Reversal of fortune: new insights about the causes of India's decline and growth over the long run

By Bishnupriya Gupta

The decline of India's traditional textile industry in the face of imports of British goods in the 19th century did not drive economic stagnation, as previously believed. Underinvestment in agriculture and a failure to invest in primary school education had far more serious consequences for economic growth.

IN 1947, WHEN INDIA gained independence following 200 years of colonial rule under the British Empire, the country was one of the world's poorest. India fell behind during colonial rule for reasons that have widely been believed to stem from the decline of traditional textile industries in the face of unfair competition from British goods.

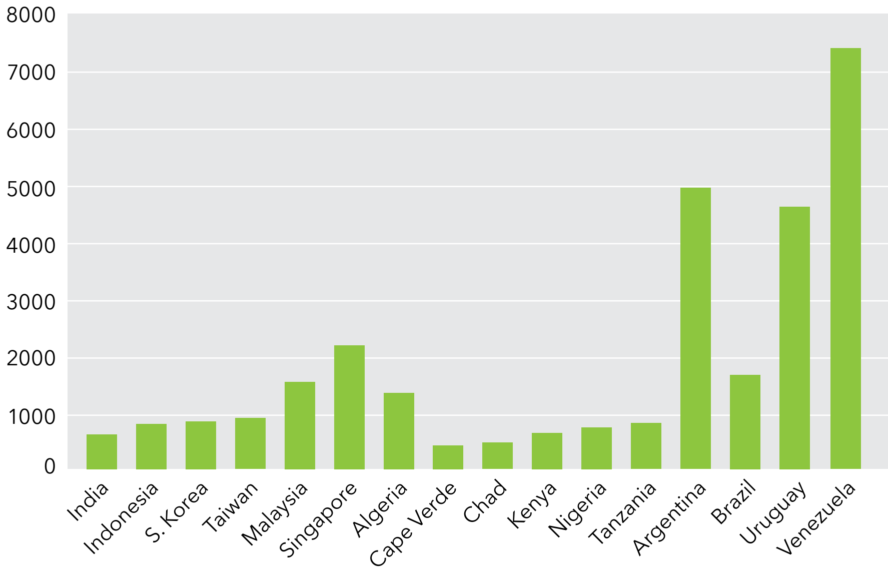
My recent research challenges this view. New quantitative evidence about the indicators of living standards, and analysis of the economy over the long run reveal a different explanation for India's long-run decline and reversal of fortune after independence from British rule. My research shows that the failure to grow was not due to deindustrialisation, as has been argued, but due to a lack of investment in agriculture and in primary school education.

The Indian economy began to decline before colonisation by the East India Company. The high point in Indian GDP per capita was in 1600 during the reign of the Mughal emperor Akbar. GDP then declined from the middle of the 17th century, even as the trade in Indian textiles increased. The decline continued as the East India Company gained territorial control over India from 1757. India stagnated as it became a part of the British Empire. In the post-independence years, technological changes in agriculture and planned industrialisation moved the economy from stagnation to modern economic growth. The slow growth in the post-independence decades is a relative failure in the context of the rapid growth in East Asia, but a reversal in the context of the long-run decline during colonial rule.

Evidence on wages and estimates of per capita GDP from 1600 show that living standards declined absolutely and relatively from the 17th century. In 1600, Indian GDP per capita was 60 percent of British GDP per capita, and well above subsistence levels. India's decline in living standards coincided with increased integration with international markets with the arrival of the European trading companies and the booming textile trade of the 17th and 18th centuries. ▶

In the post-independence years, technological changes in agriculture and planned industrialisation moved the economy from stagnation to modern economic growth.

