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Factor Markets in the Transition to Colonialism: India 1750-1900

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Scholarship on markets in early-modern and modern India can be linked with recent writings on convergence and divergence in world history *via* an old and largely Southasianist debate on the 'transition to colonialism'. There are three main questions, not always explicitly articulated, in this debate. Did the rise of colonial rule in the region de-commercialize a thriving commercial world of the eighteenth century? Did it subvert markets by forcibly supplanting old actors with new more politically powerful ones? And, did the nineteenth century globalization induce regress in the region through a process of destruction of commerce and industry? Until the 1970s, there was an implicit agreement among different historical schools (the usual labels are 'marxist' and 'neo-imperialist') that colonialism did mark a fundamental transition point, good or bad, and that a process of commercialization or market formation was one of the key drivers of the transition.

Major writings on the eighteenth century in the last twenty years have revised this view by suggesting that parts of the region were already significantly commercialized before the rise of British power. Two recent collections of essays, by Marshall (2003) and Alavi (2002) illustrate this journey well, which has opened up substantial new areas of detailed research. In turn, this research and rethinking has breathed new life into, on the one hand, the link between Mughal India with the post-Mughal economy, and on the other hand, the transition to colonialism problem. In one strong interpretation, the revision leads one to answering the questions above with a 'yes' in each case. In a more modest interpretation, the revision merely establishes continuities between the eighteenth and nineteenth century economic change, thus questioning implicit tendencies to overstate the significance of colonialism.

Important as these new developments are, there are two limitations the revisionist scholarship, especially in its comments on market formation, suffers from. Both limitations leave the link between precolonial and colonial India rather uncertain and undeveloped. First, the empirical core of revisionist writings on the eighteenth century is preoccupied with commodity market. Historians of the eighteenth century rarely talk about 'factor markets', whereas the nineteenth century economic history scholarship on markets routinely discuss land, labour and capital. Second, in the discussion on market formation, there is an implicit emphasis on scale, at some expense of qualitative dimensions. And yet, scale is precisely the hardest point to settle because quantitative data on the eighteenth century are hard to come by. We are too often left with a picture of commercial growth or decline that pretends to be quantitative but lack quantities. To illustrate, I cite from Peter Marshall's masterly review of eighteenth century historiography in his introduction to the survey cited above. Within the space of two paragraphs, Marshall notes that the eighteenth century saw 'huge' trade, 'much' agricultural production, merchants who operated 'on a large scale', 'much' manufacturing, 'masses' of labourers and artisans, 'great' cities, and 'prosperous' market towns (Marshall, 2003: 14-5). Since the paragraphs do not cite any number, one is left wondering whether or not trade in another time and place might be more 'huge', 'great', 'prosperous', etc.

The business of comparison over time depends on what one is comparing, and some dimensions of comparison are likely to lead one to dead ends. Furthermore, as already stated, there is a lingering and quite fundamental incompatibility between the eighteenth century historians and those working on colonial India on factor markets. A dialogue is yet to develop between the two on this theme in particular.

My essay is a broad-brush review of factor market development in the long period, written with these unresolved historiographic problems in mind. There is an argument behind the detailed picture I draw further on, and it is best to make it explicit at the beginning. I believe that we can try and make sense of the 'transition to colonialism' better by looking more closely at factor markets, and at qualitative changes, rather than on commodity markets and rather loose descriptions of scale of commercialization. Rather in the spirit of John Hicks who believed commodity and factor markets form sequentially, I argue that it was in the sphere of factor markets that the unfolding of a 'modern' economy in the nineteenth century can be discerned clearly. And yet, this 'modernization' was hardly a quantitative one. For, in a broad sense wage, interest and land prices existed before the transition. The transition touched on the quality and depth of these transactions rather than their scale. In some cases at least, what I mean by quality is a reduction in transactions costs. In some cases, the term means simply a larger number of potential transactors. What were these changes? I return to this question in the concluding section.

