

9

The Government of India's 'New Industrial Policy', 1900-1925: Formation and Failure

CLIVE DEWEY
University of Leicester

Between 1900 and 1920 the Government of India gradually acquired a new industrial policy.¹ There was no point of decision: no particular date on which a new policy can be said to have been adopted (or abandoned) by a particular body of men. Nor was the policy, at least at first, a very definite set of proposals. Like any complex economic policy with an ambitious goal and numerous components, it changed over time; and at the same time, too, it meant different things to different people. It began with piecemeal initiatives at the centre and in the provinces, each intended to encourage industrial growth, but not adding up to much. Then, slowly, these haphazard measures were sifted, coordinated and augmented, until they formed a comprehensive industrialization programme. The outstanding characteristic of this programme was the sheer amount of state intervention it contemplated: a degree of intervention which distinguished the new industrial policy from the *laissez faire* that had come before, and the neglect that was to follow.

The official mind identified five leading constraints on development.² Indian entrepreneurs—like entrepreneurs throughout the underdeveloped world—were supposedly ignorant of the full potential of western technology, and certainly encountered difficulties when they tried to adapt western methods to Indian conditions. Indian labour, if cheap, was inefficient; there were shortages of technologists, supervisors, and skilled artisans. Indian capital was not so much in short supply as shy of new ventures; it preferred traditional investments in trade, or land, or moneylending. Indian demand for

manufactured goods, especially producer goods, was limited by low purchasing power and competition from imports. Finally, there was no ubiquitous source of cheap power.

All these problems, the new industrial policy implied, could be solved through state intervention. The Government of India was to provide the kind of information would-be industrialists needed by systematically disseminating 'commercial intelligence'. An entire cadre of consultants was to answer specific enquiries and give expert advice on particular projects; while a similar 'service' of industrial chemists would undertake research on issues of general concern, and problems brought to them by firms too small to employ their own research staff. 'Pioneer factories' capable of demonstrating the profitability of new products or processes in India, and the kind of adaptations required, were also to be set up. The shortage of technologists was to be overcome through a vast expansion of technical training, and reforms intended to make technical education much more responsive to industrialists' felt needs; skilled artisans were to be trained through a reformed apprenticeship system. Capital was to be provided by state-aided and state-supervised industrial banks which would enjoy the investing public's confidence; in specially deserving cases the state might supply capital direct. The inadequate home market was to be augmented through protection; through agricultural development, which would raise the purchasing power of the mass of the population; and through the systematic deployment of government orders, centralized in a new Indian Stores department. As for power, officials pinned their faith in hydro-electricity—which the state was to develop as a public utility alongside irrigation.

The definitive statement of the mature policy was the report of the Indian Industrial Commission, published in 1918.³ Contemporaries who instinctively compared the Commission's recommendations with the general run of Indian economic policy between 1858 and 1947 rightly regarded them as a radical and prescient departure. But it is possible, indeed necessary, to view the new industrial policy in two perspectives. If one employs a different frame of reference—if one looks at the policy in the light of eighteenth century mercantilism or the comprehensive economic controls adopted after independence—then the radical new departure shrinks into an ephemeral qualification of a classical market system. Attempts to evaluate the policy are, in consequence, inevitably ambivalent. Considering how little was

known of state-led industrialization in underdeveloped areas when the new industrial policy was formulated, the Industrial Commission's report—the culmination of a chain of administrative thought stretching back some twenty years—was an extraordinarily interesting exercise in applied economics. Their programme rested on a series of pragmatic insights into the needs of Indian industrialization, and perceptive hypotheses about the process of industrialization, superior to those of any contemporary economics text. An awareness of aspects of development like the role of forward and backward linkages, the implications of a dual economy, or the choice between 'balanced' and 'unbalanced' growth, which had to be rediscovered by the development economists of the 1950s, informed the official analysis of the obstacles to industrial growth and the steps that had to be taken to overcome them. It seems doubtful if any other country—Germany and Japan not excluded—had so impressive a blueprint for growth. But no economist would now read the Industrial Commission's report for the sake of the 'anticipations' sandwiched between swathes of bureaucratic platitude and administrative minutiae. In comparison with the most sophisticated five year plan, the Commission's report is a crude and conservative document.

An advance on the past, an imperfect approximation to the future: the new industrial policy was both these things at once. And which facet of the same stone one chooses to hold to the light depends largely on whether one wants to explain the policy's adoption or its failure. The first part of this paper is a study of the evolution of a set of practical and plausible proposals which made up in shrewdness what they lacked in theoretic rigour. Politically articulate Indian opinion was massively behind them: the Government of India endorsed them *en bloc*; the Secretary of State raised no objections. They should have been effective as a means of promoting industrial expansion, if not an industrial revolution. Yet they failed. Industrial growth in the 1920s and the 1930s was spasmodic. The few spectacular success-stories—steel, say, or sugar—were heavily dependent on a single form of government encouragement: protection. There was no coordinated development of inter-dependent industries; little change in the relative importance of the industrial and agricultural sectors; no real increase in the proportion of the population employed in agriculture. So the programme's limitations—deficiencies both of formulation and execution—decisively influenced India's inter-war development, and are the subject of the second part

of this paper. As one of the earliest—if not the earliest—attempts to industrialize a profoundly impoverished subcontinent, the conception and abortion of the 'new industrial policy' has a relevance extending beyond the Indian experience: it has implications for the economic history of twentieth century colonialism as a whole.

The Adoption of the New Policy

However variable the new industrial policy may have been, the factors favouring acceptance of the principle of state intervention to encourage industrialization remained remarkably constant. Their relative importance fluctuated, but with one major exception—the impact of war—the 'causes' of the new policy were the same in 1920 as they had been in 1900. First and foremost was the inherent momentum of the bureaucracy itself. Even in a country like nineteenth century England, where the central civil service was weakly developed compared with politics and local government, a 'revolution in government' has been attributed to the initiatives of administrators responding to administrative imperatives, and in particular to their desire to meet the objectives set them with ever-increasing effectiveness.⁴ In early twentieth-century India, where administration subsumed local government and politics alike, and the civil service was dominated by a small, tightly-knit *corps d'élite*, policy formation was far more likely to be influenced by administrators' felt-needs. The topmost echelons of the Indian bureaucracy were deliberately freed from the routine of day-to-day decision making so that they could discharge their principal function: a continuous review of the working of the entire state apparatus. The senior civilians who could analyse the defects of branches of the administration and push through workable reforms were the men who won their contemporaries' respect, and 'left their mark on India'. This process of bureaucratic introspection and initiative was normally inhibited by inertia, especially intellectual inertia; by financial stringency; or by political interests. If ever these constraints were removed or ignored—as they were during Curzon's viceroyalty and the first world war—surges of administrative creativity followed.

The most spectacular example of the administrators' desire to fulfil a traditional function effectively leading to the evolution of wholly new policies was the hotly-contested partition of Bengal. The same process underlay the formation of the industries departments and the appointment of the Industrial Commission: the two basic

changes in the way industrial policy was formulated, which made the new industrial policy possible. The new industries departments were the creation of Curzon's viceroyalty. It is possible to exaggerate the importance of a single individual, even a viceroy, in a policy formation; but in a hierarchic, authoritarian bureaucracy like the unreformed government of India, the personality of the viceroy could be as crucial as the personality of a medieval monarch to his kingdom. Curzon, moreover, was an outstanding administrator: perhaps the greatest administrator India has ever known. No one who has read the economic policy files of his viceroyalty and compared them with the records of his predecessors and successors can fail to be impressed by the galvanic effect of Curzon's remorseless determination to define and resolve every problem confronting the Government of India for which an administrative solution could be found. The first principle underlying his government, Curzon claimed, was 'the recognition that for every department of the State . . . there must be a policy instead of no policy . . . based upon accepted premises . . . and laid down in clear language, understood by the officers who have to apply it and intelligible to the people to whom it is applied'.⁵ Called upon to sum up his policy in a single word, Curzon chose the word 'efficiency'.⁶

It was this similarity of outlook and ability, more than any bonds of personal sympathy, which made Curzon an effective leader of the most talented imperial secretariat of the age. The councillors and secretaries who collectively created the new industries departments—first at the centre, then in the provinces as they rose to become lieutenant-governors—were characterized by high intellectual ability, outstanding career success, and a common determination to vindicate British rule through dedication to their work. It was these men who were so affronted at the fiasco the Government of India's industrial policy had become, because it reflected on their professional competence. In 1900 the Indian state already accepted some responsibility for the provision of technical education, commercial intelligence and patronage. Internal inquiry showed how badly it provided all these things. A report by Sir Edward Buck—the driving force behind the department of revenue and agriculture set up in 1881 to do for agriculture what the department of industry and commerce was subsequently intended to do for industry—and the discussions at the Simla Education Conference summoned by Curzon to reform the Indian educational system exposed the divorce between

industry and the government's technical institutions.⁷ Curricula were simply not adapted to the manpower needs of local industrialists; and classroom conditions did little to accustom pupils to conditions in the workshops where they would actually have to employ their skills. The standard of instruction was low: teachers were badly trained, poorly paid, and oppressed by a sense of their own futility. The volume of instruction, also, was minute. So, in a country where factory owners constantly complained of the shortage of skilled artisans, pupils of the government's industrial schools were unable to find work.

The quality of official commercial information also attracted complaints from the business community, who resented the delays they encountered in trying to extract information from government departments which only they could give.⁸ The demand for information was growing. As India entered the international economy as a major exporter of primary produce and an importer of manufactures, expatriate traders found their profits were directly dependent on their knowledge of the *mofussil*; while Indian entrepreneurs, eager to exploit the potential of western technology, wanted expert advice in adapting it to the Indian environment. They also wanted state patronage. Since 1875 the Government of India had bought pig iron from the one modern iron works in India—the Bengal Iron and Steel Company's plant at Barakar.⁹ But they had made no systematic attempt to use the three great spending departments' combined purchasing power to encourage industries of special strategic or artistic value. The stores purchase rules directed requisitioning officers to buy items of the required quality as cheaply as possible; and this meant, in practice, that they bought British, not because British goods were necessarily cheaper, but because the India Office had a proper stores department staffed by expert inspectors who accepted responsibility for the quality of the stores they supplied, something individual requisitioning officers in India were unable or unwilling to do.¹⁰

Workable solutions for these administrative blemishes were hard to find. An 'expert' committee was appointed to devise a new system of technical education; it proved—after inordinate delay—hopelessly incompetent. Curzon asked the provincial government's advice; their replies oscillated 'between bored indifference and futile suggestion'.¹¹ The commercial bureau which was to play the part of an Indian Board of Trade foundered amongst the *laissez faire* prejudices of the

India Office officials; the journal it produced was denounced as 'either hopelessly bald or deadly dull . . . the flotsam and jetsam of the Statistical Department'.¹² The revision of the stores rules directing requisitioning officers to satisfy themselves that Indian goods were not available before they indented on London, and to allow Indian goods a 5 per cent preference, had no effect because no stores department was set up in India.¹³