Figure 1: Per Capita GDP in 1990 $ in 1950

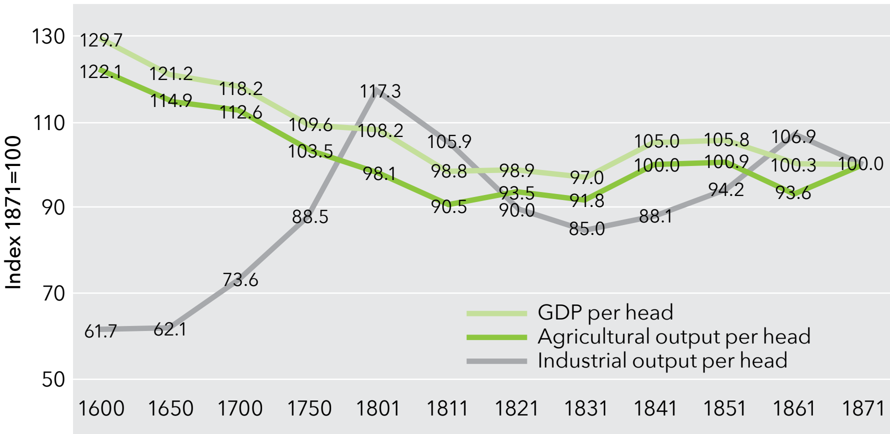


Source: Maddison Project database: https://www.rug.nl/ggdc/historicaldevelopment/maddison/releases/maddison-project-database-2018.

The competitive advantage of Indian textiles lay in the skills of the weavers, the quality of cotton cloth, and the low wages of the textile workers. British wages were five times the Indian wage. The British Industrial Revolution wiped out the wage advantage of the Indian industry. The rising productivity of British workers led to a large decline in price of British goods and to a decline in the share of Indian goods in the world market.

Between 1830 and 1880, the Indian economy deindustrialised. As the political control of India passed from the East India Company to the British Crown in 1858, India integrated into the division of labour of the British Empire as an exporter of agricultural products, such as opium, raw cotton and tea. Specialising in exports of primary products, did not have an adverse effect on Indian GDP per capita, but it did not lead to sustained growth. From 1900, both Indian agriculture and Indian income stagnated.

Figure 2: Trends in GDP per head and per capita agricultural and industrial output from 1600-1871 (1871=100). (The figure shows that agriculture, rather than industry, tracked the movement in GDP per capita).



Source: Calculated from Broadberry et al. (2015).

Agricultural growth was concentrated only on irrigated land, which, in 1935, covered only 20 percent of land under cultivation. Yields stagnated elsewhere, with yield per acre in food grains actually declining. Yet investment in irrigation was relatively small: representing between 3 percent and 5 percent of the budget, compared to the 15 percent to 25 percent spent on the railways from 1895 to 1935.

Following the decline of old industries new industries emerged. Tea and jute industries in eastern India were set up with British capital. Indian trading groups that had been involved in opium and cotton trade, moved into the cotton textile industry from the 1860s. Despite the absence of protective tariffs, the industry began to gain domestic market share from British imports. Industry in colonial India was the fastest-growing sector. Productivity, too, rose faster in industry than in other sectors. Despite the failure to develop a machinery industry, India did not look that different from a comparable Asian country. About 13 percent of GDP in India and Korea originated in the manufacturing in 1945.

Yet, at the same time, public investment in education was one of the lowest in the world. At the time of independence, only 17 percent of Indian population was literate. India followed a different path in developing human capital from the rest of the world. Rather than expanding primary education, the focus was on secondary and tertiary education. Expenditure on secondary education was disproportionately high, and secondary school enrolment was high relative to the primary school enrolment and comparable to countries in Europe. In the middle of the 19th century universities were set up in the large metropolitan cities: Calcutta, Bombay, Madras and Delhi.