Land

Burton Stein (2003) classified precolonial proprietary 'rights' on land into three classes: prebendal or state-issued rights, private property rights, and communal rights. The sphere of private property rights was rather narrow, being restricted to land grants made to individuals with exceptional, usually religious, merit. It is easy to see that none of these rights would be easily saleable, for the first was strictly conditional on loyalty, the second was conditional on merit, and the third was not privately held in any case. Nearly all other rights with respect to land were not alienable ownership rights in any strict sense of the word, but user rights, a license to use land. And the mass of the peasantry clearly belonged in that class of right-holders.

Transactions in land increased in the region from the early nineteenth century. In principle, transactions in land – including transactions in both ownership rights and leasing rights - can increase if demand for land shifts outside because of increased relative profit in land or population growth, or if the supply of land shifts outside because of extension in the land frontier. On an aggregate scale in precolonial India, both processes were relatively weak. The former process was weak because profit as a driver of new investment played a small role in the rural economy. Population growth in the seventeenth and eighteenth century was 'a very modest 0.14 per cent' (Habib, 2003: 109). The latter process was weak because large extensions of land would have needed complementary inputs such as labour and capital, which would not be easy to accumulate on large scale except with political intervention and state investment.

The picture of Mughal agrarian system that we obtain from Irfan Habib and other historians has two major components: an overtaxed agriculture, and an urban superstructure that lives off the large agrarian surplus. Merchants and tax-collectors mediate between the two worlds. But agriculture hardly appears as a source of private profits, barring a few exceptions. Also, movements of people across the rural and the urban worlds were very rare, the two worlds were populated by groups of people who did not cross the boundaries very much. Merchants rarely turned into peasants, urban artisans rarely moved into agriculture, peasants could scarcely even resettle themselves as peasants, let alone effecting radical changes in occupation. 'Profit' is a word conspicuous by its absence in the discourse on precolonial India. With agricultural profits virtually nonexistent or irrelevant, it is hard to imagine land ownership or user rights being traded actively. Markets existed mainly, if not only, in tax rights. Officers of the state, who were also the principal transactors, regulated these 'markets'.

Not surprisingly, in pre-seventeenth century northern India, 'there was little question of the peasants claiming property rights over any parcel of land' (Habib, 1982:54). Access to cultivable land was maintained by abundance of land. But the peasant, excepting the chiefs and the elite right holders, could not sell or leave a plot of land at will, because of implicit obligations to pay taxes, defaulting on which could invite corporal punishment. Migrating to another domain to escape the extortionate demands of one ruler was in practice difficult. The real problem was the 'welter of rights' that bound each plot of land. These consisted of rights to collect taxes, rights to own the produce, rights to control cultivation, and rights to the commons.[1]

Of these rights, only the first – right to collect taxes – began to show some evidence of commercialization from the seventeenth century onward (Raychaudhuri, 1982: 177). These rights were both heritable and saleable to an extent. But sales were not common occurrences. For, nonpayment of revenue invited punishments and did not usually lead to expropriation. When central authority weakened, the rulers were forced to offer terms that made the revenue rights more marketable. Out of these three circumstances – weakening of central power with the collapse of the Mughal Empire, consequent widespread government failure and fiscal collapse, and increasing dependence of the state on tax-farmers – that commercialization of tax rights progressed apace.

In effect, eighteenth century states succeeding the Empire probably saw a dualistic dynamics unfolding. A tendency towards centralization of rights as the post-Mughal states tried to consolidate their authority was counterbalanced by a trend towards decentralization of power, as merchants or local administrative elite captured or purchased rights connected with the control of land. In turn, this process could lead to 'growing intensity of conflicts between rights' (Stein, 2003:79), as office-holders tried to convert rights acquired from the state into something like private property rights, often in

[1] See Kumar (1992) for an insightful discussion on 'land control'.

conflict with communal or old 'prebendal' rights. It is also likely that a crystallization of peasant proprietary rights did begin to happen in several parts of India as a result of growing commodity trade. Guha (1987) notes the presence of an informal peasant property right in western India towards the end of the eighteenth century. And yet, contemporary descriptions of *miras* rights do not suggest that actual sales were either common or easy. The major source cited in Guha states 'the last sale here occurred two years ago', and that sale deeds required 'consent of villagers' secured by gifts exchange.