By 1903, accordingly, there was a general realization inside the imperial secretariat that piecemeal reforms were unlikely to produce results. Something always went wrong: reforms were not pushed hard enough, were not based on the necessary knowledge, were not coordinated. At base it was the attempt 'to run an empire with a staff that would be deemed inadequate in a second-class European kingdom' that was at fault; and the remedy was specialization: recourse to 'special departments and special men . . . instead of allowing technical subjects to be dealt with at the end of a day's work by a tired out (generalist) civilian'.¹⁴ A committee of secretaries carved out a new department of industry and commerce from the work of the existing departments; and Curzon's council justified the new departmental system to the Secretary of State on purely administrative grounds. 'The great and still unarrested increase of public business' was what made it necessary—not a *new* policy, but the execution of old established functions in a changing world. Nowhere else, the Government of India argued, was so much work transacted 'by a body of high officials so small in numbers or so habitually overstrained. Indeed no comparison is possible for nowhere else in the world are the affairs of nearly 300 millions of people administered, according to the standards of western civilisation by a single . . . executive body'.¹⁵ The argument that any government 'must be constantly pressing forward in the direction of reform, if a decline in the quality of the administration is to be avoided' had a universal appeal for professional administrators; and the very officials at the India Office who vetoed the extremely modest proposals for a commercial bureau accepted the far more ambitious department of industry and commerce—as a 'purely administrative measure'.¹⁶

The same desire for the effective implementation of existing policies underlay the establishment of the first provincial industries department. The official who was more than any other responsible for the creation was Alfred Chatterton. Chatterton started out as a

professor at the engineering college at Madras. Depressed by the futility of the 'industrial schools' the local government administered, he set out to devise a more efficient way of disseminating new skills and techniques. A man who could 'make things happen', Chatterton first concentrated on the depressed handicraft industries; but the handicraft industries, which seemed well advanced on an irresistible decline, offered too little scope. If the pupils of the government technical institutions were to find employment, it was necessary to start more modern industries to employ them. It soon became apparent that Chatterton's innovations, above all his 'pioneer factories' run on commercial lines to demonstrate the profitability of new products and new processes to local industrialists, had run far beyond the competence of the education department which employed him; and the obvious solution was the creation of an entirely new department—of 'industrial advice'.¹⁷

Ten years later the appointment of the Industrial Commission exemplified the same transition from a quest for efficiency to the assumption of new functions. The Commission was the immediate outcome of initiatives taken by the commerce and industry department in 1914-15; and the argument in favour of appointing a commission which the industry member and his secretary cited at the beginning of all the notes they wrote was the need to formulate a clearer, more authoritative policy before the department could operate effectively. They wanted to assess practices which had grown up in the provinces; to find out how the most interesting experiments of all—the pioneer factories—had turned out; to discover just what industrialists did want by way of technical education; to appraise the loans and subsidies given a few selected concerns; and so on. They were conscious that everything that had been done so far had been done haphazardly, without coordination; and they were uncertain, even, as to what they were permitted to do. Three successive secretaries of state had sent different sets of instructions amplifying, qualifying or contradicting their predecessors. The department wanted to be told what it was supposed to be doing, and how to do it; the Industrial Commission was their answer to an institutional 'crisis of identity'.¹⁸

So the bureaucracy's own imperatives were one source of the new industrial policy; but initiatives taken by isolated civil servants, or even localized groups of civil servants, would have come to little in an unfavourable environment. There were forces for administra-

tive stagnation, as well as administrative change; and if there were good reasons for action, there were often better reasons for abstinence. Men's thoughts and actions ran in customary channels: it was habit, above all, that made it necessary to present potentially radical innovations as mere adjustments intended to maintain historic equilibria. '*Laissez faire*'—indeterminate as the term may be—was a serious obstacle to official acceptance of the new industrial policy. There was no question of policy-makers applying a sophisticated model of development through the free market, hedged about with qualifications and exceptions in the manner of Mill. What stuck in their minds was a series of inflexible axioms: the *reductio ad absurdum* of a great intellectual heritage. The central canon of this creed was abstinence from interference with private enterprise—on the theoretic ground that state intervention only distorted the market's 'perfect' allocation of resources to their most productive uses, and the empirical ground that whatever the state could do private enterprise could do better. The taboo of non-intervention was constantly invoked by the new industrial policy's opponents; and under a like-minded or complaisant Secretary of State it often carried the day.

The converse was also true; officials with a wider notion of the state's legitimate functions were irritated by the Government of India's failure to do what it was obviously obliged to do. Curzon had just such a concept of the state: he publicly rejected *laissez faire* as irrelevant in India, and obsolescent even in the country of its birth. 'The days are gone by,' he told the imperial legislative council, 'when Government can dissociate itself from the encouragement of . . . enterprise. There used to be a sort of idea that business was an esoteric thing, to be conducted by a narrow clique, who were alone possessed of the oracles of wisdom, and with whom Government were hardly supposed to be on speaking terms. That was an absurd theory at any time. It is additionally absurd in a country like India, where the Government . . . builds and works railroads . . . controls the sale of opium and salt . . . maintains giant factories . . . and . . . is the largest employer of labour . . .'¹⁹ Unfortunately for Curzon's plans the India Office was 'the only part of the empire where pure political economic doctrines still prevail'.²⁰ There were some councillors and secretaries who shared his conviction that 'no industry would ever start into being if the political economists were allowed to watch over its birth';²¹ usually the younger men, who had been civilians in India and had just returned to Whitehall, often in mid-

career. They were contemporaries of the councillors and secretaries who were running the Government of India; they were naturally tolerant of policies they had had some part in formulating; and they shared the same mental horizons. Such men, however, were outnumbered by home civil servants who had never been to India and elderly civilians who had retired years before; and found themselves out of sympathy with the younger generation in India, busily overturning their own cherished administrative arrangements. 'There is probably no country in the world,' the financial secretary noted, almost exactly inverting Curzon's words, 'where an extension of Government activity is more to be deprecated than it is in India; and . . . it would probably be impossible to choose a more unsuitable time than the present at which to inaugurate such a policy, even if the policy itself were suitable to India.'²² The real leader of the opposition to Curzon's commercial bureau was an outsider: an archetypal late Victorian entrepreneur. Sir James MacKay, subsequently Lord Inchcape, was a Scot born into obscurity who went out East to make his fortune, got a clerkship in an expatriate house, rose to control the Peninsular and Orient Line, acquired an earldom, built a Scottish baronial mansion, and bequeathed a business empire to his heirs. The rugged individualism of his economic thought matched the uninhibited aggression of his career. He was the solitary member of the English Commercial Intelligence Committee of 1898 to oppose the establishment of a department of commercial information to encourage British trade; and as the representative of 'commerce' on the Council of India he denounced 'anything that would impair the value of the information already obtainable by private enterprise, or . . . induce manufacturers and traders to rely on the state, rather than on their own efforts . . .'²⁴ Defeated in Whitehall, he succeeded in India. There was no one at the India Office to stand up against him, Curzon commented, 'since they are all children in business'.²⁵

The same contrasting sets of ideas came into conflict over the Madras industries department. The pioneer factories which Chatterton ran on commercial lines to prove their profitability lay at the heart of the dispute. At the 1908 Ootacamund Industrial Conference spokesmen for the Madras Chamber of Commerce repudiated the government's attempts to 'encourage' them. The British business community regarded Chatterton's factories as unfair competition calculated 'to drive private enterprise from the field'. Their funda-

mental objection, the chairman of the Chamber of Commerce explained, was 'based on the general principle that Government should confine itself to governing'.²⁶ This was a principle that found subscribers at the India Office. Chatterton's appointment as 'director of industrial and technical inquiries' had been approved with some reluctance. 'I have the strongest doubts as to whether . . . intervention . . . in industrial development is justified,' one member of the India Council said, 'I regard it as a waste of money and wrong in principle. I don't believe as a rule in attempts to create industries . . . and the probabilities are that the lethargy of . . . Madras . . . is due to causes beyond the reach of State effort.'²⁷ But Chatterton was exceptionally well-qualified to make a success of intervention; and in Mackay's absence it was decided to allow the Government of Madras to make an experiment for a term of years. In 1910 Chatterton's time was up, and the local government applied for sanction for a permanent department. The apparent success of Chatterton's factories in establishing new industries—chrome tanning and aluminium hollow-ware were cited—coupled with the support given his work by local politicians won over the departmental secretaries. Two India councillors were already actively committed to intervention: the educationalist, Sir Theodore Morison and the solitary Indian member, K. N. Gupta. But Sir James Mackay was back, and Mackay had the Secretary of State's ear:

I think it is a dangerous and likely to be a mischievous interference with private enterprise and individual initiative to . . . [start] Government factories with the idea of educating the natives and passing on these factories to native capitalists. The whole thing is economically unsound. We may take it as an axiom if any industry is likely to prove profitable . . . in India, capital . . . will speedily be found to start it. There is nothing more calculated to frighten private enterprise and the investment of capital in a new enterprise than the probability of Government interference . . . officials should confine themselves to producing statistics. . . . How can a man like Chatterton possibly teach men who have all their lives been engaged in seeking for enterprises which are likely to be remunerative? The thing is absurd. . . . This man Chatterton, who can have no business or practical experience of factories, [is on] a salary of £1,200 p.a. with a lot of highly paid assistants to fool about with model childish factories which will never earn a sixpence. . . . This is how money is frittered away in India—men seeking soft billets for themselves and getting round those who are responsible for the Government by gulling them into . . . silly schemes.²⁸

Arguments like this were irresistible to Morley.²⁹ A septuagenarian set in his ways, his economic thought was at heart the thought of Bright. Beginning his political career as a journalist vulgarizing the

Gladstonian liberalism of the 1870s, he accepted, by 1910, that welfare considerations might moderate the operations of the free market. The state might intervene to improve the equity of distribution: had not J. S. Mill drawn the great distinction between the laws of distribution, which were man-made, and the laws of production, which were eternal? But how could the state intervene effectively to increase productivity? It was still unthinkable that a bureaucracy could perform the market's functions better than the market: especially when the bureaucracy was the Indian civil service. Morley's distrust of intervention was reinforced by his distrust of Indian civilians. As Secretary of State he found them embarrassingly obtuse. They were unimaginative and careless, and never appreciated that actions unpalatable to left-wing MPs meant embarrassing questions in the House: questions which might tarnish Morley's reputation as a guardian of liberal values—the reputation on which his career as a politician and his retention of cabinet office depended.³⁰ Thus biased, Morley was anxious to believe any tale brought to him about his official subordinates by interested outsiders, provided it was to their discredit. Frittering money away, creating soft billets for themselves, being gulled by adventurers like Chatterton—these were just the kind of things the Indian civil service did, unless a vigilant Secretary of State caught them out.

