colonists and independent small producers in general, who have no command at all over capital or at least command it only at a high rate of interest, that part of the product which stands in place of wages is their revenue, whereas it constitutes an investment of capital for the capitalist. The colonist, therefore, regards this expenditure of labour as the indispensable prerequisite of his product, which is the thing that interests him first of all. As for his surplus labour, after deducting that necessary labour, it is evidently realised in a surplus-product; and as soon as he can sell this, or even use it for himself, he looks upon it as something that cost him nothing, because it cost him no materialised labour. It is only the expenditure of materialised labour which appears to him as an outlay of wealth. Of course he tries to sell as high as possible, but even a sale below value, below the capitalist price of production still appears to him as a profit, unless this profit is claimed beforehand by debts, mortgages, etc.*[44]

The small peasant is very often forced to sell below the capitalist price of production, particularly at a time when there is too much supply in the market. So, whatever profit is there does not usually accrue to the small cultivators but to traders, moneylenders and rich peasants who, for reasons explained above, are seldom interested in ploughing back the same to develop agriculture on capitalist lines.

It is the low organic composition of capital that distinguishes the productivity of the third world countries from those of advanced capitalist nations. The table 7.14 indicates the difference in yields between Japan and some third world countries.

Table 7.14: Comparative Paddy Yields, 1971 (figures in 100 kg. per hectare)

Country	Yield
Bangladesh	16.9
India	17.1
Burma	16.9
Philipines	17.2
Thailand	19.7
Japan	52.5

Source: Report No. 455ABC, *Bangladesh Development in a Rural Economy*, Vol. I, Document of the International Bank for Reconstruction and Development, 1974, p.54.

The difference in the productivity between Japan and India can be easily traced to quantity of fertilizers used in these countries. The per-hectare consumption of fertiliser in India was only 16 kg. while the same was 400 kg. in Japan in 1971-72.[45] The use of farm machines per hectare is also greater in Japan than in India.[46]

Thus, the development of capitalism in a country leads to a higher organic composition of capital in that country; in other words, the capitalists increasingly tend to invest more in constant capital than in variable capital. Marx brings out this point in the following way:

> ... *for the capitalist the investment of both variable and constant capital represents an outlay of capital. The relatively larger outlay of the capitalist reduces the cost price, and in fact the value of commodities, provided other circumstances remain the same. Hence, although the profit arises only from surplus-labor, consequently only from the employment of variable capital, still it may seem to the individual capitalist that living labour is the most expensive element of his cost of production, which should be reduced to a minimum above all others. This is but a capitalistically distorted form of the correct view that the relatively greater use of past labor, compared to living labor, signifies an increase in the productivity of social labor and a greater social wealth.*[47]

It is, therefore, the higher productivity of labour that leads to an accumulation of capital. Further, the productivity of labour in industry is higher than that in agriculture (see below). The underdevelopment of third world countries stems primarily from the non-development of capitalism or the low productivity of social labour and consequently little or no increase in the social wealth.

What is more, the low productivity of labour or the non-development of production accounts for what appears to be the overpressure of the population in most third world countries, particularly in Asia.

Theories of modernisation and social productivity of labour in third world countries

Many scholars and journalists who seek their inspiration from Malthus (as is evident in the spate of articles in newspapers and journals all over the world) believe that the major reasons for the underdevelopment of such countries as China, India, Indonesia, Bangladesh, Pakistan, Egypt, etc., lies in the rapid population increase of these regions. However, if we compar Asia's population growth with that of Europe for the last three centuries, we find that, in fact, Asia's share in the world population declined from 60.6 per cent in 1650 to 54.5 per cent in 1933. In the same period, Europe's share increased from 18.3 per cent to 25.2 per cent.[48] In three hundred and fifty years, from the beginning of 1600 to 1951, the population of India increased approximately 3-1/2 times. The population of England increased nearly ten times for the period 1700 to 1951. According to Moreland, India's population at the beginning of the seventeenth century stood at 100 million; it rose to 356 million in 1951. England's population rose from 4.5 million in 1700 (Finliasons's report in the preface of the 1931 census) to 43 million in 1951.

From the first census taken in India in 1871 to the 1911 census, India's population increased 18.9 per cent. For the same period, Europe's average increase was 45.4 per cent.[49]

Even today, the average national density per square kilometer is lower in India than in many developed countries. While India has 186 people per square kilometer, Japan has 303, West Germany 247, Pakistan 90, Netherlands 337, Italy 186, and England 326.[50] Moreover, India has more arable land, i.e., land under cultivation,* than any other country in the world with the possible exception of the U.S.S.R., the U.S.A., and China. However, in almost all the developed countries, the yield per hectare is 2 to 3 times higher than

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* - "About 11 per cent of the land surface of the Earth is considered suitable for cultivation. The rest is either too nountainous, too cold, too dry or wet, or too infertile." (Funk and Wagnall's *New Encyclopedia*, Vol. 1, 1973, p.291.) In respect of cultivable land, India is one of the most fortunate countries of the world.

that in India because of the more advanced mode of production.

It is significant that the population increase in Europe started to decline only after the first decade of the twentieth century when a major transformation in the standard of living of the masses coincided with a major breakthrough in medicine.

According to Gregory King's estimation, at the end of the seventeenth century (1695), the per capita income in England and Holland was sixty dollars, and fifty dollars in France (in 1952-54 dollars). "In the eighteenth century western countries," says L.J. Zimmerman, "were certainly not richer than the rest of the world."[51] On the basis of data collected by Phyllis Dean, he has made an estimate of the rise of per capita income in the United Kingdom from the beginning of the eighteenth century (see table 7.15).

The per capita income in most of the West European countries reached 400 dollars at the beginning of the twentieth century. This rise in income, with the control of disease, made it possible for the people in these countries to limit their family size. It could be seen from the above table (7.15) that the per capita income in England nearly doubled in forty years from 1870 to 1905. Unlike the dispossessed urban workers of Victorian times — whose wretched conditions roused the anger of Dickens, Marx, and Carlyle — the labourers of Western Europe and North America of the early

Table 7.15: Per capita income in the United Kingdom, 1799-1960

Year	Per capita income in 1952-54 dollars
1960	910
1957	860
1952-54	780
1946-52	720
1935-44	680
1925-34	550
1915-24	480
1905-14	480
1895-1904	450
1885-94	390
1875-84	310
1870	260
1860	260
1850	240
1839	180
1820	150
1812	110
1800	110
1744	70
1695	60

Source: L.J. Zimmerman, *Poor Lands, Rich Lands*, p.105.

twentieth century had an income far above the subsistence level. Thus, the fertility decline came to these countries gradually in a social environment of a rising standard of living, rising urbanization, rising productivity of labour, and widespread education.

Furthermore, the industrialization of the economy of the developed countries enabled them to shift the major part of their population from agriculture to industry and tertiary sectors, and from rural to urban areas. The following table shows the changing percentage of employment in the primary sectors in a few developed countries of the world.

Table 7.16: Changing percentage of employment in primary sectors.

	1830	1870	1910	1960
Great Britain	23	15	8	4
United States	71	51	32	9
Sweden	63	56	48	14
France	63	50	41	25
Japan	--	82	63	33

Source: L.J. Zimmerman, *Poor Lands, Rich Lands*, p.8.

In the beginning of the eighteenth century, almost all countries of the world — with the exception of Great Britain, Holland and India — had about 80 per cent of their people employed in agriculture.* The above table shows that the dependence on agriculture decreased gradually in the industrialising countries. However, it continued to increase in India. According to the census reports of India, the proportion of people dependent on agriculture was 61 per cent in 1891. It rose to 66 per cent in 1901 and to 73 per cent in 1921.

* - We note that India's inability to industrialize in the eighteenth and nineteenth century led to the overcrowding of agriculture. In the first three quarters of the nineteenth century, the destruction of Indian industry took place, leading to the ruination of formerly populous industrial centres.

When the British took control of the political power in India in the middle of the eignteenth century, the land/man ratio was so favourable that it was labour which was a scarce element. Kingsley Davis recognised that India's lack of economic development must be attributed in considerable measure to its colonization.

> *The British had an opportunity to transform the economy of India. Things were in a shambles from the breakup of the Moghul regime; population was not too dense; rich resources were available; and the strength of the British Raj was beyond challenge. But the British pursued the short-run advantage of a crude specialization of function as between industrialising England and rural India.... Though their own economy was being transformed by the use of fossil fuels and machinery, they assumed all along that agriculture would remain India's principal economic activity. Since machinery and fossil fuels were not applied anywhere to tillage until the twentieth century, the emphasis on agriculture was singularly unpropitious for India's economic development. Agriculture was the one thing hardest to modernize.*[52]

Although the population in India rose very slowly throughout the eighteenth, nineteenth and early decades of the twentieth centuries, its cumulative effect in the absence of alternative employment (in industry) had a very adverse result on the land/man ratio. This was further aggravated by the transfer of labour from manufacturing industries to the cultivation of land (see above for the deterioration of the land/man ratio).