In the scenario just described, the nearest equivalent to agrarian 'entrepreneurship' was the breaking of new land by means of land-saving investments undertaken by a ruler, which land in turn could add to the resources of the state. Stein calls such moves, in the context of the dry uplands of Vijayanagara, 'developmental investment'. Bayly (1983: 46) shows how Muslim military or service gentry in north Indian villages often made land-saving investments to reduce the risks of excessive dependence on taxation rights. And yet, why did such investment remain so closely associated with state offices? After all, 'money had become a crucial component of agrarian relations' in the eighteenth century (Bayly, 1983: 163). Why did private capitalists stay away from land improvement? There can be several answers to the question. Time and again, merchants and money-lenders revealed themselves to be unwilling to get too deeply involved with land ownership. Second, peasant profit being practically non-existent, the really significant form that agricultural surplus could possibly take was tax, and therefore, investments were dependent on the dynamics of taxation. And third, land-saving investments were extremely capital-intensive, which was the case in all of India, but especially in dry south India.

The British property rights reforms, introduced fitfully over a period of 50 years between 1793 and the 1840, was revolutionary, without necessarily intending to be so, precisely because these destroyed the 'welter of rights' on land. By contrast with the precolonial period, property rights reforms now joined an already gathering process of commercialization to strengthen the role of profitability as a driver of market formation in land ownership. State and private investment in new land was possibly larger than ever before, at any rate, new land was coming into cultivation at an accelerated pace in this period. This process of profit-driven market formation lost momentum from the interwar period, as rents and land prices began to increase at a much faster pace than output value, wages and profits. As new land more or less ran out of supply sometime in the second decade of the twentieth century, increasing scarcity of land (or an increasingly steeper supply curve of land) began to influence the nature of land market transactions.

Across zamindari and ryotwari regions, property right reforms legalized, privileged and strengthened one right over all others, the right to own an alienable property in land. It is only a matter of detail that the initial recipients of the right were the tax-farmers in eastern India, and peasant-cultivators in the south and west. This move fulfilled to a large extent the expectation from which it was undertaken: a space for private profits was created, or at any rate, greatly expanded. Land could now be purchased because it could be made more productive, enabling capital gains. Or it could be purchased in expectation of future scarcity, and again, capital gains. In either case, the return on land could be in principle calculated and compared with other uses of capital, attracting moneyed people including peasants to transact in land. As Chaudhuri (1983:93) notes, 'the landed society ceased to be a closed one, and any moneyed person could become a landed magnate'. The opening up happened through a dual process of commercialization and new sale laws.

The British State respected property rights as long as taxes were paid. This part of the reforms – which effectively established the State as the supreme landlord - derived from what was believed to be the long established custom of the region. On the other hand, many other elements of 'custom' were suppressed. Chief among these was the authority of the local officials to punish the defaulting tax collector or peasant. Suppression of this right made it possible for land to change hands faster and more easily when defaults occurred. By the Permanent Settlement in Bengal (1793), and the ryotwari settlements to follow in Bombay and Madras, the new regime of the East India Company made public sale of ownership rights mandatory when tax defaults occurred. Other rights that were unspecified, forgotten, or incorporated as an afterthought included layers of tenancy rights, the rights of pastoralists, and the rights of the village community over common lands.

The Permanent Settlement gave proprietary rights to zamindars, erstwhile tax collectors who now owned large landed estates. After a period of inactivity, the government of the East India Company fixed the rents charged by the zamindars to their tenants, usually the 'occupancy' tenants or *khudkashts* who had been cultivators of a plot of land for a number of generations. The first fifteen years of the Permanent Settlement saw a burst of distress-driven sales of zamindari estates in greater Bengal, induced by sharply raised effective revenue collection, a series of minor or large agrarian crises especially in Orissa, and the 'proverbial incompetence' of zamindars in managing their estates (Chaudhuri, 1983:94). Although in principle, the creation of private property in land made landed assets attractive to hold, in reality revenue demand was high enough to depress demand and it was not before 1810 that land price began to increase. The distress sales declined thereafter, as the rental value of land exceeded the revenue burden that had been fixed in money terms.