The despatch which Morley drafted—or caused to be drafted—repeated Mackay's arguments in more seemly periods. The Government of Madras was instructed to restrict itself to 'industrial instruction': 'So limited, interference with private enterprise is avoided, while there still remains an ample and well-defined sphere of activity. The limit disregarded, there is the danger that the new state industry will either remain a petty and inefficient plaything or will become a costly and hazardous speculation.'³¹ Chatterton was demoted to be Superintendent of Industrial Education, working under the Director of Public Instruction; the separate department of industries was abolished. Political protests followed; and when Crewe succeeded Morley the Madras Government resolved to try its luck again. They found that Mackay's spirit lived on. 'India believes still,' a councillor advised,

that it can defy natural laws and protection of particular industries by artificial means will be beneficial. So too Indian opinion would sally to the side of religious intolerance and other exploded ideas. But I firmly believe the good of India requires a wise adherence to the abstention of Government from commercial

undertakings and to the limitation of its functions to the providing of equal opportunities for all enterprises. Trade does not move into new channels without fructifying the fields through which it passes, and every loss to a cramped or moribund industry means a greater gain and vitality to healthier industries. The support of the Indian Government does not alter natural laws. . . .³²

The argument from natural law was difficult to refute in kind. There was no equivalent theory of beneficent state intervention which could neutralize the free market model of economic development; no body of interventionist axioms commanding instinctive acquiescence. The advocates of pioneer factories and all the other forms of government aid might have a pragmatic case to make out: actual industries initiated in the way they approved. But when it came to general principle, they were perpetually on the defensive. They shared too many of Mackay's premises; they were too apologetic when they suggested his 'natural laws' might be set aside, under exceptional circumstances. Always, they were concerned to minimize the amount of state intervention. The pioneer plants, in particular, were pared away to limit the 'evils' intervention was supposed to cause. Even as they approved Chatterton's appointment, Curzon and the Government of Madras placated their opponents by announcing that only a handful of factories would be set up, to be sold off or closed down, immediately they had made their point.³³

The advocates of intervention were inhibited, also, by genuine uncertainty over the correct development strategy for India. It was far from universally acknowledged that industrialization was the only means of permanently improving living standards. Contemporary commentators differed over the relative importance of the economic benefits brought by factory industry, and the social costs that followed in its train. The growing inequalities of wealth, the intensifying class conflict, the material squalor of the cities, the diminished satisfaction men derived from their work, the inferior aesthetic qualities of machine-made goods—all these inspired the late Victorian revulsion against industrialization which first popularized the term 'industrial revolution' and saturated it with unpleasant associations. What contemporaries did agree on was the poverty of India's factor endowment relative to the West's. Men doubted not only whether industrialization would do India much good, but whether industrialization was an option open at all. Under these circumstances, the right strategy for India might be concentration on agricultural, not industrial development. The yields of Indian

agriculture were so low, the techniques so primitive, that the potential for agricultural improvement seemed correspondingly immense. The theory of foreign trade which upheld the free traders' incessant denunciation of protection laid great stress on the exploitation of comparative international advantage and the reciprocal benefits to be derived from exchange. It provided a satisfying justification of the Government of India's existing economic policies, designed to encourage India's participation in an international specialization of functions, exchanging foodstuffs and raw materials for manufactures; each interdependent partner concentrating on the economic activities for which it was best suited, and benefiting from the other partners' similar specialization.³⁴

Proponents of industrialization were generally content with state investment in irrigation and communications. Wedded to the market, they believed that state intervention could only inhibit India's development, by misallocating resources or 'frightening' private capital. The price levels which automatically balanced demand against supply were capable, in their view, of ensuring the maximum volume of investment at the optimum points. They confidently expected the commercialization of Indian agriculture would create the preconditions for spontaneous industrial growth. As India's exports of primary produce increased, rising agricultural incomes—they predicted—would generate the necessary purchasing power and savings; the simultaneous commercial revolution would bring into existence financial institutions and a class of entrepreneurs; taxation falling on the land would finance an infrastructure of railways and modern administration.³⁵

Even the advocates of industrialization who were dissatisfied with the 'natural' operations of the market were riven by dissension over the kind of industry the state should intervene to encourage. There were many, like Marx, who looked on India's handicrafts as doomed to extinction. They were technologically obsolescent, and the sooner they were displaced by factories capable of exploiting all the economies of scale and modernity the better for the mass of the impoverished Indian wage-earners. 'The ultimate ruin of the native tanner', the Punjab Government's industrial expert advised them, 'is merely a question of time, and the Government can do nothing, nor is it in the public interest to do anything, directly to save him. The only course to follow is . . . to offer every reasonable encouragement to large tanners, and in particular to subsidise a suitable factory.'³⁶ But

this was not the opinion of all the Indian government's natural advisers on matters of industrial policy. Many were more sympathetic to handicrafts than factory industries. Indeed, they tended to see the principal function of industrial policy as the defence of handicrafts, especially 'art industries', *against* the rise of factories. The same movement of revulsion against industrialization which stressed its high social costs rehabilitated 'arts and crafts'. Aesthetic Luddites—led by Ruskin and Morris—spiritualized traditional handicrafts. Just as Pugin looked to Christianity as the source of all that was best in western architecture, so influential Anglo-Indian art critics—men like Sir George Birdwood or E. B. Havell—stressed the connection between Hindu art and Hindu religion: a connection so intimate that no European could properly judge Indian art, because no European—his capacity for 'superstition' forever destroyed—could enter into the mythology which inspired it.³⁷ There are few more reliable indices of this rediscovery of Indian art than the catalogues of the great Indian exhibitions. The official handbook of the 1864 Punjab Exhibition was unsympathetic to Indian art, especially to the brilliant miniatures of Kangra. Judged by the criteria of a mid-Victorian drawing-master, their technique was hopelessly incompetent: 'The actual work of drawing, the perspective, the method of delineation, and the style of producing "effect" are as a rule inferior; . . . the mere minuteness and delicacy of handling which . . . occur in rendering the separate hairs of a beard, or the pearls on a tiny necklace, are a species of mechanical power intrinsically of a low order.'³⁸

The proper goal of art in 1864 was the combination of fidelity to nature with romantic imagination: and the 'conventionality' of Indian art precluded both. Seventeen years later, at the second Punjab Exhibition of 1881-2, the same civilian wrote the official guide. But on this occasion, he remarked on 'the great revival of public taste' which had enormously increased the European market for Indian art, and converted critics to the notion that 'all truly national . . . forms of art . . . are valuable in themselves to be preserved'. Whereas formerly 'manufacturers delighted to depict flowers, animals, birds . . . in their natural form, shaded to give the appearance of solidity, now . . . it has become recognised that all natural forms must be conventionalised, or turned into patterns, before they can be rightly used . . .'³⁹

The new saviours of India's artistic heritage—and in particular

the principals of the schools of art set up in the 1880s—were easily the most committed opponents of industrial development in India. As Chatterton's predecessor wrote:

It is doubtless the easier way for Indians to throw aside all their artistic traditions as obsolete, to accept blindly the teaching of European commercial experts, to multiply factories and join in the mad scramble for markets which Europe calls civilisation. . . . Will India be freer, happier and wiser when, instead of lacs of village craftsmen, every town has its 'swadeshi' cotton mills . . . and . . . 'swadeshi' music halls and gin palaces . . . ? No-where in India—not even in the direst time of famine and pestilence—is there such utter depravity, such hopeless physical, moral and spiritual degradation as that which exists in the great cities of Europe.⁴⁰

This problem of choice between large- and small-scale industry seriously inhibited the interventionist camp. The officials responsible for the key initiatives that added up to the new industrial policy were never quite sure what they wanted: and their own indecision communicated itself to the supporters they needed to recruit. Curzon, for example, was torn between his love of Indian art and his consciousness that the world was engaged in a race for industrialization in which it would be dangerous for India to lag too far behind:

the expansion of [factory] industries would be valuable insofar as they would give increased employment to an increasing number of workmen and would therefore swell the number of those who are not compelled to depend on agriculture. From this point of view the introduction of factories and mills is equally laudable. But then comes the other or artistic point of view, which appeals, at any rate to me, much more forcibly. I would sooner attempt to revive the rapidly perishing art industries of India, perishing not because a market is not forthcoming for them, but because the already existing market is being lost by shortsighted parsimony and by the indulgence in vulgar and semi-Europeanised designs.⁴¹

The same ambivalence in the provinces retarded provincial schemes. In Madras Chatterton dissipated his energies between factories and cottage industries, all the time seeking a via media between the 'uneconomic' single family and the impersonal satanic mill, which would avoid 'the hideous concentration of human life . . . in smoke-begrimed cities with unparalleled luxury for the few and squalor of the many'.⁴² In Eastern Bengal and the Central Provinces the new provincial departments were departments of cottage industries 'far more suitable to the simple family life of the people, and . . . far more [conducive] to their happiness and comfort than the conditions of organised labour in crowded centres . . .'.⁴³

These fundamental disagreements—over the best way to encourage

industrialization, and the kind of industry to be encouraged—were never properly resolved. They were replicated inside Congress; and they persist today. Yet the 'balance of ideas' was slowly changing, in favour of intervention and large-scale industry, even before the first world war effected a temporary revolution in men's economic attitudes. The force of example was at work. There were the famous foreign precedents: at first Germany, then, increasingly Japan. Constant references to their success created a climate of opinion in which men were more willing to believe that state intervention might engineer an industrial revolution. Knowledge of the exact means by which the German and the Japanese states had brought about their economic miracles was slight. The mechanics of industry-building were obscure; and the obscurity of the whole process weakened the case for intervention. What decision-takers wanted—what they always want—were sure-fire schemes guaranteed to work in a situation in which only experiment was possible.

It was this which made the early experiments—the 'domestic precedents' for intervention—so important. The Madras department captured the public (and the official) imagination. Here was this man Chatterton, a Government official, going out into the *mofussil* and setting up factories that actually worked at a profit. The thing was so unusual, so impossible according to all the rules of political economy, that men were mesmerized and refused to believe it had actually happened. Those who were already committed to intervention acclaimed Chatterton's success; the more doctrinaire adherents of *laissez faire* decried the damage he had done. No authoritative evaluation was possible, at least in the short-term; so men went on interpreting experience in terms of their preconceptions. It was ten or fifteen years before the criteria by which Chatterton's factories could be judged were generally established, and the necessary information became available. By then provisional assessments had already begun to sway officials 'on the margin'; and a trickle of 'conversions' showed that experience was modifying axiom.