The situation further deteriorated with the rapid rise of the population in the thirties as more and more diseases such as malaria, cholera, plague, etc., were brought under control. India, which had been a food surplus economy throughout the nineteenth century — despite the increasing overpressure on agriculture — became a food importing economy in the forties of this century.

However, this population increase might have been averted if India had been allowed to industrialise in the nineteenth century. Notestein argues that the decline in fertility is closely associated with changed in the ways of living and thinking which again are products of industrialisation.[53] Moreover, India's inability to industrialise in the nineteenth century affected its economic growth in another way. The productivity of labour, as has been found in surveys of various countries, is definitely higher in the secondary and tertiary sectors than in agriculture because the organic composition of capital increases more rapidly in these sectors than in agriculture. Table 7.17 illustrates the productivity of labour in the primary, secondary and tertiary sectors.

Table 7.17: Production per labourer in the primary, secondary and tertiary sectors (about 1953)

Economic Geographic Area	Productivity per laborer in dollars		
	Primary Sector	Secondary Sector	Tertiary Sector
North America	2,860	5,530	5,200
Oceania	4,150	2,360	2,430
Northwest Europe	1,050	1.700	1,590
Southeast Europe	310	1,280	720
Latin America	360	1,120	1,480
Japan	400	1,100	1,020
Near East	280	690	680
Southeast Asia	170	370	380

Source: L.J. Zimmerman, *Poor Lands, Rich Lands*, p.49.

The transfer of people from agriculture to industry in the modern economies of Europe and North America not only provided new employment to the rapidly rising population in these countries, but also at the same time it ensured a very fast growth rate in the G.N.P. by increasing the per capita productivity of labour.* It may be noted here that the early stages of industrialisation normally accompany a rapid

* - "Japan, in many ways a model of rapid development, between the years 1878 and 1937 increased the net income of her agriculture sevenfold; but during the same interval she increased the net income of her non-agricultural enterprises by about forty-seven times. During this period, government revenue realised through taxation of agriculture declined by one half while those coming from non-agricultural enterprises increased by eight - nine times. Obviously, support for Japan's development did not derive its main or long-term sustenance from the farmer." (Stanley A. Hetzler, *Technological Growth and Social Change*, p.120.)

growth in the population which later slows down with the progressive improvement in the standard of living of the masses. This was the case with all industrially developed countries, including Japan.

So we find that the population problem is the result of slow economic growth or non-industrialisation. The main defect in the Malthusian prognosis is that he thought that the population would increase at a faster rate than capital and technology. The economic history conclusively proves that a very high rate of population increase was more than compensated by a higher rate of capital growth and technical development in the industrially developed countries. This, in turn, resulted in a rise in the standard of living in these countries.

Now we turn to the question of whether India had the technology or capital to ensure a rapid economic development. Until the early nineteenth century, India had technological superiority (in the urban centres) over Great Britain in the textile industry which was the basis of the industrial revolution in England. In other industries, too, Indian technology was equal if not superior to western technology. As Almond and Coleman say,

> *There is evidence that ... India was equal and possibly ahead of Western countries in its technology and volume of manufactures. Indian*

> *textiles in particular were superior to what was then produced in the West.*[54]

There was also no shortage of capital. The South American gold and silver which was accumulated in India in exchange for its manufactures throughout the sixteenth, seventeenth, and eighteenth centuries provided a significant part of the capital for England's industrial revolution after India's defeat in the battle of Plassey.*

Even after India was reduced to an agricultural country, there occurred a tremendous capital transfer on the basis of primitive capital accumulation in its agricultural sector. Eighty per cent of India's total exports consisted of raw materials and food stuffs. Her imports were always less than her exports. This favourable balance of trade, however, was used in the imperial cause. The excess exports did not augment the capital accumulation in India nor raise her social productivity.

It may be contended that, even if India had capital, she did not have the developed industrial technology of the

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* - "When civilisations clash, the consequences are dramatic. Today's world is still embroiled in them. One civilisation can get the better of another: this was the case with India following the British victory at Plassey which marked the beginning of a new era for Britain and the whole world." (Fernand Braudel, *Capitalism and Material Life, 1499-1800*, p.64.)

West. Notwithstanding India's technical superiority over Europe in the eighteenth century, one may say that it was the developed machine technology which propelled the industrial revolution in the West. The simple fact is that technology, science or knowledge can never be kept hidden for long. The numbers, decimals and the negative numbers were invented in India and they were instrumental in emancipating mathematics from the bondage of Roman numerals. Similar was the case with Arabic algebra and alchemy. Without these vital inventions, there was little possibility of any advancement in science. Gun powder was discovered in China; it opened up a new horizon in technological development. None of these inventions or discoveries could be kept secret for long. They were diffused all over the world. Thus, knowledge could never be claimed as the exclusive property of any individual nation. It is the product of cumulative endeavours of men and, therefore, a universal heritage.

England tried desperately to keep secret her new machines. She was successful only for a few years. As Hetzler says,

> *England, early recognizing the importance of mechanical inventions, jealously hoarded this knowledge by forbidding the export of machinery or machine designs, or the migration of artisans knowledgeable of machine construction. Inevitably, all three diffused, and with a lag*

> *of, perhaps, a couple of decades, the factory method spread to western and central Europe and the United States.*[55]

The machine also reached Japan — the only country in Asia not colonised or semi-colonised — in the later part of the nineteenth century.

Despite the independent discovery of the factory method, despite the early separation of labour from capital and the introduction of the putting out systems, despite its close association with Britain, India failed to benefit from the industrial revolution and technical inventions. What was the secret behind India's failure and Japan's success?

Was it due to ideological factors that India lagged behind Japan? Many social scientists think so. Most of them draw their inspiration directly or indirectly from Max Weber. However, Weber thought differently. In his view, both Japan and India were traditional societies and had social institutions which impeded their development towards capitalism. These were mainly caste in India and clan in Japan. India and Japan were also handicapped by the absence of a "bourgeois estate" and a "city commune".* Yet

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* - It is very often claimed that Japan could develop rapidly on the western line because Japanese feudalism had close resemblances with European feudalism. As Weber points out, Japanese feudalism, unlike European and like oriental feudalism, was an office. "Japanese feudalism, too, does

Japan entered the orbit of capitalist development on the very basis of clan organisation or family ties. India failed to do so in spite of the fact that the caste organisation was extremely responsive to new demands imposed on it by the emerging society in the seventeenth and eighteenth centuries.[56] As we know from various literature, the egalitarian reform movements in religion during this period, particularly Vaishnavism among the Hindus and Sufism among the Muslims, greatly undermined the rigidity of social stratification. New universalistic codes came into existence to regulate and channel the process of social mobility and social mobilization.

However, it is a common practice among modernisation theorists to classify world societies into traditional/modern,

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not represent a complete feudatory system. The Japanese daimyo was not a feudatory vassal, but a vassal committed to supply definite war contingents, to provide gurd units and to pay a fixed tribute; within his own district he exercised administrative, judicial and military authority practically in his own name, in the manner of a territorial ruler. He could be transferred to another district for disciplinary reasons. That he was not a vassal as such is demonstrated by the fact that the Shogun's real vassals (fudai), if damiyas-districts had been granted to them, could suffer transfer, because of their personal dependence for reasons of pooitical expediency without any default on their own part. This very fact also proves that the district granted was an office, not a fief." (Max Weber, *Economy and Society*, p.1075.) India jaigirdars and zamindars had more autonomy than the Japanese daimyos. Moreover, as in India, land was held in common by the village community in Japan. However, the interdependence between cultivation and artisan industry in India provided a more stable basis for the existing mode of production in India than in Japan.

organic/mechanical, status/contractual, etc., and to consider these categories as explanatory of the reality. The argument goes like this: backward societies are traditional, therefore they are backward. The only redeeming feature of these tautological theories lies in their meticulous attempt to bring out the characteristics of the traditional societies. But such characteristics reflect the nature of the social relations in these societies; they do not enlighten us why these types of social relations came into being in the first place. In the absence of an historical analysis of social structures, most of the studies in the sociology of development fail to explain how particular cultures, modern or traditional evolve.