In the next two decades, land prices did not increase very much, as the commercial world of Calcutta saw a series of devastating crashes. This explanation for the depression in land prices suggests how closely land, commerce, and credit had already become intertwined in the region. From the 1850s, land prices in most parts of India were increasing, and reflected a steady increase in the scale of land transactions driven by both demand and supply factors.

Who sold land and who bought land? Defaulting zamindars aside, in the early nineteenth century members of the precolonial rural elite were among the principal sellers of land. Peasants and substantial landowners, presumably, were the net buyers. But in the late nineteenth century, as credit and commodity trade became firmly meshed, moneylenders and urban professionals also bought land from peasants in the major ryotwari regions. Most works on the subject seem to suggest that such transfers happened on a limited scale. There were substantial barriers to entry of nonagricultural classes in agriculture. Merchants and moneylenders in general were willing to lend short-term, and a great deal of new purchases of land in different regions was done with borrowed money in the twentieth century at least. But rural financiers themselves were generally unwilling and unknown to involve themselves in land ownership (Kaiwar, 1994: 64). Even if buying new land had become easier than before, taking possession of land was never easy for an outsider. A great deal of land transactions, therefore, was internal to the peasant economy, and perhaps increasingly so.

In zamindari areas, all peasants were technically tenants without ownership rights. A series of tenancy acts (1880-1928) recognized and strengthened the occupancy rights of tenants settled to a land for many generations. Elsewhere too, tenancy protection was a general trend in this time. It is clear that such moves could have ambiguous effects on land market. On the one hand, by strengthening cultivator rights, it could induce more transactions in such rights (Pouchepadass, 1992). On the other hand, with the superior tenant receiving legal protection, it could make the tenant something like a small-scale zamindar. In short, tenancy regulation could encourage a rental market, in which demand shifted continuously throughout the nineteenth century, leading to a proliferation of subleases. Tenancy Regulation tried to keep up with this trend, but never quite managed to do so. In effect, a large number of these leases were unregulated. This is a process that contemporary sources often called ‘subinfeudation’ (Bengal, 1940:34, for example). It is clear that in many other regions of India, protection of superior tenants had a similar effect on the land market, that is, push market in lease rather than ownership rights (Bates, 1994:324). Protection aside, many small owners of land were unwilling to part with ownership for prestige reasons.

Chaudhuri (1983) described episodes of rising rent, especially in the Bihar districts, in the second and the third quarters of the nineteenth century. The zamindar’s legal powers to raise rents had by then been restrained. But economic forces could drive rent increase by whatever legal and illegal means available. Land was beginning to become scarce in Bengal, but the peasantry was able to pay higher rents as agricultural prices began to increase. A race between rent rates and profits began. Land rents and land prices did not rise at the same pace everywhere. Guha’s (1993) sample from north India shows that nominal rents increased manifold between the early twentieth century and mid-twentieth century, but the south Indian evidence is ambiguous. Reddy’s (1996) sample from agriculturally prosperous coastal Andhra show that grain rents more than doubled between 1860 and 1940. India (1914) collected a great deal of rent data that do not show a clear change in the wage-rental ratio in agriculture, which reflects its bias for new frontiers, where land was plentiful. By and large, after 1900, land price or the present value of future rents increased sharply in most provinces. In Punjab, average land price increased more than tenfold between 1900 and 1945 (Mukerji, 1972). In the same period, agricultural prices had trebled.

The one significant exception to this picture was probably Bengal, where prices and rents did not rise enough. The usual explanation for this stasis is a process of diminishing returns that began with overexploitation of land from as early as the late nineteenth century. Guha (1987) offers a similar Ricardian explanation for what appears to be stagnant real rents in upland Maharashtra in the early twentieth century. In recent research, it has been suggested that the joint crisis of low rent and low profits changed the dominant mode of appropriation of ‘agrarian surplus’ in twentieth century Bengal from rent to usury (Bose, 1993). That may be so, though where in this dismal world there was money to be made by anybody remains a mystery. Competition for land has been linked to proletarianization. It is to these stories that I now turn.

