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The British Empire and the Economic Development of India (1858-1947)

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Abstract—*The Interpretations of the role of the state in economic change in colonial (1858-1947) and post-colonial India (1947-) tend to presume that the colonial was an exploitative and the post-colonial a developmental state. This article shows that the opposition does not work well as a framework for economic history. The differences between the two states lay elsewhere than in the drive to exploit Indian resources by a foreign power. The difference was that British colonial policy was framed with reference to global market integration, whereas post-colonial policy was framed with reference to nationalism. The article applies this lesson to reread the economic effects of the two types of state, and reflects on ongoing debates in the global history of European expansion.*

Keywords*: Colonialism, Nationalism, Developmental state, Industrialization, Institutions.*

1. INTRODUCTION

The literature exploring the link between European imperialism and economic development in the non-European regions has grown in the last 15 years, thanks to a shift of focus from empires as a political system towards the broader issue of European expansion and settlement. India, possibly the largest colony in territorial size and population in the 19th century, is yet to be closely integrated within this literature. Leaving India to the margins amounts to missing an opportunity, to refine the new paradigms being used to study the economic history of European expansion. On the other hand, within India, popular and academic discourse on the economic effects of British rule is yet to absorb the new trends in global economic history, with the result that impressions of the empire still derive from ideas popularized by Marxist and nationalist historiographies of an earlier era. These theories need revision too.

The present paper is an attempt to meet this twofold gap. It revisits the subject of governance in British India, and using that discussion, offers a critique of two ways of conceptualizing the economic effects of the British Empire in India. In one of these two models, the Marxist-nationalist one, the colonist country represents a dominant «core» and the colonized regions the dependent «periphery», and the core was a predatory force that ruled in order to extract surplus value from the periphery.

The paper argues that a core-periphery approach does work for India, but only when shorn of the rhetoric of surplus extraction. The relationship between the core (Britain) and the periphery (India) was driven by an overriding aim to maintain free markets in commodities and factors of production. British economic interest was an important force behind this project, but many Indian capitalists shared the goal as well, at least until the world economy fell in a crisis in the interwar years. The successes and the failures of the state stemmed from the manner in which this aim was pursued, rather than from the quality of institutions, it created.

The rest of the paper consists of six sections. The next section discusses the comparative economic history of European expansion, and how useful the literature is for the study of Indian economic history. The section that follows describes the theory and practice of governance prevailing in British India. The subsequent sections deal with the pattern of economic change in colonial India; interpretations of how the state shaped these patterns; an account of why nationalism won the battle for economic ideology; and the regulatory order that was erected after the Empire ended.

2. THE RAJ IN A GLOBAL ECONOMIC HISTORY CONTEXT

In India, the theory of predatory colonialism originated in the nationalist struggles against British rule in the early 20th century. In turn, the nationalist paradigm arose to rebut a 19th century liberal reading of the Raj as a force for economic modernization, achieved by means of free markets and integration of India in a Britain-dominated world economy. One of the pillars of Indian nationalism was the belief that the British, by forcing free trade and an open factor markets upon India, had ruined its economy and created poverty and underdevelopment. The nationalists did not employ the Marxist language of surplus extraction, but came close to it, by suggesting that Indians paid a heavy price for services

purchased from Britain, which payments became known as «drain».

The fact that the notion of the extractive state does not have a clear meaning in the case of British India does not mean that political un-freedom did not have economic effects in this case. It only means that colonial power was institutionalized differently, and in a way, that cannot be understood using the tools available from the settler economy literature. Political power was institutionalized in British India at quite a different level of economic organization from the kind of microeconomic regulations that settler societies saw develop. It was institutionalized in macroeconomic management, in fiscal and monetary policy in operation in British India. It is necessary, then, to consider in more detail how this regime was designed, and what it aimed to achieve.