It must be borne in mind that, unlike his followers, Weber always tried to find out the material basis of tradition and ideology. His historical studies of religions of China and India are replete with discussions of economic factors. He agreed with Marx that the reason for the specific stability of Asiatic peoples could be found in their forces of production. It is also interesting to recall that even in his study of the role of protestantism in the rise of capitalism, he wanted to know how "Protestant asceticism was in turn influenced in its development and its character by the totality of social conditions, especially economic.[57]

On the other hand, it is not true that Marx did not recognise the role of values and traditions in economic development and social change. His characterisation of the "Asiatic society" clearly indicated that he considered the prevailing social institutions of Asia as positive hindrances to social change. Writing on India, he concluded that the railway system would be the forerunner of modern industry in India and modern industry in turn "... will dissolve the hereditary divisions of labour, upon which rests the Indian castes, those decisive impediments to Indian progress."[58] He also believed that the British rule, by introducing modern transportation and communications, would "release the desires and efforts indispensable to social advance."[59]

Marx was fully aware of how traditions (such as castes) could obstruct social change. He also knew the importance of "desires and efforts" — the "n Ach" of McLelland — for social progress. But he did not think that they could emerge in the psyche in a vacuum without their material bases being laid.* Marx believed that material base was laid by the British when they had introduced railways, the electric telegraph, free press, political unity, and priv-

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* - M.D. Morris, in his excellent study of "Values as an obstacle to Economic Growth in South Asia", pointed out that there was no shortage of entrepreneurs and labourers in India, but they had very little economic opportunities to realise their desires. He also argued that the values and institutions in India did not remain static; they tended to adapt themselves to changing economic environments." (*Journal of Economic History*, Vol. 27.)

ate property in land in India.

The British rule, according to Marx, had a double mission to accomplish: "... one destructive, the other regenerative — the annihilation of the old Asiatic society."[60] Thus, for Marx, colonialism was a destructive but progressive force. In this, Marx differed from Marxist writers like Gunder Frank. Marx was optimistic that the British rule would unintentionally create objective conditions for India's independence and self-development. In the process of creating these conditions, the bourgeoisie would drag "individuals and peoples through blood and dirt."[61] However, he was convinced that the Indians

> *... will not reap the fruits of the new elements of society scattered among them by the British bourgeoisie ... till the Indians themselves shall have grown strong enough to throw off the English yoke altogether.*[62]

In this prognosis, too, Marx was correct.

However, it seems that Marx could not foresee that the colonial rule would be able to continue for a long time without transforming the entire colonial economy. With profound insight, he showed that market exchange does not always act as a dissolvent of the old modes of production. The corrosive power of market exchange depends on the solidity or stability of the old mode. The major mechanism of colonial exploitation — the exchange of commodities between two modes, the capitalist and the pre-capitalist — was based on the preservation of the old pre-capitalist modes which did not disintegrate, as he expected, after the introduction of market exchange.

In certain cases, the old mode or modes were strengthened by the nature of the colonial capitalist exchange. Marx thought that railways, electricity and the introduction of manufactured goods, etc., would destroy entirely or substantially the pre-capitalist modes of production in the colonies. This did not happen. His fear about the resisting force of the pre-capitalist modes was proved true rather than his optimism.

Andre Gunder Frank's mistake also emanated from the fact that he viewed the colonial economy as a capitalist economy. That was why he suggested[63] that capitalism advanced in the colonies in times of war, depression, etc., when the colonial ties became weakest. Although it is true, it was simply not the mercantile exchange which facilitated the colonial exploitation. The main mechanism was the perpetuation and exploitation of the pre-capitalist mode for the benefit of the rising capitalist system. The jute and cotton production in India was carried on by pre-capitalist modes, but they were used in the jute and textile industries in Dundee and Manchester to augment their capital.

It should be kept in mind, however, that the weakness of the modes of production in the colonies, in most cases, was not the result of colonial rule. Rather, the colonial rule exploited the inherited weakness of the indigenous modes for its own benefit. This kind of exploitation, however, was inherent in the nature of the integration of the world economy by capitalism. It did not result from the villainy of any particular colonial rulers or the foolishness of the native people. The victimizers and the victims both were prisoners of the system. The colonizers could not introduce a large-scale capitalist mode of production into the colonies without inflicting self-injury.

For the colonising countries, the exploitation of its own labour force and raising its productivity through accumulation depended on, to a great extent, transforming the colonised countries into markets; they could not let the colonised countries industrialise, at least in the formative phase of the industrial revolution, and thus lose their markets. This, however, led to an international division of labour between the colonising and colonised countries. Marx describes the process vividly in the following words:

> *By ruining handicraft production in other countries, machinery forcibly converts them into fields for the supply of its raw material. In this way East India was compelled to produce cotton, wool, hemp, jute and indigo for Great Britain.... A new and international division of labour, a division suited to the*

> *requirements of the chief centres of modern industry springs up, and converts one part of the globe into a chiefly agricultural field of production, for supplying the other part which remains a chiefly industrial field.*[64]

It is this international division of labour, rooted in the colonial past, that is still responsible for the stagnation of erstwhile colonial economies like India. The productivity of the Indian working population, most of whom are engaged in agriculture, is next to nothing compared to the productivity of an industrial or even an agricultural labourer in a developed capitalist country.

As we have already seen, in any country the more the number of working people in agriculture — this phenomenon is the characteristic of a pre-capitalist economy — the less is that country's productivity of labour. For this reason, the theory of unequal exchange is correct when it states that, in the exchange of commodities between the developed and developing countries, unequal amounts of consumed labour are exchanged. But the reason it gives is incorrect. According to the theory of unequal exchange, a labourer in the developing country gets a lower return for his labour than his counterpart in the developed world because of the pricing mechanism. The unequal prices for the same amount of labour are administered through the better bargaining position of the metropolitan centres because of their monopoly control of trade.[65] Our contention is, that unequal prices are not the real reason for the underdevelopment of the third world countries.

Even if and when prices are equal, there will be unequal exchange of labour between the developed and developing countries because of the low application of constant capital in the developing countries. The same commodity or the same unit of product in the developing countries will contain more labour than in the developed countries because in the former the productivity of labour will remain low as a result of less use of constant capital.* Moreover, in the

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* - "... to the degree that large industry develops, the creation of real wealth comes to depend less on labour time and on the amount of labour employed than on the power of the agencies set in motion during labour, whose 'powerful effectiveness' is itself in turn out of all proportion to the direct labour time spent on their production, but depends rather on the general state of science and on the progress of technology, or the application of this science to production. (The development of this, especially natural science, and all others with the latter, is itself in turn related to the development of material production.) Agricultures, e.g., becomes merely the application of the science of material metabolism, its regulation for the greatest advantage of the entire body of society. Real wealth manifests itself, rather — and large industry reveals this — in the monstrous disproportion between the labour time applied, and its product, as well as in the qualitative imbalance between labour, reduced to a pure abstraction and the power of the production process it superintends. Labour no longer appears so much to be included within the production process; rather the human being comes to relate more as watchman and regulator to the production process itself. (What holds for machinery holds likewise for the combination of human activities and the development of human intercourse.)" (Karl Marx, *Grundrisse*, pp. 704-705.)

developed capitalist countries, the productivity of social labour and consequently social wealth is far greater because the productivity of labour in the industrial sector is significantly higher than in the agricultural sector.

The small peasantry as the basis of state autonomy

From the foregoing discussion, we can conclude that capitalism in India has not yet been able to bring agriculture under its complete sway. The production of agriculture is still being carried on in a more or less unchanging, wretched, pre-capitalist form, when the cultivator works for himself as well as when he works for the landlord. This is both the result and cause of his low productivity and poverty. The pre-capitalist character of Indian agriculture, remaining dependent on its pre-capitalist industry, has failed to bring an end to its atomistic fragmentation of production in agriculture. This kind of small peasant farming is again inseparably related to the isolation of the producers. It is this isolation and insularity of the small peasants that is at the root of the autonomy of the state, in India.

As we explained in chapter 1, Marx traced the autonomy of the state of oriental despotism to the indifference and apathy of its most numerous class — the peasants in the villages — which reproduced itself and the economy in an isolated manner far removed from the state to which it provided the social surplus. Engels, too, pointed out that the apathy of the peasants was the foundation of Russian despotism, as well as of the corruption of parliamentary practices in some countries.