The process of evaluating Chatterton's work—and in particular his notorious pioneer factories—began at the Simla Education Conference of 1900 and petered out in the 1920s. It was especially influential at two points: when the provincial departments were being established (roughly between 1905 and 1912), and during the Industrial Commission's appointment. The Government of India and the Government of Madras persistently approved Chatterton's

work; the India Office and the other provincial governments remained sceptical. 'The results represent considerable labour and ingenuity, but they are not of a character to remove my doubts as to the utility of state effort' was Morley's verdict.⁴⁴ It was difficult to measure the impact of what Chatterton was doing. It might, conceivably, be possible to appraise the demonstration effects on local entrepreneurs; but what of the alleged damage—the deterrent effect on private enterprise? Even if a cost-benefit analysis vindicated the department, still it might only be the exception that proved the non-interference rule. The Madras experiments were on a small scale, limited to a handful of 'lines'; and their apparent success could always be attributed to Chatterton's unusual gifts, a criticism Chatterton himself did little to dispel. He was a former professor of engineering, for whom western technology held no terrors. He was also an entrepreneur *manqué*, with the imagination to envisage lucrative investment opportunities that no other industrialist had tried to exploit. A born publicist and an experienced administrator, he had the 'commercial instincts' (as the Government of Madras termed them) to seek out untapped markets while simultaneously managing a government department on civil service lines.⁴⁵

The Government of India never really knew what had happened in Madras until it had already decided, on other grounds, to adopt the new industrial policy in full. The first world war discredited habitual appeals to past administrative experience. Cut loose from 'settled principles of policy'—and the systems of ideas which supported them—the Government of India stampeded into intervention. 'Abstinence' was abandoned because the free market seemed incapable of attaining the new objective of economic activity. In peacetime it might attain long-term economic development, measured in terms of increasing capital investment; it was quite incapable of mobilizing resources on a sufficient scale to meet the immediate shortages created by war. Merely to maintain the flow of military supplies the Indian Munitions Board adopted, as temporary expedients, virtually the entire range of 'aids to private enterprise' incorporated in the Industrial Commission's recommendations; and it was the chairman of the Munitions Board who was chosen to preside over the Industrial Commission's deliberations.

Satisfying shortages not only accustomed administrators to the exercise of economic power on a vast scale, it impressed on them the potential of intervention in time of peace. The first 'total' war showed

the direct relationship between military capacity and the possession of an adequate industrial base. It enormously enhanced the perceived importance of 'strategic' industries directly related to the war effort. When the preservation of a country's territorial integrity came to depend on its ability to produce munitions, the idea of international economics lost its allure, and the goal of national self-sufficiency abruptly took its place. The military necessity of industrialization was hardly thought of in India before the first world war. Apart from a few ordnance factories, more or less complete reliance was placed on British industry for munitions, and on British naval supremacy to transport them to India. Hence the shock when Britain began requisitioning India for vast quantities of military supplies; and submarine warfare and the resultant shipping shortages seriously threatened the sea-lanes to the East. The terrifying possibility of a Japanese attack timed to coincide with Britain's involvement in a European war sent shivers down the imperial secretariat's collective spine.⁴⁶

So peacetime industrial policy was conceived as preparation for the next war. If the war itself was merely the continuation of diplomacy by force, peace was merely the conduct of war by economic means. 'It seems highly likely,' a member of the Government of India said, 'that Japan will seize the opportunity of the disorganisation of European industry attendant on the war to press a policy of peaceful penetration in India and endeavour by subsidised . . . manufactures and artificially cheapened freights to capture the Indian market and oust Indian trade with China and Japan. . . . Germany will also make desperate efforts to recover her position. . . .'⁴⁷ It followed that industrial development could not be left to private enterprise. So long as the international economy of the nineteenth century persisted, it was possible for the Government of India to remain inert; once economic nationalism overwhelmed it, it was no longer possible for any state to opt out of the interventionist policies pursued by its rivals. Strategic industries would not attract capital investment at the necessary rates unless governments intervened to make them sufficiently profitable; and strategic industries could not be favoured in isolation. Because of their complex linkages, *all* industries—and commerce and agriculture—were in some degree 'strategic'.

The icepacks of *laissez faire* prejudice broke up during the second year of the war. Morley's 1910 despatch was freely impugned in official circles as 'doctrinaire'; Mackay's axioms were 'as dead as

Queen Anne'. The war did permanently weaken the theoretic case against intervention. But the real heritage of war was political rather than doctrinal. The great majority of politically-conscious Indians always wanted industrialization, and approved state intervention to encourage it. What changed was not so much Indian opinion, as the force which Indian opinion could bring to bear on the decision-takers. This was part and parcel of the general political developments between 1900 and 1920 which culminated in the Montagu-Chelmsford reforms.⁴⁸ But there were also distinctive changes in the organization of economic interest groups which enhanced the effectiveness of economic, as distinct from general political, opinion. There was a proliferation of formal economic associations: local chambers of commerce, trade associations, groups of industrialists. This process was especially noticeable—and was noticed by the Government of India—in the two great industrial centres: Bombay and Calcutta. Some lobbies, like the Bombay millowners, represented so large a proportion of a particular economic interest group that they were accepted as national spokesmen. Others needed coordination at the national level, and the annual Industrial Conferences—first organized in 1905—provided a national platform. Held in the same towns and at the same time as the meetings of the Indian National Congress, they added a new dimension to a political movement dominated by politicians who had few direct connections with industry. The swadeshi movement showed the extent to which an economic programme could mobilize mass support: and both the British and the nationalists were aware that the agitation against the partition of Bengal (from which the *swadeshi* campaign emerged) posed the most serious threat to the continuity of British rule since the mutiny.

So the new industrial policy was to some extent a direct response to mounting nationalist pressure. Perhaps the clearest example of this was the Government of Bengal's reaction to the *swadeshi* movement: an application to the Government of India to approve a provincial industries department which the local government was unable to afford.⁴⁹ But the relationship between policy and opinion was rarely quite so straightforward. The first and most adventurous industries department was, after all, established at a time and in a province in which there was virtually no organized public demand for it. And the province—Bombay—in which industrial lobbies were best organized was amongst the last to acquire an industries depart-

ment or an industrial development programme. This paradox is difficult to explain unless one accepts that much political organization in India was simply adaptation to the requirements of the state. The several governments, provincial and imperial, manipulated public opinion in favour of policies they wanted to adopt, so as to exert leverage on the Secretary of State. From 1908 onwards they launched a campaign—the official equivalent of an 'agitation'—in support of state-aided industrialization. Official industrial conferences were held at Naini Tal, Ootacamund, Dacca and Lahore to get support for new industries departments. Unofficial resolutions in the various legislative councils advocating intervention were welcomed, and government spokesmen made their sympathy clear. A spate of official publications describing the department's achievements and their potential were run off on government presses: probably the most popular were those containing transcripts of speeches or notes by Indian politicians, which showed them acting out roles approved by both their followers and the British. Informal contacts, also, were used to win business leaders over to intervention and produce 'shows' of support. The resultant 'spontaneous' demand for the new industrial policy was then deployed in despatches to the India Office as an irresistible political reason for the expansion of the provincial departments and the appointment of the Industrial Commission.⁵⁰

The fact that so many of the officials responsible for the new industrial policy expected it to have quite different political consequences is a further complication. Some looked to the mere adoption of the policy to act as 'a great sedative of political unrest'. Indian civilians welcomed the chance to defend British rule against constant allegations that the Government of India had deliberately de-industrialized the country, so as to maximize the Indian market for British exports. Of all the criticisms of British rule, this was in many ways the most dangerous. It contained an element of truth; it provided a plausible and extremely discreditable interpretation of British motives on every occasion, however altruistic they may have been; and it undermined the Indian civilians' *amour propre*, by undermining their delusions of beneficence.⁵¹ Other decision-takers saw industrialization as a longer-term placebo. This was especially the case with Bengal: industrialization was the final solution for the *bhadralok* problem. The most popular official interpretation of the *swadeshi* movement attributed it to economic causes. Where once the *bhadralok*—literally 'the better people'—had been able to support them-

selves in the style to which they were accustomed on their income from rent, moneylending and the professions, the spread of education and the growth of population created educated unemployment—the chief breeding ground of sedition. Comparisons with western India confirmed this analysis. 'Nowhere', Hardinge noted,

is the political contrast so great as between Bombay, where Indians are commercially in the ascendant, and where their contentment and self-confidence steady and control the unstable elements; and restless Calcutta, where the educated classes can see nothing before them, but the helotry of clerkdom, tempered only by the slender expectation of one or other of the few prize appointments under Government.⁵³

But the confident assumption that industrial development would mop up unrest by relieving middle class poverty was far from universal, or even general in official circles. Several of the most prominent supporters of the new industrial policy believed industrialization would only generate new tensions. 'Industrial development', the president of the Industrial Commission warned,

may . . . increase the wealth of a comparatively small number of capitalists, and will provide useful employment for many educated people who now take to law and journalism. But neither the capitalists nor the educated employees will thereby become more contented and loyal; on the contrary, they will soon forget that the industrial impetus came from Government; they will imagine that the prosperity is due to themselves entirely, and that therefore they are capable of managing their own affairs. It is only the politically discontented commercial and industrial man who can, and does, act effectively with the intention of thwarting British interests; and he also pays the politician.⁵⁴

'Experience elsewhere', the financial member agreed,

and notably in Russia, has shown that industrial development with the consequent assemblage of bodies of workers in factories, tends to promote political agitation, agitators and seditionists taking the opportunity of exploiting the workers' . . . grievances for political ends. But of course we could not allow any consideration of this sort to stand in the way of our discharging our duty to India by . . . promoting its economic development in all legitimate ways.⁵⁴

A clear majority of the members of the Government of India which recommended the appointment of the Industrial Commission to the Secretary of State believed industrialization would make it more difficult, not less, for their successors to govern India.

An active industrial policy was perhaps too slender a thread on which to hang a solution for India's political problems. It could

still, however, be used to outflank protection; and this was how free traders in the Government of India hoped to use it. Fiscal policy was carefully excluded from the Industrial Commission's terms of reference on the advice of the industry secretary; the purpose of the Commission was to formulate a programme of state aid to industry which would secure industrialization without protection. 'The public', the imperial commerce and industries secretary advised,

have a policy, on the theoretical advantages of which a large section of them are unanimously agreed; which has been tried in many countries and can point to a considerable measure of success; which is already fully formulated in the campaign literature of a powerful political party; but is at the same time believed to be a dangerous policy from the economical, political and imperial point of view. It is incumbent on Government to show that this policy is also unnecessary, by being able to point to other lines of action which have been tried; which have definite and satisfactory results, and offer good prospects, if taken up on a large scale.⁵⁵

But here again there was no agreement: there were protectionists as well as free traders inside the Government of India, who pressed for the inclusion of protection in the Commission's terms of reference, and only gave way for the sake of unanimity against the Secretary of State. In their despatches home there was no hint of these deep cleavages. The Government of India simply claimed that Indian opinion was united behind its proposals; and the India Office accepted its claim as a powerful argument for letting the Indian governments do what they wanted.

The Policy's Failure

It is possible to argue that the new industrial policy was too timid—and too incomplete—to succeed. The 'free market' model of development was never jettisoned, it was only qualified. Conceiving intervention as 'aid' to private enterprise, competition with the private sector, or control over it, was deliberately eschewed. The state could have revolutionized Indian industry by repeating, in the field of heavy industry, the initiatives it had taken fifty years before with railways and irrigation. The Industrial Commission, however, was emphatic that pioneer factories must be sold off as soon as they became profitable; and state ownership of manufacturing industries declined. This in itself weakened one of the most important forms of state control over the economy. Other controls were similarly neglected. Financial and monetary

policy were not subordinated to industrialization; they were directed towards other goals. Indian finance members tried to balance their budgets according to the canons of orthodox finance and the imperatives of an unstable political situation. There was no attempt to adjust the tax structure in ways favourable to industry; no attempt to control interest rates or capital issues; and persistent refusal to ease credit through moderate inflation, or encourage exports through devaluation.⁵⁶ Deficit spending was dismissed as 'immoral', probably correctly under the circumstances.