3. THE THEORY AND PRACTICE OF ECONOMIC GOVERNANCE

Yet, the link between economic theory and colonial policy was not as straightforward as we may think. Classical liberalism, with its belief in liberty, came to accept the idea of colonies and un-freedom not without tortuous reasoning (Winch 1965). The joining of free trade with the Empire by Parliamentary lobbies was not always inspired by economic theory (Semmel 1970). Scholars who have studied how colonial policies were implemented find that the link between doctrine and practice varied over time and between contexts of practice. For the rulers of India, economics was sometimes useful merely as an excuse for policy (Ambirajan 1978).

After the governance of India was taken over from the East India Company by the British Crown, there emerged three centre of government, the India Office in London under a Secretary of State, the Viceroy or the Governor-General seated in Calcutta (Delhi after 1911), working in consultation with a Council, and the provincial governments headed by Governors. In order to maintain market integration between Britain, India and the colonies, the rulers of India used three principal means, control on the monetary system, which was exercised by London, commercial laws which were overseen by the Viceroy's Council in India and the army. The provinces looked after public goods such as roads, schools, and hospitals. Calcutta and London needed to work in concert to run the fiscal operation and the army, which were managed in India.

A significant function of the state — managing the monetary system — was performed in London. The India Office raised money from the City of London, balanced international obligations by selling bills and invested the Reserves in the City. The decision to conduct these financial operations in London was justified by the argument that London could supply funds in larger volume more cheaply because the transaction cost of financial operations was moderate there. The facility to borrow abroad was crucial for the Raj because its main source of income, land taxes, was unstable and insufficient for investment plans. The relationship between the City's finance capital and the Indian Office was so close that debt instruments took a bewildering variety of forms each serving a specific need, including Government stock, sterling bill, war loan, and loans of railway companies (Sunderland 2013). Occasional crises aside, until World War I, these deals facilitated Indian trade, borrowing abroad and the balance of payments.

One of the goals of the monetary system was to stabilize the exchange rate. An appreciation of the Indian currency, the Rupee, hurt Indian trade, and depreciation made it difficult for the budget to meet its foreign obligations (known as Home Charges). The balancing act was difficult but manageable as long as the British economy was growing. The only crisis then came from fluctuations in the value of silver. The Indian rupee being a silver coin, its market value was sensitive to the gold-silver exchange ratio.

A depreciation of silver should devalue the rupee, and rise in silver price revalue the rupee. These processes were not automatic, and in the case of a delayed adjustment, the exchange rate management hurt either business or the budget.

If the monetary system was closely managed, the record of the Empire in creating public goods was marked by a lack of sustained commitment. In part, the limited engagement had owed to the poverty of the state. The Raj ran a small government (Figure 1). In the 1920s, nominal tax collection per capita was percent of tax per head in Britain (adjusted by purchasing power, 6 per cent). British India was poor also in relation to most of Britain's tropical colonies and other Asian countries in the interwar period. Between 1920 and 1930, the government of the Federated Malay States spent on average more than ten times the money spent in British India per head, that of Ceylon spent more than three times, those of the Philippines and the Dutch East Indies more than double, and those of Siam and French –Indo-china 40-50 per cent more (Roy 1996). The Raj was a small government also in relation to its own national income. Government revenue as a proportion of national income was 2 per cent in 1871 and marginally higher at 3-5 in 1920-1930. It was 19 in Britain and 29 in Japan in the interwar years.

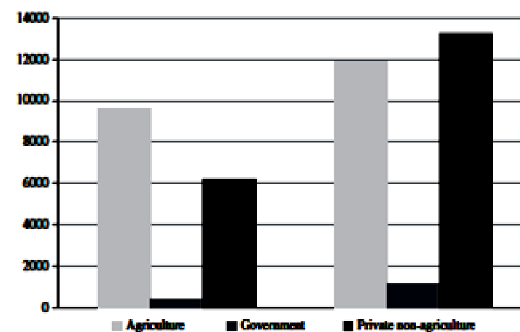

FIGURE 1
COMPONENTS OF GDP IN 1900 AND 1946 (MILLION RUPEES, 1938-9 PRICES)

Source: As Table 1.