> *The peasant has so far largely manifested himself as a factor of political power only by his apathy, which has its roots in the isolation of rustic life. This apathy on the part of the great mass of the population is the strongest pillar not only of the parliamentary corruption in Paris and Rome but also of Russian despotism.*[66]

Lenin, in his study of the development of capitalism in Russia, found that

> *... in spite of the difference in the forms of landownership, the same thing can be applied to the Russian peasant as was said about the small French peasant by Marx...*[67]

in the *Eighteenth Brumaire*. The similar small-peasant characteristics are present among the Indian peasants, too, despite their differentiation. The common element among these three peasant societies is that, in respect to their mode of life and interests, they are a class (= class-in-itself), but "... in so far as ... the identity of their interests begets ... no political organization"[68] (because of the small peasants' isolation, apathy, and insularity), they do not form a class (= class-for-itself). This lack of political will on the part of the small peasants, when they constitute the most numerous class in the society, provides a basis for the state to assume autonomy from the rule of other dominant and contending classes by claiming that it represents the interests of the peasants. This was the background of the state autonomy of Bonapartism, as was enunciated by Marx.

> *Only under the second Bonaparte does the state seem to have made itself completely independent.... And yet the state power is not suspended in mid air. Bonaparte represents a class, and the most numerous class of French society at that, the small-holding (parzellen) peasants.... The small-holding peasants form a vast mass, the members of which live in similar conditions but without entering into manifold relations with one another. Their mode of production isolates them from one another instead of bringing them into mutual intercourse. The isolation is increased by France's bad means of communication and by the poverty of the peasants. Their field of production, the small holding, admits of no division of labour in its cultivation, no application of science and, therefore, no diversity of development, no variety of talent, no wealth of social relationships. Each individual peasant family is almost self-sufficient; it*

itself directly produces the major part of its consumption and thus acquires its means of life more through exchange with nature than in intercourse with society. A small holding, a peasant and his family; alongside them another small holding, another peasant and another family. A few score of these make up a village, and a few score of villages make up a department. In this way, the great mass of the French nation is formed by simple addition of homologous magnitudes, much as potatoes in a sack form a sack of potatoes. In so far as millions of families live under economic conditions of existence that separate their mode of life, their interests and their culture from those of the other classes, and put them in hostile opposition to the latter, they form a class. In so far as there is merely a local interconnection among these small-holding peasants, and the identity of their interests begets no community, no national bond and no political organisation among them, they do not form a class. They are consequently incapable of enforcing their class interests in their own name, whether through a parliament or through a convention. They cannot represent themselves, they must be represented. Their representative must at the same time appear as their master, as an authority over them, as an unlimited government power that protects them against the other classes and sends them rain and sunshine from above. The political influence of the small-holding peasants, therefore, finds *its final expression in the executive power subordinating society to itself.*[69]

India had been, and is, a country of small peasants. These peasants cannot represent themselves; they must be represented. Previously, i.e., in the pre-British days, as Marx pointed out, "... the despot here,..." appeared "... as the father of all lesser communities, thus revealing the common unity of all."[70]* All post-independent governments** claim that they represent the interests of the small peasants and avow to protect them against the other classes. Thus, it is not at all surprising that twelve of Mrs. Gandhi's 20 point programme vouched to safeguard and enhance the interests of the small peasants, and three of the remaining points aimed at curtailing the economic power of the big landlords and private corporate capital.[71] In the same way, the slogan of the Janata government is that it furthers the rural interests, particularly of the small peasants and it will not let big industrires expand.

Like the Bonapartist state, the autonomy of the state in India emerges from the fact that the power of the land-

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* - The common unity is the unity of small peasants.

** - The colonial government derived its power from the metropolitan bourgeoisie, and thus remained superior to all indigenous social classes. It did not have to pose as the representative of the small peasants to keep in check the political aspirations of the indigenous bourgeoisie.

lords is non-existent on the political level and the bourgeoisie is too weak; the state can claim that it is representing the interests of the small peasants and seek, on their behalf, to contain the bourgeoisie. However, in India, the power of the feudal lords was not destroyed, because in India they never flowered in the form they had in France; the bourgeoisie was weak because their growth was obstructed; the small peasant was a social force as a class-in-itself but not as a class-for-itself. That is why the state in India, like the Bonapartist state, could pretend to represent their interests without, in fact, doing so. There is another similarity. Bonaparte, as Marx says,

> *... looks on himself as the adversary of the political and literary* [ideological] *power of the middle class* [bourgeoisie]. *But by protecting its material power* [existing relations of production in the form of property rights], *he generates its political power anew. The cause must accordingly be kept alive; but the effect, where it manifests itself, must be done away with.... As against the bourgeoisie, Bonaparte looks on himself ... as the representative of the peasants and of the people in general, who want to make the lower classes of the people happy within the frame of bourgeois society.*[72]

All post-colonial governments in India consider themselves the champions of the lower classes' cause against the bourgeoisie; but they, like Bonaparte, want the lower classes to be contented within the framework of the existing relations of property. They too, like Bonaparte, attack the effect (concentration of wealth) but not its cause or the material base (private ownership). An important deviation, however, in India, is the attempt to concentrate in the state sector the basic industries.

However, without substituting private ownership for social ownership, the bourgeoisie has not been, and cannot be subjugated. The ceaseless struggle of the bourgeoisie to bring the state apparatus under its direct control, therefore, continues unabated (more about this in the conclusion).

There is, however, one fundamental difference between the Bonapartist autonomy and the autonomy of the state in India. While the Bonapartist form of state was a temporary phenomenon in France and Germany (in the form of Bismarkism), the autonomy of the state in India had, and has, at least until now, a more permanent base in its villages formed of small-holding peasants. The base had been grounded on a stubborn, but now slowly dissolving, Asiatic mode of production.

Notes to chapter 7

1. K. Marx, Capital, III, p. 425.

2. Simon Commission Report, 1930, Vol. I, p. 340.

3. Report of the Land Revenue (Floud) Commission of Bengal, 1940.

4. Nanavati/Anjaria, The Indian Rural Problem, pp. 91-92.

5. Report of the Indian Famine Commission, 1880.

6. Congress Economic and Political Studies, No. 2, 1936, Cited in R.P. Dutt, India Today, p. 256.

7. Ibid.

8. Report on the Improvement of Indian Agriculture (Voelcker), 1891, p. 10.

9. Cited in Wadia/Merchant, Our Economic Problem, p. 177.

10. H. H. Mann, Land and Labour in a Deccan Village, Vol. I, p. 46.

11. Report of the Royal Commission on Agriculture, 1928, p. 292.

12. B. Sen, Evolution of Agrarian Relations in India, p. 141.

13. See: National Sample Surveys on Agriculture, 8th, 16th, 17th, and 26th Rounds.

14. Marx, Capital, III, p. 926.

15. Ibid., pp. 383-85.

16. Ibid., p. 391.

17. See: H. Alavi, "India and the Colonial Mode of Production", in The Socialist Register, 1975; J. Banaji, Backward Capitalism, Primitive Accumulation and Modes of Production; Also see Geoffray Kay's illuminating discussion about the subordination of merchant capital to industrial capital; G. Kay, Development and Underdevelopment: A Marxist Analysis, pp. 95-107.

18. See List II of the seventh schedule of the Indian Constitution.

19. All India Report on Agricultural Census, 1970-71, pp. 1-2.

20. Review of the First Five Year Plan, p. 315.

21. A Study on Tenurial Conditions in Package Districts, Report by Wolf Ladejinsky, Planning Commission, pp. 9-10.

22. Review of the First Five Year Plan, p. 320; for tenancy reforms, see Agricultural Legislation in India, Vol. VI, 1955.

23. Fourth Five Year Plan, A Draft Outline, p. 130.

24. Third Five Year Plan, p. 223.

25. Farm Management in India, 1966, p. 102.

26. Studies in the Economics of Farm Management in Muzaffarnagor District (U.P.), Report for the Year 1967-68, pp. 37-45.

27. Ibid.

28. Ibid.

29. Ibid.

30. See: Farm Management in India, 1966; Studies in the Economics of Farm Management in Muzaffarnagor District (U.P.), Report for the Year 1967-68; Studies in the Economics of Farm Management in U.P., Report for the Year 1955-56; Studies in the Economics of Farm Management in Madhya Pradesh, Combined Report for the Years 1955-56 and 1956-57.

31. Ibid.

32. Ibid.

33. Economic and Political Weekly, (August, 1974), p. 1307.

34. Bijan Sen, Agrarian Relations in Andhra.

35. See chapter 5, reference note 3.

36. India: A Reference Annual, 1965, p. 248. This figure includes people employed in small industries.

37. A. Rudra, Relative Rates of Growth of Agriculture and Industry, p. 15.

38. See: Studies in the Economics of Farm Management.

39. Ibid.

40. See: Hobsbawm/Rude, Captain Swing, pp. 3-4; Marx, Capital, I, pp. 744-45.

41. Marx, Capital, I, pp. 744-745.

42. Lenin, Selected Works, I, p. 346.

43. V.S. Vyas, "Structural Change in Agriculture and the Small Farm Sector", Economic and Political Weekly, (January 10, 1976), p. 30.