The corollary of this abstinence from control was neglect of planning, conceived as a crude process of physical or financial co-ordination, rather than the allocation of scarce resources based on systematic cost-benefit analyses of the full range of alternative schemes. Contemporary economic theory gave little guidance on such matters; and the Indian governments made no attempt to employ professional economists. Instead they applied 'pragmatic' criteria to the central problem of planning: the allocation of priorities. The returns of manufactured imports served as a favourite notional check-list of products for which unsatisfied demand already existed inside India: the volume of imports and the ease with which import-substitution could be arranged were the usual criteria by which industries were chosen from this list. The Industrial Commission was a little more sophisticated. It selected industries for encouragement according to its estimate of their forward and backward linkages in the British industrial revolution.

This process involved three dangerous assumptions. It underestimated the sheer volume of planning required if even a quite small amount of state intervention was to have an optimal effect; and instead of leading to the appointment of a central planning body, it meant that once the Industrial Commission laid down the rough overall strategy, the implementation of that strategy—the preparation of detailed sectoral and project plans—was delegated to the regular departments of state at the centre and in the provinces. Perpetually distracted by routine administration, and largely operating in isolation, the regular departments persisted in thinking in terms of separate, uncoordinated, schemes. Secondly, this method of selection tended to equate development with the attainment of frankly xenophobic objectives. After generations of political subordination, when the terms on which they traded were wholly beyond their control, Indians were suspicious of all international economic

contacts as potentially 'exploitative', however beneficial they might be. The British, for their part, regarded economic autarky as a partial corrective for India's extreme vulnerability to Japanese or Russian attack once the sea-lanes to England were cut. Thirdly, the new industrial policy assumed that the order in which different industries developed in the course of the British industrial revolution provided a universal model of industrialization readily applicable to India. It was when India's 'unbalanced' export-led growth was measured against the British example of successful 'balanced' development that it stood condemned: it could never create the preconditions for industrialization.

The actual prescription at which the Industrial Commission arrived by applying the test of autarky and the British precedent was straightforward.⁵⁷ The first prerequisite of industrial revolution, on the Commission's interpretation of eighteenth century British economic history, was a mature iron and steel industry. Once iron and steel production was developed, engineering and machine tools followed, causally as well as chronologically. The lighter industries which they serviced (already in existence in India) then created the demand for chemicals and non-ferrous metals. All these industries needed cheap power, which in India—according to the Commission—meant hydro-electricity and its inevitable concomitant, electrical equipment. These were the large-scale industries which the Commission recommended should receive most encouragement. At the opposite end of the spectrum, they also approved aid for cottage industries, on welfare rather than aesthetic grounds. No representative of 'art industry' was allowed a seat on the Commission; but there was a strong vein of *swadeshi* sentiment to placate, whether or not money spent on traditional handicrafts was likely to promote sustained growth. As the symbolic victims of 'de-industrialization' they were undeniable candidates for 'compensation' when the state set out to reverse the process that had ostensibly destroyed them.

The appendices to the Industrial Commission's report told a strangely different story. The industries which featured in the appendices were neither the cottage industries nor the heavy industries intended to enhance India's self-sufficiency: they were medium-scale agro-industries, like tanning, sericulture, sugar and cotton, to some extent import-substituting, but with great export potential. As the inter-war period showed, it was this kind of medium-scale industry processing agricultural produce which was easiest and cheapest to

develop in the Indian environment. Compared with the heavy industries they were less capital-intensive; used simpler technology; were more familiar to entrepreneurs; and needed less skilled labour. They had other advantages; they were comparatively decentralized (and so demanded less investment in social overhead capital); they provided more employment, generating mass purchasing power; and they earned/saved more foreign exchange. Compared with the cottage industries which they displaced they were simply far more efficient. Their deployment of modern technology and organization raised labour productivity, cheapened the cost of products to consumers, and put profits in the hands of industrialists who were willing to reinvest them in further expansion. But medium-scale agro-industries were also unfashionable, associated as they were with the agricultural export-led model of development, officially discarded during the first world war; and their economic advantages counted for little beside the glamour of heavy industry and the tragedy of handicrafts. The great powers' race to industrialize, with its compulsive comparisons of heavy industrial output, meant that heavy industry ceased to be a means of raising the living standards of the mass of the population: it was a proof of national virility, and a guarantee of national survival. The lack of heavy industry was evidence of racial inferiority; the possession of heavy industry was the source of patriotic pride. In the absence of a major industrial base, handicrafts served as a *plis aller*. Economically inferior, they were still morally superior; and their preservation became indelibly identified with national resistance to foreign rule. This dual mystique, far more than any appreciation of multiplier effects, was what underlay the new industrial policy's erroneous strategy.

Despite the defects in the formulation of the new industrial policy, it would still have accelerated Indian industrialization substantially had it ever been put into effect properly. It failed to achieve results not so much because it was badly conceived, as because it was never given a chance. The chief culprit was constitutional reform. The Montagu-Chelmsford reforms were what destroyed the new industrial policy, by transferring control over industrialization to Indian ministers in the provinces. This put an end to all prospect of effective central coordination; and it ensured that sufficient resources would not be put into industrial policy to produce any major economic change.

To implement its programme the Industrial Commission relied on two organizations at the centre: the imperial department of industries, and two 'imperial services'—one of chemists, one of engineers. Insofar as the Commission made provision for centralized planning, it was these organizations that were to undertake it. The imperial department and the all-India services were to act as the planners of the future, constantly debating development problems amongst themselves, and gradually evolving solutions. There were to be provincial departments and provincial cadres in addition; but the commission stressed the need for strong central organizations capable of exploiting advantages of scale and coordinating the development efforts of the provinces.⁵⁸ An imperial department could arrange for the circulation of information and ideas between provinces; concentrate stores purchase in a central purchasing agency, maximizing the impact of state patronage; afford larger longer-term investments than isolated local governments; and arbitrate between the parties when disputes arose over industries whose markets and materials straddled provincial boundaries. The sheer size of the imperial services meant a far greater range of specialists could be entertained; men equipped with proper laboratories and libraries at central research stations. They would be large enough to support an elaborate career structure, encouraging recruitment, improving professional competence through competition for promotion, and solving the problem of supervision: senior officers were expected to monitor their subordinates' research, a task beyond the generalist administrators of the secretariat.

The imperial department of industries and the two imperial services were flexible concepts, organizations capable of evolution to meet whatever the requirements of planned industrialization turned out to be. But they never came into existence. Approved by the Government of India and the India Office, they ran foul of the Indian politicians on whose collaboration the Montagu-Chelmsford reforms depended. The essence of the reforms was the transfer of power from the Government of India to the provinces, from the British to Indians, and from civil servants to politicians. What the Industrial Commission proposed was an all-powerful central department to control Indian ministers in the provinces, with the aid of two new groups of civil servants many of whom would be British. In the ensuing conflict between the architects of the new industrial policy and the architects of the imminent constitutional reforms,

administrative efficiency was sacrificed to political expediency at every point.

The first round was fought over the list of 'functions' to be transferred to the control of the Indian ministers in the provinces. The Functions Committee thought that the development of industries was something, unlike the army or the police, that could safely be entrusted to Indian politicians; the Government of India thought it would doom the new industrial policy to failure. Sir Thomas Holland, the industries member-designate, was almost incoherent with rage: 'It would be wiser,' he wrote to a permanent official at the India Office, 'to create separate provincial armies and hand them over to the control of political ministers. Fancy the Tatas placing their industrial schemes before a temporary political minister with his friendly and family interests in competing concerns. . . . The whole scheme of the Industrial Commission will just fall to pieces.' 'The only alternative to regular services,' the Industries Secretary agreed, 'is casual recruitment . . . and . . . casual recruitment will not only tend to render nugatory . . . the coordinated industrial policy which I hold to be essential but will fail to afford the necessary training ground for Indians. . . .'⁵⁹

In its third despatch on constitutional reform, sent home in April 1919, the Government of India duly demanded that industries be made a concurrent reserved subject, i.e. that it remain under the control of civil servants, principally British civil servants, at both imperial and provincial levels.⁶⁰ The arguments for reservation rested on the difficulty of finding Indian ministers with sufficient experience of industry or sufficient longevity in politics to set up a completely new department and implement the Industrial Commission's intimidating programme; on the Government of India's inevitable retention of control over communications, tariffs, foreign trade and minerals; and the advantages of scale and coordination. These could not simply be ignored, and the immediate outcome was compromise. Industries was made a concurrent subject, but in the provinces it was still transferred to the ministers' control.

The basis of this division of authority was a distinction drawn by Holland, who stopped spitting into the wind, between executive and advisory functions. 'For executive functions', he explained, 'decentralise to the fullest extent; prompt action on the spot guided by an intimate knowledge of local conditions must ordinarily be better than deferred action, no matter how perfect be the advice on which it is

based. For advisory functions centralisation in a country like this, which is practically devoid of technologists, is more than usually important.'⁶¹ So long as the personnel of the new chemical and industrial services were scientists and engineers of the highest calibre, Holland believed that local governments would ask and take their advice. It would be the best advice available, and not to take it would cost time and money. In this way, Holland hoped to substitute an informal hegemony over the provincial departments of industries for the formal power to sanction provincial projects—which he realized was incompatible with the Montagu-Chelmsford reforms.