An analysis of the revenue budget would explain the size of the state. More than half of the revenue came from land tax in the 19th century. The land tax was a tax on area of agricultural land privately owned. The tax per area was low because agricultural yield per area was low in India. In addition, it was stagnant because yield was stagnant. As land tax per area remained roughly constant over time, population growth made tax per head fall. Wealthy Indians did not try compensating forms of taxation such as customs duties and income tax until World War I due to the free trade policy or resistance.

Until World War I, the British army was more or less the same thing as the Indian army. It was funded out of the Indian revenues. Whether it could be used for British campaigns or not was a point of negotiation between Britain and India until 1923, when Britain agreed to pay a fee for the services of the Indian army. In the eyes of the rulers of India, the army brought peace in a region that had seen repeated conflicts in the 18th century. In both the World Wars, the Indian army was engaged. Its value was also seen in terms of maintaining peace in the wide expanse of the world where the Empire had created a vast market place.

After monetary system and the military, a third area of state activism was law. Intervention in this sphere cost the Empire a lot less money, and was politically less controversial too, partly because colonial law minded both indigenous law and political constraints. Legislative activity accelerated after the Mutiny, and slowed after 1900. The average number of «supreme government acts» passed every year was 0.6 in 1835-1850, 1.8 in 1880-1900 and fell rapidly thereafter. The most frequently used among the new laws were those related to procedure in general, and business procedure in particular.

The Code of Civil Procedure 1908, the Indian Contract Act 1872, the Evidence Act 1872, Limitation Act 1908, Stamp Act 1899, and Registration Act 1877 accounted for 70 per cent of all High Court suits settled in 1900-1910. The pattern of legal reference in these years suggests that the legislative process responded to problems of business transaction. By the same logic, legislative drive weakened later because international business was in retreat after World War I (Roy and Swamy 2016). Such was the political economy of the Raj. Can we measure the economic effect of the political economy?

4. ECONOMIC CHANGE: GENERAL PATTERNS

Per capita income rose exceedingly slowly in the colonial period, possibly just above 1 per cent per year in the late 19th century (Heston 1983), and near-zero in the early 20th century (Sivasubramonian 2004). However, average income is a misleading statistics for colonial India. When we decompose the average income, we see that there was consistently poor growth of agriculture, and consistently robust growth in income from trade, construction, and manufacturing. Rather than the slow growth of average income, it is the divergence between agriculture and non-agriculture that needs to be explained with reference to the political economy of the Empire. Colonial India was predominantly an agricultural economy (Figure 1).

TABLE 1
GROWTH RATES OF REAL NATIONAL INCOME

	National income	Population	*Per capita* income
1860-1885	1.8	0.5	1.2
1885-1900	1.0	0.6	0.5
1900-1914	1.4	0.4	1.0
1914-1947	1.4	1.1	0.1

Source. Heston (1983) and Sivasubramonian (2000).

Between 1900 and 1946, GDP increased by 60 per cent. With population growth beginning to accelerate in the first half of the 20th century per head income rose by only 10 per cent (Figure 1 and Table 1). The average standard of living changed so little because GDP in agriculture, which employed over 70 per cent of the workforce, grew by 15 per cent in these years (Figure 1). Given the size of agriculture, stagnation in this sector depressed wages all round and made poverty too common. Land productivity was low by international standard, stagnant and sometimes falling between 1890 and 1947 (Blyn 1962).

Marxist historians attributed the stagnation to property right reforms and colonial markets resulting in progressive indebtedness and impoverishment of the peasants. The historical record on the peasants, however, is too mixed and differentiated for any generalization to be sustained. The evidence that when trade and transportation costs were relatively low and canal water was available, the peasants perceived, responded to and gained from profit opportunities, and that debts were in such cases often a sign of prosperity and not distress is robust enough. Further, if colonial intervention were to explain low and stagnant agricultural yield, we need to show that yields were higher and upwardly rising before colonialism (or in areas not directly ruled). There is no compelling evidence to show this (Roy 2013).