44. Marx, Capital, III, p. 807.

45. S. Roy, Bharater Dainya, p. 177.

46. See Report of the Working Group on Agricultural Implements.

47. Marx, Capital, III, p. 807.

48. See: A.M. Carr-Saunders, "Past Growth and Present Trends", cited in R.P. Dutt, India Today, p. 50n.

49. Ibid.

50. Statistical Yearbook, (New York: United Nations, 1978).

51. L.J. Zimmerman, Poor Lands, Rich Lands, p. 68.

52. See: Kingsley Davis, in Kuznets/Moore/Spengler (eds.), Economic Growth: Brazil, India, Japan, p. 292.

53. F.W. Notestein, Problems of Policy in Relation to Areas of Heavy Pressure, Demographic Studies of Selected Areas of Rapid Growth, pp. 152-153, cited in Ibid.

54. M. Weiner, "The Politics of South Asia", in Almond/Coleman, The Politics of the Developing Areas, p. 175.

55. S. Hetzler, Technological Growth and Social Change, p. 138.

56. S.N. Eisenstadt, The Protestant Ethic and Modernization, p. 53.

57. Weber, The Protestant Ethic and the Spirit of Capitalism, p. 183.

58. Marx, "The Future Results of British Rule in India", New York Daily Tribune, August 5, 1853.

59. Ibid.

60. Ibid.

61. Ibid.

62. Ibid.

63. See: A.G. Frank, Capitalism and Underdevelopment in Latin America.

64. Marx, Capital, I, p. 493.

65. See: A. Emmanuel, Unequal Exchange: A Study of the Imperialism by Trade; R. Howard, "Expatriate Business and the African Response in Ghana, 1886-1939", Ph.D. Dissertation, (McGill University, June, 1976), see especially her conclusion.

66. F. Engels, "The Peasant Question in France and Germany", in Marx/Engels, Selected Works, p. 623.

67. Lenin, Selected Works, I, p. 300.

68. Marx, "The Eighteenth Brumaire of Louis Bonaparte", in Marx/Engels, Selected Works, pp. 170-171.

69. Ibid.

70. Marx, Pre-Capitalist Economic Formations, p. 69.

71. See: Mrs. Gandhi's Twenty-point Programme.

72. Marx, "The Eighteenth Brumaire", p. 176.

Chapter 8

CONCLUSION

In the preceding pages we have made a comprehensive analysis of the evolving social economy and its relationship to the state. We have shown that the state in India, because of the nature of the evolution of its social formation, has been able to play an independent role vis-a-vis the social classes. This contention is so contrary to the "traditional Marxist class theory of the state", in which the state is inevitably a means of class hegemony, that we propose to elaborate this view on the basis of Marx's and Engels' own writings. In fact, the Marxian theory of the state, which was never expounded in a complete form in any of his works but remained central in almost all his writings, is much more complex and subtle than simply representing the state always as an instrument of the rule of the dominant class. The state, of course, in his view, is the focus of the class struggle but the exercise of the state power cannot mechanically or automatically be traced to the dominant class or classes.[1] Marx makes it very clear that it is quite possible for one class to exercise the state power in the interests of another class.* What, according to Marx, determines the nature of polity and how the state power is exercised depends on the nature of the social formation, particularly on its (social formation's) dominant mode of production as the dominant mode controls other modes of production for its own reproduction. To put it another way, the autonomy of the state or the state's subservience to any class depends on the nature of the development of classes or class configurations which, in turn, are resultants of the unfolding of the social formation. The point, to be noted here, is that the classes are not, in most cases, passive elements, they play a definitive role in the evolution of the mode or modes of production which constitute the social formation.**

There have been many scholarly works which have endeavoured to show the operation of this dialectic in bringing out the state's role as the instrument of class rule where the exercise of the state power is directed to reproduce the dominant mode of production. To my knowledge, however, there has been no concrete work, till now, which

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* - " In a word, the whole aristocracy is convinced of the need to govern in the interests of the bourgeoisie; but at the same time it is determined not to allow the latter to take charge of the matter itself." (Marx, " Perspectives for the New Coalition Government", *New York Times*, January 28, 1853.)

** - However, once a mode of production becomes dominant in a social formation, it, to a great extent, determines the extent of the activity social classes exhibit, as exemplified in the relative passive role of the peasantry in the Asiatic mode of production.

has attempted to relate the autonomy of the state with the evolution of classes and social formations as we have attempted, with many limitations, in the preceding pages. For Marx and Engels, the autonomy or the independence of the state and its role, however, was an important problem to be analysed in the evolution of any social formation. Their preoccupation with Bonapartism is a typical example of this concern.

In the following pages we would conclude our analysis by probing what is meant by the independence or autonomy of the state in Marxism (particularly with reference to pre-capitalist formations) and, then, by relating it to our exposition of the modes of production, the social classes and the state in India that we have done in the preceding chapters. This would serve two purposes. First, this would focus upon the broad theoretical background of our empirical analysis. Second, this would enable us to present our findings succinctly and abstractly in the conclusion.

* * * * *

According to Miliband, there are two views of the state in Marxist political theory. The first view, as Miliband says,

> ... *finds its most explicit expression in the*

> *famous aphorism of the Communist Manifesto: "The executive of the modern state is but a committee for managing the common affairs of the whole bourgeoisie," and political power is "merely the organised power of one class for oppressing another." ... This is the classical Marxist view of the subject of the state and it is the only one which is to be found in Marxism/Leninism. In regard to Marx himself, however, and this is also true to a certain extent of Engels as well, it only constitutes what may be called a primary view of the state ... for there is to be found another view of the state in his work.... This secondary view is that of the state as independent from and superior to all social classes, as being the dominant force in society rather than the instrument of the dominant class.*[2]

While Miliband points out one exception to the state as the instrument of class rule, as in the Bonapartist state, David McLellan recognises a few such exceptions.

> *Marx does admit exceptions to his general description of the state as an instrument of class domination, and especially in two of his most striking analyses of contemporary events — The Class Struggles in France and the Eighteenth Brumaire of Louis Bonaparte.... In relatively backward countries, where classes were not fully developed, Marx thought that the state could play an independent role; also in the European absolute monarchies in*

> *the transition between feudal and bourgeois classes.*[3]

The other major exception, adds McLellan,

> *... in Marx to the idea of the state as an instrument of class domination occurs in Asian societies -- in India, China, and to some extent Russia.*[4]

Here, Marx

> *... saw a despotism which, being mainly based on the absence of private property in land did not serve the interests of a particular class.*[5]

What Miliband calls the primary view of the state in Marxism, we find in Marx and Engels' own writings that, even according to that view, the state is not and does not become the instrument of class rule unless and until estates have been replaced by classes. Till then, even in modern societies, the state might be able to preserve its independence.

> *The independence of the state is only found nowadays in those countries where the estates have not yet completely developed into classes, where the estates, done away with in more advanced countries, still have a part to play, and where there exists a mixture; countries, that is to say, in which no one section of the*

> *population can achieve dominance over the other. This is the case particularly in Germany. The most perfect example of the modern state is North America.*[6]

As the Marxian theory of the state is based on the theory of social classes and class struggles, the state, according to Marx, does not mechanically become an instrument of class rule; the state is transformed into an apparatus of class rule as and when a particular class emerges victorious over other classes. That is why North America provides the best example of a class state because here, as Marx points out,

> *... the state, in contrast to all earlier national formations, was from the beginning subordinate to bourgeois society* [and] *to its production.*[7]

On the contrary, in most national structures of Europe, the bourgeoisie, at first, had to fight (against other classes, notably the feudal lords and the state power) for its survival and then to assert its authority through the capture of the state power.