The imperial department's ability to influence provincial policy thus came to depend on the two imperial services. Their establishment was sanctioned. Detailed plans were drawn up by the Chemical Services Committee. But they were never brought into effect. Even before the new constitution came into operation local governments giped at the dilution of their provincial autonomy; and once the industries ministers were appointed they made their unwillingness to employ members of the two imperial services plain. They wanted power: that was what the reforms were all about: and power meant provincial services, firmly under their own control. Holland made repeated attempts to win them over, but they were adamant; and in 1922 plans for the two imperial services were formally abandoned.⁶²

Holland himself was the next to go. He had been the real author of the new industrial policy; no man was better equipped to implement it. He was a distinguished scientist and an experienced administrator; a former director of the geological survey, and the man who put Indian industry on a war footing. Chelmsford, the viceroy, regarded him as indispensable, 'Holland', he wrote to the Secretary of State when Sir Thomas went on leave,

will be a great loss to me. His knowledge of his special subject and his great driving power have enabled us . . . to come through our war effort with success, and I am sure . . . if we are to make a success of industrial development . . . we shall only achieve it through the agency of Holland. He is desperately keen, he is thoroughly sincere and straightforward; and whether men agree with him or not, they recognise him as the man who can put his policy through.⁶³

Two years later the one man with the personal authority to maintain the new industrial policy's momentum at the centre at a time of acute financial stringency, and to provide some kind of leadership for the provincial ministers, was dismissed in disgrace by Chelmsford's successor, Reading. Holland ordered the withdrawal of a prosecution

CLIVE DEWEY

against a Bengali company promoter who had swindled the government over some war contracts, because if the prosecution was successful Holland was afraid that the vast industrial empire the man had built up would collapse around him, seriously retarding the industrialization of Bengal. There was an outburst of press criticism over the government's unwillingness to press charges which the Advocate General had foolishly claimed he could prove up to the hilt; the European community in particular resented the government's seeming toleration of Indian corruption; and Reading was infuriated that Holland had not consulted him (as an ex-chief justice) beforehand.⁶⁴

Soon after Holland's departure the imperial department of industries was stripped of all its major functions except the protection of labour. The new stores section atrophied when the army, the railways, and the provincial public works departments persisted in ordering stores directly. Tariffs were given to the commerce department; banking stayed with finance. Initiative passed to the provinces; and the local governments found they lacked both the men and the money to make anything of industrialization. As at the centre, the financial situation in the provinces was deteriorating. It had seemed reasonable, while the war was on, to suppose that peace would lead to reductions in military expenditure; but the postwar modernization of the army and the third Afghan war meant that the cost of defence was higher than ever. Inflation drove up the cost of ordinary administration; capital projects deferred for the duration of the war had to be begun; and the Government of India's credit deteriorated when investors were frightened by the first non-cooperation movement. In the annual scramble for budget allocations, and still more during the great retrenchment of 1922, industries lost out. In Bengal five of the ten senior officials in the department of industries were discharged, and two posts were left vacant; in Bombay the department was first put on a skeleton basis, then abolished, then reconstituted on a smaller scale without a director; in Burma the department of industries became a department of cottage industries engaged in social work.⁶⁵

A number of factors made the industries departments the first victims of retrenchment. The wartime predilection for intervention receded. After the armistice, Queen Anne was dutifully exhumed. The desire to return to 'business as usual' made the free market model and the old prejudices against bureaucratic interference respectable

again. The strategic importance of heavy industry declined; long-term growth supplanted autarky as the goal of economic policy, and officials once more argued that long-term growth would best be attained by leaving private enterprise alone. In the immediate post-war period foreign example worked against the new industrial policy as well as in its favour; and when the foreign example was British, it bore upon Indian opinion—especially Anglo-Indian opinion—with far greater force. The immense system of war controls gradually built up in Britain—*directly* regulating two-thirds of British industry, almost the whole of Britain's imports, and a substantial part of world trade through inter-allied agreements—was demolished within a matter of months. For all its magnitude and complexity, it had been almost entirely an improvisation. Every additional advance was justified, R. H. Tawney has explained,

as an exceptional concession to some specific emergency, which, because it was exceptional, raised no question of principle. Thus a collectivism was established which was entirely doctrineless. The most extensive and intricate scheme of state intervention in economic life which the country had seen was brought into existence without the merits or demerits of state intervention being even discussed.⁶⁶

This piecemeal, empirical approach at first facilitated the growth of controls. Opportunities for a frontal collision of principles were reduced to a *minimum*: there was no obvious point at which a stand could be made. But once the war was over,

what had been a source of strength became a weakness. War collectivism had not been accompanied by any intellectual conversion on the subject of the proper relations between the state and economic life, while it had not lasted long enough to change social habits. With the passing, therefore, of the crisis that occasioned it, it was exposed to the attack of the same interests and ideas as, but for the war, would have prevented its establishment.⁶⁷

The new industrial policy was not an integral part of the Indian system of economic controls devised to deal with the war. In embryo, it antedated the war; the enormous expansion in scope which it underwent during the war *was* accompanied by a sharp, if short, debate over the principle of state intervention which ended with a consensus far more favourable to intervention; and the policy itself was always intended to be brought into operation after the war was over. In the minds of the men who devised it decontrol had no necessary connection with the new industrial policy. But other officials, the business community, and the general public found it

difficult to keep the two distinct. Both were tarred with the same brush. The war gave the new industrial policy an immense fillip; and the postwar race to decontrol which brought down the British ministry of reconstruction automatically discredited all forms of state intervention associated with the war, except further instalments of the Asquith ministry's prewar 'welfare' programme.

The transition can be traced in the Secretary of State's correspondence with the Viceroy. What Montagu wrote to Chelmsford in the palmy days of the Industrial Commission was very different from what he was writing to Reading in the summer of 1921. 'Everything', Montagu complained,

[Lord Chetwynd] tells me reinforces my profound despair about industrial development in India. I don't believe we shall ever get on unless the province is made the unit and unless my Council and your Government will agree to leave to a Local Government questions of provincial development . . . the dead hand of government must be taken off development; and when Lord Chetwynd tells me that the best way of developing Bihar, whose riches he says are almost incalculable, is to promote a Bihar Development Corporation which would have a concession to develop railways, forests, mines and everything, I am not sure he has not got the right suggestion. . . . The new evidence of the inadequate methods of constructing railways by hand labour instead of machinery, the false economies which mean the inclusion of impossible gradients rather than the necessary expenditure of tunnelling and the eternal bandying of letters, telegrams and interviews between various authorities drives me to despair."

The critical link between the resurgence of *laissez faire* in Britain and the subversion of the new industrial policy in India was, once again, Sir James Mackay. He acted as a spokesman for British business in its successful crusade for decontrol; and Montagu—the natural leader of 'all men of goodwill'—appointed him chairman of the 1922 retrenchment committee which reduced the Indian industries departments to skeletons of what the Industrial Commission had hoped they would become.

Thus vulnerable on theoretic grounds, the industries departments had no omnipotent political lobby behind them. It is arguable that political pressure for the new industrial policy was effective only because the Government of India wanted a new industrial policy anyway; and that if the lobby supporting the new industrial policy was not exactly the government's own creation, its principal function was its periodic appearance in despatches to the Secretary of State. The business community was too divided. There was no straight-forward racial split. When Sir James Mackay condemned Curzon's

commercial bureau, the Bengal Chamber of Commerce—bastion of British business in India—supported it; when he attacked the Madras department of industries, he found the Madras Chamber of Commerce on his side. Managing agencies primarily dependent on international trade were naturally hostile to import-substitution; while managing agencies which thought their prospects of diversifying into industry were good, welcomed all the encouragement they could get. There was no proof—only suspicion—that industrial policy would be used to discriminate against expatriate firms; and many of the qualifications for classification as an 'Indian' concern—rupee capital, incorporation in India, token Indian directors, a certain proportion of Indian employees, technical training for Indian workmen—were already satisfied, or easily satisfied, by British businesses. The greatest split of all was between the old established firm, afraid of fresh competition from any quarter, and the prospective entrepreneur whom the industries departments existed to set up in business. Unfortunately for the industries departments, entrepreneurs yet to be brought into existence were a weak political force. So were the other ostensible beneficiaries of the departments: the craftsmen. Illiterate, impoverished, unorganized, unenfranchised, they were quite incapable of representing their own interests; and the 'virtual representation' of philanthropists was no substitute for the keen cutting edge of self-interest.

The great industrialists who might have been expected to get most out of the new industrial policy were suspicious, like capitalists everywhere, that state aid would lead to state inspection, if not state control: a suspicion reinforced by the traditional secrecy of Indian business, and the 'unorthodox' manner in which so many joint stock companies were run. The provincial departments, rapidly reduced to departments of cottage industries, had little to offer them: the budgets of concerns like Tatas far exceeded the total financial resources of the industries departments in the provinces where Tatas operated. When the Tata Iron and Steel Company ran into a financial crisis, it was to the Government of India, not the provincial departments, that it looked. Other 'national' industries, like cotton, wanted things that neither the provincial nor the imperial industries departments could grant. They wanted a low rupee exchange rate, which was the concern of the imperial finance department; they wanted low local taxation, which meant approaching the local finance departments; they wanted, above all, protection, which meant approaching

the imperial commerce department. All the imperial industries department did was enforce labour legislation: not the most congenial form of contact.

Under dyarchy, the natural countervailing lobbies were strong. The new constitution was biased in favour of the landed. The rural members who constituted the majority in the new provincial legislatures wanted money for agricultural development, not industry. The urban members were mostly middle class professional men who wanted money for education and a host of 'nation-building' subjects; while the British civilians still in charge of reserved subjects wanted money for 'security'. The industries departments were too young to have had time to prove themselves, or to become part of the accepted machinery of government; and there was no powerful arbiter left, capable of controlling the competing factions, and reserving funds for new ventures. The fact that provincial revenues—from which the bulk of the new industrial policy was to be financed—were static or declining (while the imperial government appropriated the elastic sources of taxation) only intensified competition for what money there was. Administrative talent, also, always in shorter supply than finance, was diverted to other departments. The rise of nationalism was a great distraction, weakening the governments' ability to carry out any constructive policy whatever. Where once the most brilliant civilians had made high-flying careers by specializing in agrarian problems the men who became secretaries, councillors and governors in the inter-war years were men who had made their reputation as experts in the problem of political containment; and the industries departments were relinquished to technical experts, with little influence outside their own ministry.

So the new industrial policy was in some respects defectively formulated and poorly implemented. But it is important, in considering its failure, to bear three mitigating circumstances in mind. The problem was novel. Before the great war, only a handful of countries were fully industrialized; only another handful were manifestly *en route* to industrialization; only one of the industrializing countries was Asiatic; and none combined India's poverty and complexity with its size. The techniques employed by contemporary states to promote industrial development were crude and uncertain: no one really understood how industrialization, as distinct from a show of growth, could be brought about. Few sovereign states, in

the extraordinary circumstances of the 1920s and the 1930s, performed particularly well, least of all the British.⁶⁹ Roosevelt, arguably, did more to prolong than curtail the depression; in England Keynes remained a prophet without honour. And where the powers did succeed in increasing an apparent control over their industrial destiny, they tended to succeed by accident or at the cost of appalling sacrifices. The German and the Japanese recoveries can be seen as the adventitious results of militarism; in Russia the resumption of industrial expansion was accompanied by famine, massacre, and dramatically depressed living standards.

The sheer scale of the Indian problem, also, was enormous. There is no need to run through lists of 'obstacles to industrialization' present in India; it is enough to know that if they existed anywhere in the world, they existed in India in exacerbated form. No problem, it has been said, is ever solved; it merely evolves new facets. And there is a limit to the capacity of any society and state for problem resolution. Even if the Indian state had made available a much larger proportion of its resources—even if it had made available all of its resources and more—an industrial policy based on the latest development theory might still have failed to bring about an industrial revolution. It may be—this is the third plea in mitigation—that we overestimate the ability of states to perform economic miracles: that we expect them to do too much. The late twentieth century is as eager to turn to state intervention as a cure for every problem as the nineteenth century was averse, and with no more reason.