As the Mughal Empire collapsed from the 1720s, a number of merchants and bankers migrated to the capitals of the rising regional states such as Hyderabad, Luck now, Pune as well as the three port cities, Bombay, Calcutta and Madras, which had been established by the British East India Company in the 1600s. In the 19th century, more of the Indian capitalist migration was directed to these ports. The Company's own reach in Asia and Europe increased access of the Indian merchants of these cities to first Chinese and then British markets, and the access of British investors to projects in India, including railway construction and banking and insurance businesses. The bankers of Bombay and Calcutta could rediscount hundis (the indigenous trade bill) and invest in shares readily because big corporate banks of the cities, and the British Indian courts, recognized these instruments. Soon after the British Industrial Revolution became a global force

— around the early-to-mid-19th century — the Empire became the main destination of Indian export. Relatively speaking, there was a diversion of Indian trade from China to Britain and its colonies, dominions and parts of the world where British commercial access was established. Likewise, Britain was the major source of India's imports until World War I. Whereas in the 18th century, Indian exports consisted of artisanal manufactures like fine textiles; in the 19th, exports consisted of primary products such as grains, seeds, raw cotton, hides and skins, oilseeds and raw jute, and imports consisted of manufactures, mainly Manchester yarn and cloth. The opening of the Suez Canal in 1869 much reduced the cost of carrying bulk goods from and to India.

The estimated volume of foreign trade to and from India more than doubled in 1865-1914. The volume of trade through the three British Indian ports increased from 1.6 million tons in 1863 to 8.6 million tons in 1913 (the figure includes coastal trade). The figure dropped thereafter to recover to 10 million in 1937. The estimated ratio of foreign trade in national income increased from 8-10 to 20 per cent in 1865-1914.

The railways that came up in the Indo-Gangetic plains drew cargo away from boats and carts, but the lines that appeared in peninsular India, which had earlier relied on the expensive and slow bullock caravans for the transport of bulk goods, revolutionized transportation links between the land-locked interior and the seaboard. The bankers and traders who remained inland took part in commodity trade on a larger scale than before. The merchants were financed not by the small number of corporate banks, but by indigenous bankers and moneylenders. By 1920, the biggest market for rediscounting of indigenous trade bills, the hundi, was located not in the interior, but in Bombay and Calcutta.

By 1914, the fourth largest cotton textile mill industry in the world financed and managed by Indians had come up in Bombay. A third of the cotton spindles in use outside Western Europe and the United States were installed in India, and over half of the spindles installed in the tropics were in India. A jute textile mill industry, which supplied packaging material to the commodity traders of the whole world, had emerged in Calcutta under European management, with considerable Indian shareholding. Between 1850 and 1940, employment in factories increased from <100,000 to 2 million, at an average annual rate of 4 per cent (Roy 2011). Real GDP at factor

Cost originating in factories rose at the rate of 4-5 per cent per year between 1900 and 1947, and employment at 4 per cent (Siva Subramanian 2000, pp. 201-203, 287-288, 293-294).

These rates were comparable with those of the other emerging economies of the time, Japan and imperial Russia, and considerably more impressive than the patchy and uneven industrialization the rest of the contemporary tropical world. Much modern enterprise such as factories, corporate banking, insurance, technical schools, hospitals, universities and public services needed to import services from Europe. India had goods to sell. It did not have an adequate supply of skills and technology. In order to set up factories, Indian businesses imported not only machines, but also the engineers and the supervisors to operate these. Likewise, firms and organizations routinely hired expatriate doctors, scientists, university teachers, lawyers, and military personnel, even when Indian firms owned these. In this way, there emerged a distinctive feature of the Indian balance of payments. From a bookkeeping angle, India maintained a surplus on the trade account, and a deficit on the services account. One of the larger components in the payment was the Home Charges, a payment made by the government because of debt service, pensions, railway subsidy, and other heads. Private outflows, such as repatriated profits or remittances by managers and employees of foreign firms, were probably larger (Table 2).

TABLE 2
COMPONENTS OF THE BALANCE Of PAYMENTS (1898)

	Million rupees	% of GDP
Net export	147	1.14
Home charges	-220	-1.71
Net government debt	220	1.71
Invisibles	-322	-2.50
Foreign investment	40	0.31

Note: The Indian rupee stood at 17.1 with respect to pound sterling in 1898.
Source: Banerji (1995) and Sivasubramonian (2000).