> *Each step in the development of the bourgeoisie was accompanied by a corresponding political advance of that class. An oppressed class under the sway of feudal nobility, an armed and self-governing association in the mediaeval*

> *commune; here independent urban republic (as in Italy and Germany), there taxable "third estate" of the monarchy (as in France), afterwards, in the period of manufacture proper, serving either the semi-feudal or the absolute monarchy as a counterpoise against the nobility, and, in fact, corner-stone of the great monarchies in general, the bourgeoisie has at last, since the establishment of Modern Industry and of the world market, conquered for itself, in the modern representative State, exclusive political sway.*[8]

Before the bourgeoisie could conquer the state power for itself, there were about two centuries of absolute monarchy in which no class could claim positively its political dominance. Under such a situation, as Engels points out,

> *... warring classes balance each other so nearly that the state power, as ostensible mediator, acquires, for the moment, a certain degree of independence of both. Such was the absolute monarchy of the seventeenth and eighteenth centuries, which held the balance between the nobility and the class of burghers.*[9]

Marx describes the social base of the absolutist state as follows:

> *Modern histories have demonstrated that <u>absolute monarchy</u> appears in those transitional periods when the old feudal estates are in decline and the medieval estate of burghers*

is evolving into the modern bourgeois class, without one of the contending parties having as yet finally disposed of the other. The elements on which absolute monarchy is based are thus by no means its own product; they rather form its social prerequisite, whose historical origins are too well known to be repeated here. The fact that absolute monarchy took shape later in Germany and is persisting longer, is explained solely by the stunted pattern of development of the German bourgeois class. The answers to the puzzles presented by this pattern of development are to be found in the history of trade and industry.[10]

In Marx and Engels' theory of the state (unlike the mechanical interpretation of the state — always operating in the interest of a particular class in so-called Marxism), the state always tries to acquire some kind of independence from being in the services of any social class* whenever

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* - In its attempt to acquire independence from the hegemony of the feudal class the absolutist state forced the feudal lords to disband their retainers. The demobilized retainers formed a part of the free wage workers. "The prelude of the revolution that laid the foundation of the capitalist mode of production, was played in the last third of the 15th, and the first decade of the 16th century. A mass of free proletarians was hurled on the labour-market by the breaking-up of the bands of feudal retainers.... Although the royal power [absolute monarchy], itself a product of bourgeois development, *in its strife after absolute sovereignty* [i.e., absolute independence] *forcibly hastened on the dissolution of these bands of retainers*, it was by no means the sole cause of it." (Marx, *Capital*, I, p.789, emphasis added.)

that opportunity emerges in the struggle of contending classes.

> *Thus absolute monarchy now attempts, not to centralise, which was its actual progressive function, but to decentralise. Born from the defeat of the feudal estates and having the most active share in their destruction itself, it now seeks to retain at least the semblance of feudal distinctions. Formerly encouraging trade and industry and thereby at the same time the rise of the bourgeoisie class, as necessary conditions both for national strength and for its own glory, absolute monarchy now everywhere hampers trade and industry, which have become increasingly dangerous weapons in the hands of an already powerful bourgeoisie.*[11]

The emergence of an absolute monarchy, thus, would not have been possible in the absence of a class struggle between the nobility and the burghers for the capture of the state power. As Engels says, "The basic precondition for the monarchy [absolute] ... was the struggle between the nobility and the bourgeoisie in which the monarchy held the balance."[12]

It needs to be pointed out in this connection that, for Marx, the state power is not suspended in the air; it reposes, primarily, in the bureaucracy.

> *If in a speech I call for arming against the state power, is it not self-evident that I am calling for violent resistance to officials?*

> *The existence of the state power is embodied precisely in its officials, the army, the administration and the courts. Apart from this, its physical embodiment, it is but a shadow, an idea, a name. The overthrow of the government is impossible without violent resistance to its officials. If in a speech I call for revolution, it is superfluous to add: "offer violent resistance to the officials."*[13] (Emphasis is Marx's.)

Thus, according to Marx, the state power embodies, to a great extent, the bureaucratic power. the independence of the state for Marx, therefore, implies the independence or autonomy of the bureaucracy from class control. Once the bureaucracy acquires this independence, it does not naturally feel inclined to surrender its coveted power to an emerging class which wants to take over the state. As Marx points out with respect to his concrete study of the political situation in Prussia,

> *... the absolute monarchy in Prussia, as earlier in England and France, will not let itself be amicably changed into a bourgeois monarchy. It will not abdicate amicably. The princes' hands are tied both by their personal prejudices and by a whole bureaucracy of officials, soldiers and clerics — integral parts of absolute monarchy who are far from willing to exchange their ruling position for a subservient one in respect of the bourgeoisie.*[14] (Emphasis added.)

Thus, contrary to the traditional Marxist lore, according to Marx's own analysis of the contemporary German situation, the bureaucracy in itself, was a power to be reckoned with. The bourgeoisie could not automatically reduce the bureaucracy to an apparatus of its own class rule without a struggle, because the bureaucracy itself had political ambitions; it did not want to substitute its ruling position with that of a subservient one. The bureaucracy, to preserve its own independence, tried to contain the bourgeoisie as much as possible. As long as the bourgeoisie did not bring the state apparatus under its own political domination, as Engels points out in his analysis of the "Constitutional Question in Germany", the bureaucracy stood as a positive fetter on the growth of the bourgeoisie.

> *... bureaucracy very soon becomes an unbearable fetter for the bourgeoisie. Already at the stage of manufacture official supervision and interference become very burdensome; factory industry is scarcely possible under such control. The German factory owners have hitherto kept the bureaucracy off their backs as much as possible by bribery, for which they can certainly not be blamed. But this remedy frees them only from the lesser half of the burden; apart from the impossibility of bribing all the officials with whom a factory owner comes into contact, bribery does not free him from perquisites, honorariums to*

> *jurists, architects, mechanics, nor from other expenses caused by the system of supervision, nor from extra work and waste of time. And the more the industry develops, the more "conscientious officials" appear — that is, officials who either from pure narrow-mindedness or from bureaucratic hatred of the bourgeoisie, pester the factory owners with the most infuriating chicaneries. The bourgeoisie, therefore, is compelled to break the power of this indolent and pettifogging bureaucracy. From the moment the state administration and legislature fall under the control of the bourgeoisie, the independence of the bureaucracy ceases to exist, indeed from this moment, the tormentors of the bourgeoisie turn into their humble slaves. Previous regulations and decrees, which served only to lighten the work of the officials at the expense of the industrial bourgeoisie, give place to new regulations which lighten the work of the industrialists at the expense of the officials.*[15] (Emphasis added.)

Engels makes it clear in his study that the social formation which was prevailing at that time in Prussia that enabled the bureaucracy to put obstacles for the bourgeoisie to grow, was substantially pre-capitalist though it was being gradually eroded by the encroaching capitalism.* In this

* - "Like the French and English nobility of the last century, the German nobility employed the rising level

social set up, the bourgeoisie, though striving to caputre political power, was too weak to do so.

> *While in France and England the bourgeoisie has become powerful enough to overthrow the nobility and to raise itself to be the ruling class in the state, the German bourgeoisie has not yet had such power.*[16]

Engels then adds,

> *The present political system is ... nothing more than a compromise between the nobility and the petty bourgeoisie, which amounts to resigning power into the hands of a third class: the bureaucracy.*[17]

In Engels' analysis, the petty bourgeoisie (i.e.,

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ov civilisation only to squander its fortune magnificently on pleasures in big cities. Between the nobility and the bourgeoisie began that competition in social and intellectual education, in wealth and display which everywhere precedes the political dominance of the bourgeoisie and end, like every other form of competition, with the victory of the richer side. The provincial nobility turned into a court nobility, only thereby to be ruined all the more quickly and surely. The three percent revenues of the nobility went down before the fifteen percent profit of the bourgeoisie, the three-per-centers resorted to mortgages, to credit banks for the nobility and soon, in order to be able to spend in accordance with their station, and only ruined themselves so much the quicker. The few landed gentry wise enough not to ruin themselves formed with the newly emerging bourgeois landowners a new class of industrial landowners. This class carries on agriculture without feudal illusions and without the nobleman's nonchalance, as a business, an industry with the bourgeois appliances of capital, expert knowledge and work." (F. Engels, "The Constitutional Question in Germany", in Marx and Engels, *Collected Works*, VI, p.81.)

small-scale producers) and the nobility, in a situation of equilibrium of power, could live side by side and leave the administration in the care of an independent bureaucracy, but the bourgeoisie can do so only at the cost of its own peril.

> *The conditions under which nobility and petty bourgeoisie can exist side by side are absolutely different from the conditions of life of the bourgeoisie and only the former are officially recognised in the German states.*[18]

The German states recognised the nobility and the petty bourgeoisie, in the sense that these states, ruled by the bureaucracy, enacted laws to protect the interests of the petty bourgeoisie in the towns against the nobility, as well as laws to safeguard the interests of the nobility in the countryside.[19] The bourgeoisie or the industrial capitalist class had no such protection; in fact, they were daily being tormented by various state control measures or rules by a pettifogging bureaucracy. Further, as Engels tells us emphatically, the bourgeoisie could not develop and could not "make his class the first in society and state" without transforming agriculture into a capitalist agriculture.