This touching faith has been back-projected on our notions of economic history; above all, on our interpretation of the Japanese industrial revolution. The Japanese example has always been used as a stick to beat the Government of India. The Japanese Government intervened, and Japan industrialized; therefore all the Government of India had to do was what the Japanese did, and all that prevented the Government of India doing it was British rule. This view ignores the vast contrast between India and Japan: a contrast so great that all they have in common is membership of the same continent. Even if the Indian government had done exactly what the Japanese government did, we can be certain that the results would have been very different. It may be that the crux of the matter lies in this question of results; of private response to official initiative. Changing historiographical fashions are now bringing the Government of India's and the Japanese government's economic policies closer together. The

CLIVE DEWEY

Government of India is seen to have done more than it has ever been given credit for; while the Japanese government is seen to have done rather less. Were one to compare the volume and quality of state aid to industry in inter-war India, even after the new industrial policy aborted, with the volume and quality of state aid to industry in the late nineteenth century Japan, the similarities might be more striking than the differences.⁷⁰

The immediate postwar impression of Japanese economic policy—a perfectly-conceived plan, responsive to changing circumstances, implemented in a sustained and coordinated manner, and ultimately irresistible, has lost something of its credibility. Subject to detailed appraisal, much Japanese economic policy looks suspiciously like a package of *ad hoc* expedients constantly falling apart and having to be tied together again: expedients which are not so much optimal measures to promote national development as the outcome of mercantilist conspiracies between cliques of businessmen and politicians to loot the public as taxpayers and consumers. As one group of politicians lost control of the economic ministries, so economic policy turned against their erstwhile business allies, and in favour of their successors' financiers. The more rapid the rotation in office, the more unstable economic policy became; and in the 1880s one sees the Japanese government doing its best to put the leading Japanese shipping line out of business, because the rival Japanese line had better political connections. Again, there are serious reservations about the competence of much of what the Japanese state tried to do.⁷¹ The officials in charge of one of the most famous Japanese pioneer factories, far from encouraging private industrialists to visit it, actually refused permission to inspect the plant because they were afraid that their own incompetence would be exposed. Similarly, of the ten famous sets of spindle units imported from England and sold on hire purchase to become the basis of a Japanese cotton industry, only one was acquired by a really successful concern.

If the *zaibatsus* did more for Japanese economic growth than the economic ministries, it may be that the crucial difference between India and Japan was not what the state did so much as the private entrepreneurs' response to official stimulus. Any programme of state aid to private industry was crucially dependent on the response of indigenous entrepreneurs; and it was precisely in the most backward provinces that the possibility of entrepreneurial failure was greatest.

Chatterton's pioneer factories in Madras disproved, in the Director of Industries' view,

the belief that the Indian capitalist in industrially-backward provinces has only to see the commercial result of a new venture to come forward with his money. Nothing could have been more disappointing than the attitude of the well-to-do Indians in the Presidency interested in tanning and hide exporting, towards the chrome leather factory, when it came to the question of disposing of it. The Hon. P. T. Chetti assured me that he would have no difficulty in finding an Indian syndicate to take it over at the price at which it was subsequently sold to the Rewala Durbar, but after several months' negotiations nothing tangible resulted. And accordingly, when after 7½ years working, the chrome tannery and its connected boot factory were finally [sold] . . . all that was removable from Sembiam was taken off [to Rewala] . . . while Mr. Chatterton's most accomplished Indian assistants joined the Mysore Chrome Leather Company at Bangalore. . . .⁷²

When I asked Sir Gokal Chand Narang, the minister responsible for the second Punjab State Aid to Industries Act, why so little use was made of its provisions for financial assistance to industrialists, he told me simply that besides himself and Harkishen Lal—the minister responsible for the first Punjab Aid to Industries act—there were no industrialists in the Punjab interested in applying for loans.

It may be that these two testimonies should be used as evidence of the disillusionment of the architects of the new industry policy with the Indian entrepreneur, rather than indictments of the entrepreneur *per se*. It will not do to revive the old *canard* that industrialization did not take place because Indians were incapable of managing industries. But neither will it do to replace the old *canard* with another, and to assume that whenever enterprise was required it was automatically forthcoming.⁷³ The great retardation in late nineteenth century Britain has been attributed to entrepreneurial failure; and if economic historians can conceive of the possibility that the largest, richest, most experienced and confident set of entrepreneurs in the world could fall short of the requirements of the leading industrial power, it is hardly mere bigotry to reopen the question of the adequacy of the Indian business class when confronted with a challenge so immense and intractable.

Whatever their other characteristics, one attribute of the Indian business class was in striking contrast to their Japanese compeers: their relationship with the state. It is not so much that the higher levels of the Government of India were alien and therefore unsympathetic to Indian business: from before the first world war the

evidence is rather the reverse. But Indian businessmen were unable to build up permanent alliances with Indian civilians through systematic *douceurs*, or to bring continuously effective political pressure to bear upon them. Few countries have ever industrialized—perhaps no country has ever industrialized—in which entrepreneurs have been unable to corrupt the state, exploiting taxpayers and consumers far beyond the limits set by popular tolerance or public policy statements and the need to uphold formal standards of integrity in public life. Whether covert or overt, spasmodic or institutionalized, so symbiotic a relationship ensures that the state responds flexibly to industrialists' felt needs. It was, perhaps, this element that was missing from the Government of India's new industrial policy; and its presence which explains how India's economy continues to function, despite twenty-five years of post-independence planning.

NOTES

I am grateful to Dr. W. J. Macpherson, Professor W. H. Morris-Jones, and Dr C. Baker for comments on earlier versions of this paper which helped me clarify several important issues.

- 1 Industrial policy—as the term was used by the Government of India—excluded protection, and this is the sense in which the term is used in this paper. For fiscal policy in this period, see 'The Eclipse of the Lancashire Lobby and the Concession of Fiscal Autonomy to India', in *The Imperial Impact*, ed. C. J. Dewey and A. G. Hopkins (London, 1978), pp. 280-314, 381-93.
- 2 What follows is based upon the *Indian Industrial Commission, 1916-1918, Report* (Calcutta, 1918), especially Chapter IV; and a number of less complete discussions which preceded the commission's appointment. For example: Proceedings of the Government of India, Commerce and Industries Department, Industries Branch [hereafter ICI-Industries], May 1917, 1-31, Keepwith [hereafter KW], C. E. Low note, 3 May 1915 in the National Archives of India, New Delhi [hereafter NAI]; W. H. Clark note, 12 November 1914, enclosed in a letter to Hardinge of the same date, amongst the Hardinge papers at Cambridge University Library; Proceedings of the Government of India, in the Education Department, March 1910, 53-4, L. J. Kershaw, Secretary to the Government of Eastern Bengal and Assam, to the Secretary to the Government of India, Department of Commerce and Industry, 12 May 1909; India Office Revenue Departmental Papers [hereafter IORDP] no. 8417 of 1915, Despatch of the Government of India to the Secretary of State for India, 26 January 1915; ICI-Industries, April 1916, 1-24, 'Report of the Committee Appointed to Advise on the Possibility

- of Replacing German and Austrian Manufactures by Indian Made Articles' (NAI); India Office Judicial and Public Departmental Papers [hereafter IOJ&PDP] no. 1940 of 1906, M. D. Taylor, acting Secretary, Education Department, Government of Madras, to the Secretary to the Government of India, Home Department, 12 May 1905; IORDP no. 2662 of 1911, Dr M. Travers to the Secretary to the Government of the United Provinces, Industries Department, 4 March 1910; *Papers Relating to the Industrial Conference held at Ootacamund* (Madras, 1908); J. G. Cumming, *Review of the Industrial Position and Prospects of Bengal in 1908* (Calcutta, 1908); C. E. Low, *Report on the Industrial Survey of the Central Provinces and Bihar, 1908/9* (London, 1911); A. Latifi, *The Industrial Punjab* (Lahore, 1911).
- 3 For the motives underlying the decision to appoint the commission, see ICI-Industries, May 1917, 1-31 (NAI); the 'Memorandum by the Viceroy upon Questions Likely to Arise in India at the End of the War' in the Hardinge Papers at Cambridge University Library; and IORDP no. 8417 of 1915.
 - 4 By Oliver MacDonagh, in 'The Nineteenth Century Revolution in Government: a Reappraisal', *Historical Journal*, I (1958), 52-67.
 - 5 *Lord Curzon in India*, ed. Sir T. Raleigh (London, 1906), p. 579.
 - 6 *Ibid.*, p. 564.
 - 7 Curzon Papers, India Office Library [hereafter IOL], vol. 280, 'Technical Education'; IOJ&PDP, no. 661 of 1904; *ibid.*, no. 155 of 1909; *Papers Relating to Technical Education in India, 1850-1904* (Calcutta, 1906); *Report of the Committee on Technical Education* (Calcutta, 1903); *Report on . . . Technical Institutions . . . in India* (Calcutta, 1912); *Parliamentary Papers, 1913, XLVII*, 'Report (on) . . . the System of State Technical Scholarships'; R. I. Crane, 'Technical Education in India Before World War I,' in *Education and Economic Development*, ed. C. A. Anderson and M. J. Bowman (Durham, North Carolina, 1965), p. 8; IORDP no. 3554 of 1902; Proceedings of the Government of India, Finance and Commerce Department, Statistics Branch, January 1903, 16-31 (NAI).
 - 9 See S. K. Sen, *Studies in the Industrial Policy and Development of India (1858-1914)* (Calcutta, 1964).
 - 10 A. G. Clow, *The State and Industry* (Calcutta, 1928), pp. 84ff.
 - 11 Curzon Papers vol. 280, 'Technical Education', Curzon note, 26 July 1903 (IOL).
 - 12 Curzon Papers vol. 279, 'Commercial Bureau and Journal', Curzon note, 22 February 1903.
 - 13 A. G. Clow, *loc. cit.*
 - 14 *Lord Curzon in India*, *op. cit.*, pp. 277-8.
 - 15 Proceedings of the Government of India, Home Department, Public Branch, October 1903, 1, Despatch of the Government of India to the Secretary of State, 1 November 1903, and Curzon minute, 4 July 1903 (NAI).
 - 16 IOJ&PDP no. 2332 of 1903.
 - 17 Chatterton's activities can best be traced in his publications and a note written by one of his successors as Director of Industries, Madras. See A. Chatterton, *Industrial Education* (Madras, 1905); *Notes on Handweaving* (Madras, 1904); *Note on Industrial Work in India* (Madras, 1905); *Chrome Tanning in Madras* (Madras, 1906); *Lift Irrigation* (Madras, n.d.); *The Salem*