5. HOW DID THE STATE SHAPE ECONOMIC CHANGE?

The Empire helped capitalist growth indirectly by keeping borders open, passing new laws of contract and negotiable instruments, and making sure that the military and naval power protected sea routes and aided South Asians going to China, Southeast Asia, Central Asia, and Africa for trade. In addition, it made India an attractive destination for British capital. Directly, the Empire neither helped nor obstructed the growth of trade and industry. After the large defence spending was taken out of the budget, the state had little left to spend on welfare or infrastructure. The Raj did not directly help Indian industrialization, as the openly pro-Lancashire tariff policy until the 1920s showed. However, nor did it try to stop it.

The most striking legacy of the open economy was industrialization. Interestingly, industrial capitalism emerged in a region where textbook prerequisites for industrial capitalism to emerge had been missing in 1850. Factor prices, for example, were unfavorable; interest rates were two to three times higher in India than in the financial centers of Europe. An activist state, which Alexander Gerschenkron and his followers treat as an axiom for catching up industrialization, was absent. The Empire that ruled India was as far away from the «big push» of early development economics or the «embedded autonomy»«,developmental state» and «governed market » that account for the industrialization of East Asia as

we can imagine. Post-war development theory and socialist models set store on a high rate of saving. The saving rate in India was around 5 per cent of GDP in 1920.

A lot of private saving was locked up in gold and silver jewellery. Historians of early modern Britain stress the contribution of a prior agricultural revolution to British industrialization (Wrigley 2006). Indian agriculture was characterized by some of the lowest yields on record, and as far as we can reliably measure, experienced no secular trend in yield in the 18th century.

If industrialization was possible at all in spite of these obstacles, two factors were responsible above all, the availability of indigenous entrepreneurship in trade and finance, which brought down the cost of capital in transactions within the business community, and factor market integration. By facilitating movements of goods and people, the Empire reduced the cost of accessing knowhow needed by industry. As opposed to an earlier time when knowledge was carried abroad by migrant artisans, in the late 19th century useful knowledge travelled in the shape of traded machines and manuals. Mass production of textile machines in England considerably reduced the transaction cost in the knowledge market. Bombay's merchants bought the machines, and hired from Manchester the supervisors to work these. The language of business in the port cities was not English, but English was widely understood.

The very ease of buying machines seemingly made Indian mill-owners take little interest in technology. Persistence with British standards caused problems especially when Japanese cotton textile mills started competing with the Indian ones, from around 1890 (Kiyokawa 1983). Some of the technologies introduced in India had limited learning effect because they were managed by the state. Railways are an example (Hedrick 1981). However, the positive externalities of foreign knowhow tend to be underestimated, possibly because they were so confined to the cities. In cotton textiles, between the first mill set up in 1854, and 1925, the percentage of Europeans among the supervisory staff decreased sharply. In another industry, iron, and steel, imports from Britain hurt artisanal producers, but the easier availability of British knowhow encouraged import substitution by mid-sized firms using the reverberatory furnace and coking coal. An extraordinary development of endogenous skill building using the open market for skills was the firm of the Tatas. Initially, a textile producer, the founder of the house Jamsetji Tata, established an integrated steel factory in 1907. The vertical integration model that was planned, complete with coal washer, labor barracks, township building and mines, would have been unthinkable in 1850. It was feasible, if still challenging, in 1907 because of the railways connecting the mining sites, data available from geological surveys, an Indo- European advisory team, purchase contracts from the railways and heavy dependence on European (later American) supervisors in the shop floor. By the 1930s, the Tata steel plan successfully reduced its dependence on foreign experts and supervisors. In many skilled craft industries, the access to British knowhow brought new tools and cheaper manufactured raw materials within easier access to the producers (Roy 1999).

6. WHY THE EMPIRE FELL

Neither drain nor deindustrialization worried the Indian capitalists too much in the 19th and the early 20th century. Yet, by the 1930s, a number of prominent industrialists had started financing the freedom movement.