> *The bourgeois cannot in any way leave the regulation of property relationships in the countryside to the discretion of the nobility, for the complete development of his own int-*

> *erests requires the fullest possible industrial exploitation of agriculture too, the creation of a class of industrial farmers, free saleability and mobilisation of landed property.*[20]

But,

> *(T)he laws are framed first of all in the interests of the judicial bureaucracy who administer the assets, and then in the interests of the non-bourgeois as opposed to the bourgeois.*[21]

Thus, Marx and Engels make it clear from their studies of Germany that a state could become autonomous when classes in that state have a stunted growth, or when no class is in a position to take the lead over other classes. In these situations, the bureaucracy becomes the ruling class. ? They may rule under the political banner of a king, a prince, or a party, but once they attain independence, they try to preserve it by playing off one class against the other (such as feudal lords against burghers under the absolute monarchy), or by containing the growing strength of the class that endangers their ruling position (as was the case with the emerging bourgeoisie in Germany), or by furthering the interests of other classes as opposed to the rising class.

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The following are the reasons for our foregoing discussion of Marx's and Engels' own writings on the independence of the state. First, we wanted to show that, contrary to orthodox Marxism, our view on the state's independence from class hegemony is endorsed by Marx's and Engels' own analyses of social conjunctures.* They show how certain social conjunctures enable the state to preserve its independence from class hegemony. Second, we wanted to point out that Marx and Engels, unlike Poulantzas, show that the actions of the state functionaries are not rigidly determined by the structure of the social economy but are dependent on how they view it. Moreover, Marx and Engels, in contrast to Poulantzas, point out how the state adopts various measures to maintain its hegemony and to contain the rising classes. Third, Marx's and Engels' discussion of the social conjunctures which make possible the independence of the state provides us with an analytical perspective to compare and expound the distinguishing characteristics of the nature of the state's hegemony in India and the social formation on which it is based.

We have shown in detail, in chapter 2, the specific kind of autonomy of the state in the Orient — oriental

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* - Their exposition of the autonomy of the state is more comprehensive than Poulantzas' exposition.

despotism — under the Asiatic mode of production. We observed that the state was superior to all classes in India, as in Asia, because a feudal class could not emerge here as land belonged to the state through the village community. The absence of the feudal class hindered the growth of the bourgeoisie. Unlike Western Europe, the bourgeoisie could not advance its own interests in the towns by helping the monarch against the feudal lords. The state in Asia, therefore, unlike the absolute monarchies in Europe, did not have to balance the bourgeoisie against the feudal lords to attain and retain its independence. The state was independent here as it was founded on a mode of production which did not enable any class to grow strong. There is, however, one common element wherever the independence of the state from class control is found: the predominance of the small-scale peasantry or the failure of the capitalist class to bring in agriculture under its domain. This is so under the absolute monarchies, the Bonapartist state, the German bureaucratic states, as well as in oriental despotism.

In our analysis (in chapter 3), we found that the British inherited in India the state structure from their predecessors — the Moghuls — and introduced many changes in it without fundamentally touching the base of the state — the mode of production. We showed (in chapters 3 and 7) how the primitive capital accumulation took place on the basis of the existing mode, through the mechanism of merchant capital which remained subservient to the industrial capital of the metropolitan centre. As a result, the extracted surplus did not lead to capital accumulation in India but in the metropolitan centres. This further deteriorated the condition of agriculture (as a consequence of the lack of capital) and the small peasants became smaller (due to overpressure on agriculture). The continuance of the small peasantry, thus, provided the base for the preservance of the independent state.

The colonial state was superior to all indigenous classes not only because it represented the metopolitan capitalist class but also due to the fact that the old base of the despotic state was perpetuated. This fact did not escape Engels' sharp observation which, like Marx's, could always apprehend the reality behind the appearance. Engels wrote in a letter to Kautsky in 1884:

> *It would be a good thing for somebody to take the pains of elucidating the state socialism now rampant by using the example of it in Java where its practice is in full bloom. All the material for that will be found in Java, or How to Manage a Colony, by I.W.B. Money, Barrister at Law, London 1861, 2 Vol. Here it will be seen how on the basis of the old community communism the Dutch organised production under state control and secured for*

> *the people what they considered a quite comfortable existence. The result: the people are kept at the stage of primitive stupidity and 70 million marks (now surely more) are annually collected by the Dutch national treasury. This case is highly interesting and can easily be turned to practical use. Incidentally it is proof of how today primitive communism furnishes there as well as in India and Russia the finest and broadest basis of exploitation and despotism.*[22]

Engels knew very well about the existence of private legal ownership of land in India (in India the permanent and ryotwary land tenure settlements were introduced in the late eighteenth and early nineteenth centuries), and in Russia, yet he characterised the agriculture in these countries as primitive communism because the small peasants in these countries were, despite differentiation, basically equal in poverty. However, as in Java, so in India and Russia, these small peasants provided the surplus to the state, over which neither the peasants nor any indigenous class had any control. The despotism or the independence of the state thus resulted from its power to exact surplus on a broad basis.

Another very important point to be noted in the above quoted letter of Engels is his attack on state socialism. The state socialism, advocated by Ferdinand Lassalle (against whom Marx and Engels waged a bitter struggle) and encouraged by Bismarck at that time, was based on the theory that "the state is the manager of economic life."[23] This enabled the state — as Engels pointed out by citing the instance of Java — to control and exploit the economy without making any improvement in the condition of life of the direct producers. Hence, Engels was trying to warn Kautsky that the Lassalleian type of state socialism would only enhance the despotism of the Bismarckian state, by letting it control the productive forces and by playing off the proletariat against the bourgeoisie. His message: the proletariat should not be taken in by the term "socialism" and, thus, strengthen the hands of a bureaucratic state. The main features of the Bismarckian state, as specified by Engels time and again, were its bureaucratic character and autonomy, derived from its ability to balance the power of one class with that of another.

> *... the state as it exists at present in Germany is also the necessary product of the social basis out of which it has developed. In Prussia — and Prussia is now decisive — there exists side by side with a landowning aristocracy which is still powerful, a comparatively young and markedly very cowardly bourgeoisie, which up to the present has not won either direct political domination as in France, or more or less indirect as in England. Side by side with these two classes, however, there exists a rapidly increasing proletariat, which is intellectually highly developed and which*

> *is becoming more and more organised everyday. We find, therefore, in Germany alongside of the basic condition of the old absolute monarchy, an equilibrium between the bourgeoisie and the proletariat. But both in the old absolute monarchy and in the modern Bonapartist monarchy* Marx and Engels viewed Bismarckian monarchy as Bonapartist monarchy *, the real governing power lies in the hands of a special caste of army officers and state officials. In Prussia this caste is supplemented partly from its own ranks, partly from the lesser aristocracy owning the entailed estates, more rarely the higher aristocracy and least of all from the bourgeoisie.*[24]

It was, therefore, in the interests of the bureaucracy (both civil and military) to keep the bourgeoisie out of political power. And whenever the bourgeoisie showed any political amibion, Bismarck reined it in by playing off the proletariat.* This kind of state socialism — one from above —

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* - The following commentary and note by the editor of "The Correspondence of Marx and Engels (1846-1895)", V. Adoratsky, brings out how Lassalle and Bismarck conspired to use the proletariat against the dominant classes including the bourgeoisie. "When the questions of universal suffrage and of the Schleswig-Holstein war came up, Lassalle was prepared to support Bismarck, who was proposing to utilise universal suffrage for his reactionary ends — against the bourgeoisie — and pointed out to him that the introduction of universal adult suffrage, which would in fact have meant a coup d'etat against the bourgeois progressive majority of the Prussian Parliament, must, whatever happened, take place before the war. 'Why can you do anything you like in peace time,' Lasalle asks Bismarck in a letter written at the end

Engels cautioned the working class, would not better their life but strengthen the bureaucratic state vis-a-vis the bourgeoisie.*

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of January or the beginning of February, 1864. 'Why did I admit to you as long ago as last May that, so long as no external conflict arose, our country would quietly acquiesce even in the most severe absolutism?... In peace time the interests of private life completely predominate and reduce the mood of the people to one of indifference, whatever conditions may be.' At the same time Lassalle placed all his literary activities at Bismarck's disposal. He sent Bismarck, for instance, the proof-sheets of his Bastiat-Schulze before it appeared and asked Bismarck to protect him from judicial confiscation of a book which 'will lead ... to the most thorough destruction of the progressive party and of the whole liberal bourgeoisie' (letter of February 5, 1864; this and the preceding quotations from letters are taken from Gustav Mayer's pamphlet, "Bismarck and Lassalle", Berlin 1928). The mistrust felt by Marx and Engels for Lassalle, their constant struggle against his false theory of the state, derived from Hegel are brilliantly justified by this correspondence [Engels' letter to Marx on January 27, 1865]." (*The Correspondence of Marx and Engels, 1846-1895*, pp. 178-179.) Both Bismarck and Bonaparte took resort to universal adult franchise to maintain the state's independence from the encroachment of the bourgeoisie, the former by matching the proletariat against the bourgeoisie, the latter by drawing the support of the peasants. The latter phenomenon has been described by Marx in detail in *The Eighteenth Brumaire* and *The Class Struggle in France*.