Labour[2]

In both agriculture and artisanal industry, family enterprise tended to dissolve into casual wage-labour in the nineteenth and early twentieth century. The process, however, happened very slowly. In agriculture, competition for land and titles to land intensified due to population pressure, leading to widespread abandonment of owner-cultivation and tenancy for labour (Bardhan, 1977, discusses the post-colonial trend). In small-scale industry, a competition between the household and the wage-workshop led to the decline of the former. Commercialization increased the importance of capital, information, modern transport and communication systems and technology, and perhaps 'networks' of various kinds, as factors of production. The urban factory was better situated than the rural household in accessing these inputs.

There was another level of proletarianization, and another mechanism for the growth of wage labour. The average duration of employment contracts reduced in rural India, increasing labour turnover and casual hiring. 'Farm servant' was the census term for long-term labour contracts in nineteenth century agriculture. The percentage of farm servants in agricultural labour households was in decline in the first half of the twentieth century. In Madras, where farm servant contracts were particularly prevalent, the fall in percentage was sharp. Migration played a role in reducing the employers' need for 'labour-hoarding' in traditional agriculture. Migration and annual contracts both being male-dominated, migration discouraged annual contracts and facilitated entry of women in agrarian labour markets. Mediated by a new type of market relationship based on credit, a different form of long-term contracts spread in rural areas at the same time. But debt-bondage too, which was always spatially restricted, began to weaken in the last quarter of the twentieth century.

Along with farm servants, another older form of 'attached' labour was the commitment to supply diverse services for the village, to which some rural labour castes were subject. The term 'general labour' was used in the early British Indian censuses (given up in the later ones) to refer to such people, who performed not just field labour, but across-the-board labour services for the village, usually on terms that were not negotiated often. There was a powerful hierarchical element in these services, in that the labourers had few choices regarding what tasks they would prefer to do or what payments they could ask for. This category of work tended to disappear from the late nineteenth century. The rural labourer asserted his/her freedom to choose the principal, and the right to receive a wage for any service supplied. There were many reports of conflict within the village over obligatory labour services and about choosing occupations. These acts of resistance merged into the anti-caste and social emancipation movements unfolding at the same time.

The break-up of these customary contracts had the effect of pushing individuals out of a portfolio of services, and either specialize, or shift to a different portfolio. Earlier, these portfolios often included some handicrafts and some labour. In the case of industrial production, the market was usually a local one. As these portfolios broke up, artisan-cum-labourers tended to give up production and move towards labour. The market economy weakened the bond between local production and local consumption, encouraged long-distance trade, and made capital and information key to success in trade. These requirements weakened the rural artisan-cum-labourer and favoured the more

[2] The section draws on Roy (2005).

resourceful artisan castes. For, the former had poorer access to capital markets relative to the more specialized producer groups. But even as the rural artisan-cum-labourer left production and moved into labour, the types of labour they supplied changed in composition. A traditional form of occupational mix dissolved into a more market-driven occupational mix.

These great transfers of population between occupations could not have taken place without equally large transfers between places. Large streams of migration began from the mid-nineteenth century, aided by the railways and the telegraph after 1850, to facilitate this huge reallocation of labour. Men increasingly had to leave home for careers elsewhere. And as competition for land intensified, those with inferior rights to land had to do so more often than before. They went to the mills, the mining towns, urban small-scale industries, overseas, public works, plantations, urban services, or the railways.

Several prominent streams of short-distance migration emerged from the late nineteenth century. Large number migrated every season from the uplands of Godavari, Krishna, Guntur and Vizagapatam districts to the Krishna-Godavari deltas for farm work. Many from Chhattisgarh went every season to Berar cotton fields and gins. The wheat field of Narmada Valley, that is, Jubbulpore, Saugor and Damoh, received migrants from two directions, UP in the north and from Rewa, whence the Gonds descended the hills every season. Bihar workers migrated to Bengal at jute harvesting. Azamgarh workers were recruited for larger scale earthwork in Bengal. From Ratnagiri, many went to work in the cotton fields of Broach. And Punjab canal colonies received migrants from Rajputana. Agricultural labourers also went to the plantations, urban services, railways and other public works, and more rarely, the mills. These shifts, which I call 'reallocation', were not just transfers of population between locales and jobs, but involved transfers between labour institutions. When rural peasants and artisans left the village for work, they left almost always to take part in wage labour. Therefore, migration gave a significant push towards break-up of customary terms of employment.