Increasingly, the Indian capitalists worried that the lack of monetary autonomy would hurt private enterprise while the state, which was going steadily bankrupt, tried harder to balance its budgets by manipulating currency. As the government made some of the payments abroad, the government had an interest in avoiding depreciation, as we have seen. Facing a difficult fiscal situation in the 1920s, the colonial government had done just that, at the expense of business interests.

The critical weakness of the Raj was the manner in which monetary policy and military policy were decided in London. By making both of these fields non-negotiable prerogatives of London, during much of its career the Raj appeared to the educated Indians as a «military despotism». In political culture, it reflected that aggressive elitism. For 8 months in a year, the government sat in a remote hill station insulated from the heat and squalor of the plains. Its proceedings were ritualistic. A Council technically advised the Viceroy, but the deliberations within the Council did not allow for open discussion. The government left no room for internal debate and introspection. There were no Indians in the secretarial staff around the Viceroy. A reform measure in 1909 had introduced a few elected members in the Council, but that did nothing to change the ritualistic mode of its functioning.

The fiscal operation reflected the despotism. Because of the priority that defence enjoyed, effective decentralization of the public finances remained a slow and limited process. Provinces — in charge of healthcare and education — were the least well funded among the three arms of the government, and they complained bitterly about it. The introduction of elected legislatures in 1919 and 1935 modified this setup, but did not replace it.

By 1900, the government of India had grown immune to criticism. It did not help that the major platforms for criticism were located outside the government. The Indian National Congress was established in 1885. At that time, there was lively associational activity in the port towns. The Congress was formed partly as an initiative to coordinate some of that activity. Around 1900, the Congress began to make serious demands for representation and self-government. These demands took on an international color by borrowing the words Home Rule from the Home Rule party in Ireland. The demands were met with repression until the end of World War

I. When it became evident that Indian contribution to the War had been vital to Britain's victory, a conciliatory stance was adopted leading to legislatures in the centre and the provinces. These were significant reforms, but only when seen against the extraordinarily rigid political setup that had functioned until then. Few Indian politicians were happy with these moves. In any case, events overtook these reforms quickly.

Until 1920, nationalism in India was shaped by the views of the Empire's critics in the port cities. They consisted of the educated Indians, some of whom had grievances against the racially prejudiced way recruitment and promotion was done in the higher levels of the government. Public intellectuals gave some substance to that disjointed critique, but in themselves, these voices did not have much political effect. When the Congress got its act together in the 1920s, bigger issues like poverty, famine, and welfare came to the forefront. Agriculture became a rallying point in the nationalist movement in the 1930s. In that decade, the nationalist leader M.K. Gandhi, who had recently returned from a legal career in South Africa, successfully turned an elitist political movement into a mass movement by going to the countryside. The mounting agricultural crisis made the move timely.

At the same time, India's contribution to the War strengthened a lobby that wanted more autonomy for India. Through the 1920s and the 1930s, these two lobbies disagreed over different aspects of economic management. The share of Britain in Indian imports fell. Asian trade was stimulated by the emergence of modern industry in Japan. The Asian surge worried the rulers of India, and was the impetus to the Imperial Preference (1932), which tried to create a customs union among the British colonies. It is not surprising that many Indian firms as well as the lobby demanding more autonomy for India resented the move. As the Sterling became unstable, the external accounts faced a predicament. Indian businesses contended that the India Office was shielding the budget at the cost of business by maintaining an overvalued exchange and by deflating the economy (Tomlinson 1979; Balachandran 1996). A long-standing claim by the Indian nationalists that London's financial operations made India serve Britain's economic interests acquired wider acceptance. Britain did grant India monetary autonomy in 1935 in the shape of the Reserve Bank of India, but the move came too late.