Indian independence led to a major change in the direction of economic policy – from a globalised economy integrated into the British Empire to an economy that retreated from policies of free trade and capital flows. The newly independent state embraced the idea of development through industrialisation. Five-year plans were adopted to transform a colonial economy into a self-sufficient one. Studies of the Indian economy under planning see India as a failure in comparison to the East Asian successes. The catching up took place slowly, and the growth rate of less than 2 percent per year, between 1950-80, came to be known as the Hindu rate of growth. The economy, overburdened with regulation and efficiencies, slowed productivity growth. To the economic historian, this presents a turning point in falling behind. Gross domestic capital formation rose from 6 percent or 7 percent of GDP before 1940, to 13 percent in 1951, and to 20 percent in the 1970s. The Green Revolution in agriculture and industrial growth pulled the economy out of stagnation. (See tables 1 and 2 for GDP per capita and sectoral growth rates over the long run.)

Table 1: Changes in Annual Growth Rate in per capita GDP (%)

	GDP per capita
1870-1885*	0.5
1885-1900*	0.8
1900-1947	0.1
1950-1980	1.4
1980-1990	3.0
1990-2000	4.1

*Source: * Heston (1982) table 4.5. Sivasubramonian (2000) table 6.11.*

Table 2: Changes in Sectoral Growth (% per year)

	Primary	Secondary	Tertiary
1910-1940	0.0	2.3	2.2
1950-1964	3.0	6.8	3.8
1965-1985	2.5	4.3	4.4
1986-2007	3.4	6.8	7.1

Source: Roy 2012, table 12.1.

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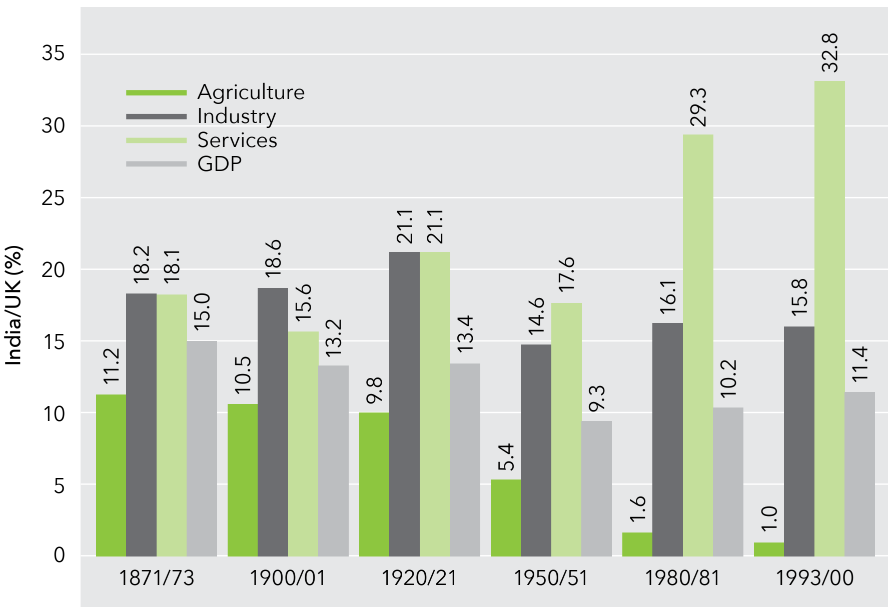
Figure 3: Sectoral Productivity Differences with UK (% India/UK)



Source: Broadberry and Gupta (2010).

From 1950, output per worker in India (in comparison to output per worker in the UK) reversed its decline (Figure 3). Productivity disadvantage in services with respect to the UK also declined over time, while the productivity in industry has varied within a small margin.

The Hindu rate of growth changed in the 1980s, following dismantling of the regulatory system. Per capita GDP growth doubled from 1980, and rose above 4 percent per year after 1990. The path of Indian economic growth has not followed the standard pattern of structural change. Unlike in industrialised countries, industry in India did not emerge as the largest sector at any time either in terms of output or employment. More importantly, India's growth since 1980 has been led by services. This sector has the largest share of workers with secondary and tertiary education, and it has a high total-factory productivity growth. Colonial emphasis on secondary education may have had long-term consequences for services. On the other hand, the effect of the low rate of primary school enrolment has persistent adverse effects on human capital in agriculture and industry. ◀

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