Reallocation often required more than just a wage incentive. Transaction costs were important too. Much of the movement of labour into the modern sectors relied on 'contractors' and foremen (better-known as *sardars* in the context of recruitment into the cotton and jute mills) who could communicate with both the workers and the employers, and frequently took advantage of information asymmetry on both sides. Morris (1960) explained the strength of this institution from the labourers' point of view. The workforce was linguistically diverse, and therefore, communication with the managers, right from the recruitment stage, involved an intermediary. This factor was clearly present, but does not explain why the institution weakened from late in the interwar period. Labour markets with sufficient depth to supply mill-hands on large scale did not exist in the mid-nineteenth century, except briefly during famines. Despite the unreliable intermediary, employers in the towns often found it hard to gather a large number of hands without some help from the former.

After 1900, voluntary internal migration increased. Eventually several types of transaction costs involved in hiring labour fell. A range of skills became available for hire in one place. Potential workers came to the mill rather than wait for the *sardar* to take them there. The power of the intermediaries, consequently, declined. The contractor in later years was not so ubiquitous any more, and a great deal of hiring could take place via spot markets. Mill managers in the interwar years reported that they hired their daily hands from the 'mill gates' breaking with past practice, whereas it was only the new factories and new divisions that still relied on the agent.

By contrast with the mills, how labour was reallocated in agriculture and traditional industry is much less known. As stated already, there had been large shifts within and out of agriculture in the nineteenth century. Once again, these were often accompanied by a prominent role for contractors. However, little research exists on the intermediary outside the formal sector of the mines and the mills. Studies on the artisans suggest that migration was an important part of their history too in the early twentieth century. Skilled artisans, however, did not necessarily migrate to join labour markets. Unlike the rural artisan-cum-labourer, the skilled artisan often migrated to resettle elsewhere as an entrepreneur.

The dual process of migration and proletarianization had a significant gender implication. In the ensuing market for manufacturing labour, it was often harder for women to take part than it was for men. However, in the spot market for agricultural labour, women did take part in increasing extent. We cannot say whether or not these two tendencies always occurred together. To some extent they did. Some households had combined cultivation and industry before. The men in these families earlier leased in land or owned plots that they cultivated along with the women of the families. Sometimes, these households also performed industrial work on the side. The nineteenth century censuses recorded women thus engaged as either 'cultivator' or 'manufacturer' depending on how the families saw themselves. But when the men of such mixed-occupation families left home in search of work elsewhere, the whole family's engagement with industry on one side and with own-cultivation on the other declined. The family as a work-unit invariably weakened when the men left home. The women who remained behind rarely could continue or take up production work on their own, because women workers, whether in industry or agriculture, who often commanded high degree of skills, had poor access to capital and marketing. Relative to men, women took part far less in contracting, and the wider and complex interactions that it required. Internal migration in South Asia involved a disproportionate number of men, a feature spanning colonial and postcolonial periods. This situation pushed a disproportionate number of rural women into agricultural wage-labour. In early twentieth century rural India, that meant casual labour in agriculture. At the same time, farm servants being usually males, the end of permanent service facilitated greater absorption of women in farm labour.

What did labour reallocation mean in terms of wage spread or trend? There is evidence that the individual worker could gain in terms of more employment (and thus annual earning) or more selectively, higher wage rates, whether the shift occurred within agriculture or between sectors. But overall, the trend in average agricultural wage rates remains ambiguous. The nineteenth century wage data are fragmentary and unsystematic. Collating what exists for several major regions, historians have noted the absence of a clearly discernible tendency in real wage, though in some cases a rising tendency after 1840 has been observed. The rise continued until the mid-1870s. But the two decades thereafter saw a steady fall in real wage. The fall derived from stagnation in money wage together with price rise. This long real wage stagnation in the late nineteenth century has made the major official source on historical wage statistics, *Prices and Wages in India* famous, or infamous, depending on how credible it is seen to be.