- Weaving Factory* (Madras, 1907); *Irrigation by Pumping* (Madras, 1908); *Industrial Evolution in India* (Madras, 1912); and *Rural Economies in India* (London, 1927). Cf. ICI-Industries, May 1917, 1-31, KW, C. W. E. Cotton note, 23 July 1915 (NAI).
- 18 Hardinge Papers, W. H. Clark to Hardinge, 12 November 1914 (Cambridge University Library); ICI-Industries, May 1917, 1-31, KW, C. E. Low note, 3 May 1915, and W. H. Clark note, 11 May 1915; IORDP no. 8417 of 1914, Despatch of the Government of India to the Secretary of State, 26 November 1915.
- 19 *Lord Curzon in India*, op. cit., pp. 158-9.
- 20 Lord George Hamilton to Curzon, 24 October 1900; quoted in Edna R. Bonner, 'The Economic Policy of the Government of India, 1898-1905' (University of London MA Thesis, 1955).
- 21 Curzon Papers vol. 280, 'Bengal Iron and Steel Company', Curzon note, 22 August 1905 (IOL).
- 22 IOJ&PDP no. 2332 of 1903, L. Abrahams note, 10 November 1903.
- 23 See Hector Bolitho, *Sir James Mackay* (London, 1936).
- 24 IORDP no. 2554 of 1902, Sir James Mackay note, n.d.
- 25 Curzon Papers vol. 279, 'Commercial Bureau and Journal', Curzon note, 7 May 1903 (IOL).
- 26 *Papers Relating to the Industrial Conference held at Ootacamund* (Madras, 1908), note by A. J. Yorke, Chairman of the Madras Chamber of Commerce, 14 September 1908, pp. 194-6; and minute of dissent by A. J. Yorke, E. W. Orr, and C. B. Simpson, 19 September 1908, pp. 225-6.
- 27 IOJ&PDP no. 1940 of 1906, notes by W. Lee-Warner, 1 August 1908, and T. W. Holderness, 28 June 1906.
- 28 IORDP no. 2645 of 1909, minute by Sir James Mackay, 2 April 1910; cf. the notes by Sir Theodore Morison, n.d., and K. N. Gupta, 6 April 1910.
- 29 *Ibid.*, Morley note, 6 May 1910.
- 30 This is the burden of many of Morley's letters to Minto in the Minto Papers (National Library of Scotland, Edinburgh).
- 31 IORDP no. 2645 of 1909, Secretary of State to Government of India, 29 July 1910.
- 32 IORDP no. 2662 of 1917, W. Lee-Warner note, n.d.
- 33 *Papers Relating to the Industrial Conference*, op. cit., p. 7.
- 34 The official 'free trade' development strategy was best expounded by Sir John Strachey (finance member of the viceroy's council and lieutenant-governor of the North-West Provinces in the 1870s), his brother Richard (an engineer who was president of the Indian Famine Commission of 1880), and Sir Louis Mallet (permanent under-secretary at the India Office). See J. and R. Strachey, *The Finances and Public Works of India* (London, 1882); J. Strachey, *India* (London, 1888); and Sir Louis Mallet, *Free Exchange*, ed. B. Mallet (London, 1905).
- 35 A good example of this outlook is W. W. Hunter's speech during the 1882 Indian budget debate, in IOJ&PDP no. 736 of 1882.
- 36 A. Latiff, *The Industrial Punjab* (Lahore, 1911), pp. 106-7.
- 37 See Sir G. Birdwood, *The Industrial Arts of India*, 2 vols. (London, 1880); E. B. Havell, *Essays in Indian Art, Industry and Education* (Madras, n.d. but c. 1910) and *The Basis for Artistic and Industrial Revival in India* (Madras, 1912).
- 38 B. H. Baden-Powell, *Handbook of the Arts and Manufactures of the Punjab*, II (Lahore, 1872), p. 342.
- 39 *Reports on the Punjab Exhibition, 1881-1882: Selections from the Records of the Government of the Punjab*, N.S. XXII (1883), pp. 4ff; and *Gazetteer of the Punjab, Provincial Volume, 1888-9* (Calcutta, 1889), pp. 142ff. The change in taste can also be seen in *Papers Relating to Maintenance of Schools of Art as State Institutions: Selections from the Records of the Government of India, Home Department*, CCCLVI (Calcutta, 1898).
- 40 E. B. Havell, *The Basis for Artistic and Industrial Revival*, op. cit., p. 8.
- 41 Curzon Papers vol. 279, 'Art Industry', Curzon note, 21 October 1900 (IOL).
- 42 A Chatterton, *Industrial Evolution*, op. cit., pp. 22ff.
- 43 Proceedings of the Government of India in the Home Department, Education Branch, March 1910, 53-4, L. J. Kershaw, Secretary to the Government of Eastern Bengal and Assam to the Secretary to the Government of India, Department of Commerce and Industry, 12 May 1909 (NAI); C. E. Low, *Report on the Industrial Survey of the Central Provinces and Bihar*, op. cit., pp. 16ff.
- 44 In the despatch cited in note 31 above. Cf. *An Account of the Work and Activities of the Department of Industries, Madras* (Madras, 1926).
- 45 The most convincing eulogy is in the Cotton note cited in note 17 above. IOJ&PDP no. 1940 of 1906, *passim*.
- 46 The most urgent exposition of the new situation is in Sir Thomas Holland's minute of 20 October 1916, enclosed in Chelmsford to Chamberlain, 26 October 1916, in the Chelmsford Papers (IOL). Compare the parallel movement in Britain towards 'postwar reconstruction planning' described by P. B. Johnson, *Land Fit for Heroes* (Chicago, 1968); and the British system of economic controls created in the course of the war: E. M. H. Lloyd, *Experiments in State Control* (Oxford, 1924).
- 47 ICI-Industries, May 1917, 1-31, KW, R. H. Craddock note, 19 October, 1915.
- 48 See S. G. Robb, *Government of India and Reform* (Oxford, 1976).
- 49 Proceedings cited in note 43 above.
- 50 Members of the Governor-General's executive council successfully suggested that they 'doctor' the despatch in which the Government of India asked the Secretary of State to allow them to appoint an Industrial Commission because they thought it would be easier to reverse Morley's 1910 veto on political than economic grounds: ICI-Industries, May 1917, 1-31, KW, C. H. A. Hill note, 16 October 1915 (NAI).
- 51 Craddock note cited in note 47 above.
- 52 Hardinge Papers, 'Memorandum by the Viceroy upon Questions Likely to Arise in India at the End of the War', p. 33 (Cambridge University Library).
- 53 Holland minute cited in note 46 above.
- 54 ICI-Industries, May 1917, 1-31, KW, W. S. Meyer note, 24 July 1915.
- 55 *Ibid.*, C. E. Low note, 3 May 1915.
- 56 See B. R. Tomlinson's paper in this volume, 'Monetary Policy and Economic Development: The Rupee Ratio Question, 1921-1927'.

- 57 The key chapter in the Commission's report, containing their overall development strategy, was chapter IV. Cf. P. T. Bauer's criticism of excessive investment in heavy industry in the 1950s in his *Indian Economic Policy and Development* (London, 1961), pp. 50-9.
- 58 The advantages of an imperial department and the imperial services were a constant refrain in all the notes and correspondence in which the Government of India discussed the Commission's recommendations: see, for example, ICI-Industries, June 1919, 7-22 (NAI); and IORDP no. 5340 of 1919.
- 59 Both quotations are taken from the Keepwith to ICI-Industries, June 1919, 7-22. Cf. the *Report of the Committee . . . [on] the Division of Functions, Parliamentary Papers, 1919, XVI*.
- 60 The despatch is in the India Office Judicial and Public (Reforms) Departmental Papers, no. 196 of 1919.
- 61 Quoted in the *Report from the Joint Select Committee on the Government of India Bill, III*, pp. 37-8, *Parliamentary Papers, 1919, IV*.
- 62 IORDP no. 5340 of 1919; for Holland's attempts to woo the provinces (and his ultimate defeat), see the proceedings of the four industrial conferences in *Bulletins of Indian Industries and Labour*, 1, 5, 18 and 27. Similar constitutional/political wrangles inhibited economic planning in India during the second world war. There is a fascinating account of the discussions in the executive council on reconstruction planning in a letter of Sir John Colville to Leopold Amery, then Secretary of State for India:

Dalal [the new planning member] and his department are in favour . . . of confining State ownership to industries such as ordnance factories and railways, which are already state-owned, and to other key industries for which private capital may not be forthcoming. Ambedkar, with his socialist ideas, is naturally in favour of nationalising as much of industry as possible, and he was supported by Khare . . . the general view was that State ownership should be confined. . . . I think myself that a large excursion into state ownership . . . would be disastrous without more experience of owning industries. Council were in favour of State assistance to industries in a number of forms, and this is not controversial. What, however, is controversial is the subject of licensing. Planning and Development Department want to license all the industries in a comprehensive list of 20 key industries which they propose by legislation to make a Central subject. Constitutionally this can, of course, be done. . . . They would also apparently encourage the Provinces to license in the provincial sphere, which covers the rest of industry. Those with industrial experience and interests, such as Benthall and Srivastava, strongly disapprove of licensing because they fear that the cumbrous machinery will obstruct the development of industry and lead to intolerable graft and corruption. Wylie has pointed out with considerable force that no scheme of industrial development and control can possibly work unless the States come into line. Even state assistance to industries is useless if they are subjected to unfair competition from other industries established under different taxation systems and controls . . . the vast majority of the states . . . will have to be brought into line by the firm use of paramountcy. Muslim Provinces may well hold that nationalisation is pre-

ferable to the encouragement of private industries because state industries would have to give a proportion of the posts to the minorities. . . . Again . . . there is a suspicion that a clique of capitalists will gain control of the Central Government, and that the Provinces should resist any extension of their powers. It is all a very tangled business.

- [*The Transfer of Power*, V, ed. Nicholas Mansergh (London, 1974), p. 864.]
- 63 Chelmsford Papers, Chelmsford to Montagu, 9 June 1919 (IOL).
- 64 The whole saga can be followed in Reading's correspondence with Montagu between September and December 1921, in the Montagu Papers at the India Office.
- 65 *Report of the Indian Detachment Committee, 1922-23* (London, 1923), p. 212. There is a brief account of the devastation wrought in A. G. Clow, *The State and Industry*, op. cit., especially pp. 30-5. The annual reports of the provincial industries departments tell the same tale in greater detail.
- 66 R. H. Tawney, 'The Abolition of Economic Controls, 1918-1921', *Economic History Review*, 13 (1943), 7.
- 67 Ibid.; cf. Susan Armitage, *The Politics of Decontrol of Industry: Britain and the United States* (London, 1969).
- 68 Reading Papers, Montagu to Reading, 9 August 1921.
- 69 For a devastating critique of British industrial policy see D. H. Aldcroft, *The Inter-War Economy: Britain, 1919-1939* (London, 1970), pp. 345-9, 295ff.
- 70 Compare Clow's *State and Industry*, op. cit., or *An Account of the Work and Activities of the Department of Industries, Madras* (Madras, 1926), with T. C. Smith, *Political Change and Economic Development in Japan* (Stanford, 1955).
- 71 E. Kozo Yamamura, *A Study of Samurai Income and Entrepreneurship* (Cambridge, Mass., 1974), pp. 128-9.
- 72 Cotton note, cited in note 17 above.
- 73 This seems to me what A. K. Bagchi does in his *Private Investment in India 1900-1939* (Cambridge, 1972). The plain fact is that economic historians have done next to no research worth the name on Indian entrepreneurs, so that we know singularly little about their professional competence or their connections with the state. Economic policy is hardly in better case: the most popular accounts—including Bagchi's—seem to have been written without reading a single government file. In this context, see M. D. Morris' important review article, 'Private Industrial Investment on the Indian Subcontinent: Some Methodological Considerations', *Modern Asian Studies*, 8 (1975), 535-55, which takes Bagchi's 'racial conspiracy theory' to task. It seems to me at least as likely that the Government of India's unwillingness to favour the British business community enough was responsible for India's industrial backwardness as any propensity to favour them too much.