* - "And if the political power, that is, Bismarck, is attempting to organize its own bodyguard proletariat to keep the political activity of the bourgeoisie in check, what else is that if not a necessary and quite familiar Bonapartist recipe which pledges the state to nothing more, as far as the workers are concerned, than a few benevolent phrases and at the utmost to a minimum of state assistance for building societies a la Louis Bonaparte? The best proof of what the workers have to expect from the Prussian state lies in the utilization of the French milliards [refers to five thousand million franc indemnity imposed on France at the end of the Granco-Prussian War in 1871] which have given a new, short reprieve to the independence of the Prussian state machine in regard to society. Has even a single taler of all these milliards been used to provide shelter for those Berlin

The similarity between Indian socialism and the state socialism that was advocated by Lassalle in Germany is obvious. We have tried to show (in chapters 4 and 6) how the socialism that is acted upon in India is really in the interests of a bureaucratic state which, through the monopolisation of basic productive forces and state control measures, has kept the bourgeoisie in check and has maintained its own independence from class hegemony. There are, however, a few interesting semblances, as well as differences, between Bismarck's Germany and India on the eve of independence. In both, the bourgeoisie was young and weak. In addition, in Germany, the bourgeoisie was too scared of the proletariat to make a bid for political power in the aftermath of the 1848 revolution and the Paris Commune of 1871. In India, however, no such menace of political take-over by the proletariat was imminent. Still, the Indian bourgeoisie was weaker than their counterpart in Germany for the following reasons. In Germany, the feudal lords were transforming themselves into bourgeois farmers. The decomposition of the village industry (which was never in the form of India's village artisan industry) had been accomplished long ago. So, there it was a matter of

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working class families which have been thrown on to the streets? On the contrary. As autumn approached, the state caused to be pulled down even those few miserable hovels which had given them a temporary roof over their heads during the summer." (F. Engels, *The Housing Question*, p.68.)

time when the bourgeoisie with the complete subjugation of the economy (and with the removal of political threat from the proletariat), would bring in the state under its own domination. In India, on the other hand (as we delineated in detail in chapters 5 and 7), the artisan industries are still important components of the village economy. These provided an important basis for the persistence of the existing social formation in India composed of partly Asiatic and partly feudal modes of production. The state's support for the artisan industry as well as small-scale industry (petty bourgeoisie) is avowedly to delimit the concentration of economic power in the hands of the big bourgeoisie. These are over and above the extensive state control measures (dis cussed in detail in chapter 6), that are positive fetters on the free development of the bourgeoisie. furthermore in India, the overpressure of population in agriculture (as we explained in chapter 7), is the result of India's integration in the world capitalist economy without a corresponding change in its mode of production. The overpressure of population in agriculture, the dire poverty of the rural population, the failure of agriculture to generate considerable surplus for industrialisation, the constricted internal market for industries as well as agriculture, the inefficiency of industry to create more jobs to absorb the rural surplus population — all these (enunciated in chapter 6) have raised nearly insurmountable obstacles on the path of the bourgeoisie to colonise agriculture without which its conquest of the economy remains incomplete, and, hence, also its hegemony over the state power. In Germany, the bourgeoisie was not encumbered by such a village artisan industry, nor by an agriculture groaning under a pre-capitalist social formation more stubborn than feudalism. Finally, in Germany as well as in France, the Bonapartist states could not create, despite a few creditable attempts in the context of that period, state sectors which are in India formidable weapons (as we have shown in chpater 6) in the hands of the state to make itself free from its dependency on the bourgeoisie.

However, in none of these countries — despite the accumulation of capital in India on an extended reproduction basis in the state sectors — the cause of the expansion of the bourgeoisie, i.e., the private ownership of property, had been or has been replaced by socialist ownership. This is the reason why the bourgeoisie in India, as it was in Germany and France, continues and continued to grow. Everyday, the ranks of the bourgeoisie are swelling in India, everyday some members of the petty bourgeoisie, whose cause the state espouses to keep in check the bourgeoisie, are increasing the ranks of the bourgeoisie. These newly recruited members everyday strengthen the hand of the bourgeoisie in its struggle to bring the state apparatus under its own rule.

So, how long the state apparatus in India will be able to maintain its ruling position vis-a-vis the bourgeoisie depends on how long the bourgeoisie would take to transform agriculture into a capitalist sector; how long the numerous petty bourgeoisie will be able to maintain its separate identity from the bourgeoisie and the state's ability to balance them. Under the present economic situation in India, it seems improbable that the victory of the bourgeoisie over the state apparatus can be achieved in the near future. The social formation that prevails in agriculture seems to be too ossified or stubborn to be dissolved without a shake up of a fundamental nature in the social structure. The situation in agriculture, as we have explained, poses a problem for the industry too, for it to be able to absorb the surplus labour from agriculture.* While unemployment is increasing in both rural and urban areas, the average size of the farm, as we have noted, is decreasing at the same time. The pauperisation of the rural peasantry is matched by the rising number of the lumpen proletariat in the urban areas (2.6 million in

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* - The number of unemployed in India in 1971 stood at 18.7 million. Of the 18.7 million unemployed, 16.1 million were in the rural areas. "Between 1966 and 1972 the number of matriculate job seekers had tripled, the number of undergraduate job seekers had quadrupled and graduates had become six-fold. The average rate of increase of job-seekers which was 20.1 per cent between 1966 to 1971 had touched 40.2 per cent from 1971 to 1972." (*The Indian Labour Year Book, 1972*, p.1.)

1971). The condition of the employed proletariat has also worsened (see table 7.12).

Thus, the socialism from above that has been imposed by an autonomous state in India has been totally unsuccessful to alleviate the condition of the people and the producing classes. The danger that looms for the state in this failure is also a danger for the bourgeoisie. Even if the bourgeoisie and the functionaries of the state can foresee the impending catastrophe, it seems they can do virtually little within the existing social formation to arrest it. One should not, however, feel discouraged.

The gathering of the storm over India's political sky is beckoning a new future to her. After the storm is over, a new dawn will emerge. I would like, therefore, to conclude my study with a quote from John G. Gurley, Professor of Economics at Stanford University.

> *For centuries, China was a door mat for preying capitalist nations, and her record was, for long, dismal compared to Japan's. But these differences are now rapidly disappearing. India was once economically superior to Britain, then became an exploited colony. In the meantime, Britain, as the kingpin, has come and gone, India is slowly re-emerging, gathering strength, augmenting the revolutionary forces against the old powers. Uneven development has been the rule for centuries as nations have moved into and through*

the capitalist to the socialist mode of production. One has to have some conception of where the world is going to be able to speak wisely about present, but perhaps transitory, superiorities.[25]

Notes to chapter 8

1. See: R. Miliband, "Marx and the State", Socialist Registrar, (1965); W. Wesolowski, "Marx's Theory of Class Domination", in N. Lobkowiez (ed.), Marx and the Western World; A. Shlomo, The Social and Political Thought of Karl Marx; H. Lefebvre, The Sociology of Marx, chapter 5; H. Draper, Karl Marx's Theory of Revolutions, chapters 14, 15, 16 and 19.

2. R. Miliband, "Marx and the State".

3. D. McLellan, The Thought of Karl Marx, pp. 182-183.

4. Ibid.

5. D. McLellan, Marx, p. 61.

6. Marx/Engels, The German Ideology, p. 80.

7. K. Marx, Grundrisse, p. 884.

8. Marx/Engels, "Communist Manifest", in Selected Works, p. 37.

9. F. Engels, "The Origin of Family, Private Property and the State", Selected Works, p. 578.

10. K. Marx, "Moralising Criticism and Critical Morality", in Marx/Engels, Collected Works, VI, p. 326.

11. Ibid., p. 328.

12. F. Engels, "Preface to the Peasant War in Germany", in Marx/Engels, Selected Works, p. 243.

13. K. Marx, "Lassalle", In Marx/Engels, Collected Works, VIII, p. 464.

14. K. Marx, "Moralising Criticism and Critical Morality", p. 333.

15. F. Engels, "The Constitutional Question in Germany", in Marx/Engels, Collected Works, VI, p. 88.

16. Ibid., p. 78.

17. Ibid., p. 79.

18. Ibid., p. 89.

19. Ibid.

20. _Ibid._

21. _Ibid._, p. 90.

22. Marx/Engels, _Selected Correspondence_, p. 368.

23. H. Lefebvre, _The Sociology of Marx_, p. 126.

24. Marx/Engels, _Selected Works_, II, p. 543.

25. _The American Economic Review_, (May, 1975).

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