The traditional practice has been to take the wage stagnation to be authentic, and explain it either as a result of distress or structural change. There was sustained upward pressure on food prices in the 1880s, because of exports as well as depreciation of the currency. And yet, the Indian nationalist argument that these circumstances intensified a subsistence crisis seems far-fetched. By all indications, real income in agriculture was increasing, so were food availability per capita, agricultural production, migration, labour demand, and employment. Excepting two famines, the last quarter of the nineteenth century fits a theory of gathering rural crisis very poorly indeed.

We should then ask, how credible is the money wage stagnation? For overlapping years in the 1890s, another contemporary report (India, 1914) shows that money wages rose sufficiently to register a healthy increase in real wage. One way of dealing with the suspicious stability in money wage in *Prices and Wages* would be to argue that the wage data therein, being collected by village-level agents, related more to the farm servants. These wages might indeed have contained a customary and static element. The advantage of this hypothesis is that, it also accounts for, at least partly, the progressive weakening of such contracts in this period.

Both these sources suggest that all regions shared in a rise in wages in 1900-1912. In some cases a mild rising trend continued till 1920/5. Not surprisingly, the fastest growth in the last phase was recorded in Punjab, Madras, and United Provinces – the main regions to experience significant extent of state investment in water and in cultivation in the late nineteenth and early twentieth century.

Fragmentary datasets suggest that the first half of the 1920s saw no significant change in money and real wage. From the second half of the 1920s through the 1930s, as prices began to fall precipitously, money wages were being pushed down. Real wage decline started within a few years. Real wages at the end of the period (1935-6) were usually below those at the beginning of the period (1929-30). The Second World War saw a massive inflation, further depressing real wages. However, some adjustments in money wages did occur after 1941.

The Great Depression set a level of real wages that proved remarkably stable. Studies on wage trends in the 1950s and the 1960s (Jose, 1987; Mukherji, 1995) report very little increase in the low average that was established around the mid-1930s. The deadlock was broken only after the green revolution in the early-1970s. These studies generally find a positive correlation between labor productivity and real wage growth across space. Not surprisingly, the regions where acute rural poverty, landlessness, agricultural stagnation, and wage stagnation persisted for the long interregnum – Bihar and West Bengal – was engulfed in violent rural unrest c. 1970.

Did wage spread reduce in the course of labour market formation? Collins (1999) tests for convergence in rural wages as labour mobility increased between regions owing to extension of the land frontier, migration, railways, and modern communications. He finds no evidence of convergence or divergence in the *Prices and Wages* dataset, and concludes that there was insufficient labour mobility in this time. With wages that are as invariant over time as *Prices and Wages* data show these to be, in the aggregate and also at provincial level, convergence is hardly to be expected. If my interpretation of the invariance is correct, then, any observed wage-cluster was a mix between market wages and customary wages, and since custom changed relatively slowly, the presence of customary wages in the cluster made the dataset less sensitive to labour mobility. In short, this dataset was possibly an insufficient test of mobility. On the other hand, as custom weakened, in the long run there should be convergence, which is indeed the result we get from comparing India (1914) data from around 1900 with that based on the first major sample survey of rural labour after independence (India, 1954).

Proletarianzation has often been attributed to the formation of a rural credit market, it is to this issue that I now turn.

Credit

A recent overview by Washbrook (2005) states that, while ‘banking in India has a long history .. from the sixteenth century, it is possible to see the development of more specialised banking institutions’. Of the several factors that gave rise to what Bayly has called the great ‘corporations’ were the textile export trade and inflow of New World precious metals, cash crop production, and a closer relationship between state power and commercial interests (Bayly, 1983: 8-9).