In the 1940s, when independence was imminent, a blueprint of development drawn up by a group of wealthy capitalists and known as «the Bombay Plan» declared that the future of India should be a closed economy and a state-dominated economy (Kudaisiya 2014). Where did that idea come from? It did not come from a reading of history. The Bombay Plan, like a number of other plans designed in the decade before 1947, was shallow in its reading of history. It bypassed agriculture, rejected trade, forgot to mention foreign firms, and deferred without good reason to the socialist lobby. The most famous member of the socialist set was the first Prime Minister Jawaharlal Nehru. By paying respects to socialist politicians, the authors of the Bombay Plan possibly hoped to gain unconditional access to Indian markets in return.

7. AFTER THE EMPIRE: ECONOMIC NATIONALISM

In 1947, the South Asian mainland was partitioned into two countries, India and Pakistan, and in 1971, a further division took place with the birth of Bangladesh. Despite these far from peaceful changes in the map, the transition to a national economy in each case, especially in India, occurred with relatively little friction, owing to substantial continuity in institutions, an indigenization of the bureaucracy affected in the final years of the Raj and the legislative reforms of 1919 and 1935.

After independence, the Indian Union chose to carry out import substituting and state-directed industrialization. The strategy, which was a departure from the cosmopolitan capitalism of the Empire era, received.

Intellectual support from the export pessimism ruling the world in the 1950s, and socialist lobbies within the Congress that advocated central planning. The lesson learnt from history was that India needed to insulate its economy from trade and investment and build a strong state and closely regulated markets. Development policy was inspired by this reading of the past. GDP growth rate was raised sharply by a substantial increase in government investment. Protection was raised to very high levels and reinforced with non-tariff barriers. Commodity export was discouraged. The fear of a recurrence of famines and shortages led to state control over grain trade. Independent India, thus, set out to replace the Raj's legacy of a small state, free market and open economy with a large state, public control of markets and assets, and an insular economy.

8. CONCLUSION

A summing up of the narrative history is in order. The British Empire of the 19th century inherited two things from the East India Company, a commitment to maintain an open economy, and a large military force. In the 19th century, these two things became compatible assets of great value to Britain. The open economy sustained by British military might was an asset for many Indian capitalists too. National income statistics show that private non-agricultural enterprise experienced significant growth in the early 20th century. But the means used to maintain openness — London's control of

Monetary and military policy and a neglect of developmental expenditure— became controversial and eventually brought the Empire down by making it unattractive to Indian capitalists. Using this narrative, the paper offers two sets of lessons, one for comparative history, and another for the study of post-colonial development in India. Where did real power lie in this regime, with the dominant core (equivalently, capitalists located in the core), or among settlers in the

periphery? Settlement, in fact, was a more or less irrelevant fact in this case.

The core was the clear source of power. London did make key economic decisions for India, and tried to monopolies its control over these decisions. What did power achieve? The core ruled not in order to devise and maintain extractive ethnically biased institutions, and eventually replace these with benign and efficient European ones. That idea popularized in the settler economy literature does not work for India. The core ruled in order to sustain economic integration. The core ruled not by means of unequal laws, but by taking the reins of the monetary system, and indirectly, the fiscal system. It wielded these instruments in order to stabilize trade and currency, reduce risks of exchange, and maintain the Indian state's payments to Britain. In short, it ruled to sustain openness, as the term would be understood in the context of the pre-war British world. This proposition works as a link between colonial and post-colonial India. If British colonial policy in India was framed with reference to a global economic order, post-colonial policy in India was framed with reference to economic nationalism, namely, the idea that a strong nation needed a strong economy.

The strong national economy should be led by the state, and if need be, insulated from world competition. In respect of macroeconomic environment, the key differences were openness and the size of the state. The openness of the colonial era had led to the emergence of a robust cosmopolitan capitalism centered in the port cities. However, maintaining openness carried significant costs. The costs came in the forms of a despotic political culture that prioritized military expenses above all other forms of spending, and the failure to address the key challenge of development, transforming rural livelihoods. Driven by economic nationalism, the post-colonial state nearly destroyed the cosmopolitan heritage of the colonial times, and devitalized trade. However, it raised much larger funds for investment, without which the agricultural revolution of the late 20th century would be unimaginable.

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