The nature of this relationship needs closer examination. The accelerated mercantile activity especially in northern India, derived largely from pervasive state failure, a point not adequately emphasized in the literature on the eighteenth century. None of the essays in the recent collection edited by Marshall, for example, considers what seems to me an obvious interpretation. Almost every major field of new ‘investment’ and accumulation, which stimulated credit and commerce in the eighteenth century, derived from weakening of state authority and fragmentation of authority. The four major activities were tax-farming, lending to the state, money-changing and internal remittances. Tax farmers and big bankers thrived on fiscal weakness and collapse of the successor states, often induced by or worsened by predation of neighbours. Money-changers flourished because of monetary fragmentation of a territory that was relatively more united a century before. And remittance business grew because of political fragmentation and emergence of new pockets of insecurity and lawlessness, which regions nevertheless were quite central in commodity trade (one example was Malwa).

When the East India Company consolidated its power in the early nineteenth century, a part of this flourishing commercial world collapsed. It would be a mistake to read in this collapse the play of a generalized economic crisis or political intervention. It collapsed because this house of cards had grown on a bed of government failure and fragmentation, a particular circumstance of the eighteenth century world that stimulated banking of a certain state-dependent kind. Any strong state would have led to a partial collapse of this world.

At the same time, several long-term processes were introduced that increased the importance of interest income in colonial rural India. First, the creation of property rights in land, and investment in water, enhanced the asset-value of land. Second, more extended monetization of rent and tax, combined with the disparity between seasons of tax-collection and harvests, required credits. Third, cash crops needed finance because, being traded over long distances under prior contracts, involved more investments in time and money. The trend was subject to disruptions caused by harvest fluctuations, and to longer commercial cycles. Moreover, the mobility, migration, and resettlement of members of trader-moneylender castes also led to increasing penetration of credit relations in rural India.

The new elements in the relationship between the debtor and the creditor in rural

India were understandably controversial, both among administrators and among historians. There seems to be two senses in which these developments contributed to rising inequality in rural India: (a) peasants as a class had inferior bargaining power, and (b) the peasant as an individual had to depend on a monopolistic creditor. The implication in either case was that the credit market was imperfect, such that the lender could control the terms of credit. The first kind of disparity could arise because of coercion (for example, indigo planters in Bihar), asymmetric information and asymmetric access to knowledge (accounting or legal literacy), the authority of the State (where the creditor was the revenue collector), or interlinked markets (where the creditor was monopsonistic buyer of produce). This macro interpretation of inequality s not very tractable, however. For, whereas the advantage of literacy may be loaded in favour of the moneylender, the advantages of interlinked markets accrued usually to a rich peasant.

A second sense of disparity was captured in the word 'dependence', widely used by historians writing about credit (for example, Amin, 1994). If 'dependence' means the peasant needed to borrow to finance production, the sense is trivial, for every producer needs to borrow. The more substantial definition is, the peasant needed to borrow from a particular lender who was known to be unfair. This condition developed because of monopoly, though in rural India, the formal monopoly of the lender could be somewhat redressed by the peasants' comparative advantage in brute power. A simultaneous reason for dependence to develop was risk. In highly unstable agriculture, the peasants were regularly in need of credit for subsistence. No resistance to debts is strong enough, no interest rate too high, and no terms excessively harsh, where the alternative to liability is starvation. This has the implication that an extension of debts, under whatever terms, could induce greater consumption stability in the long run. The degree of dependence was variable. As Bhattacharya (1994) shows for Punjab, its extent varied by classes of debtors and creditors, and weakened because of rise in land values and mortgage markets. On the other hand, greater inertia characterized several other regions, such as Bengal.

It is clear that peasant indebtedness, a phenomenon that raised so much passion in colonial and postcolonial India, could have ambiguous implications for dependence. In Punjab, Malcolm Darling (reproduced in Bose, 1994) argued convincingly, debts were associated with increasing consumption and investment, and with maintaining subsistence. Debts financed growth, urbanisation, emigration, land purchases by peasants, and general commodity production. Growth, in turn, created alternative assets, activated markets, and thus further reduced dependence. In poorer agriculture, on the other hand, debts mainly warded off hunger, and not always with success. In the former scenario, debts expanded in the long run because rising productivity and profits in agriculture drove credit-demand. In the latter, individual credit-demand is set by the relatively stationary conditions of high risks and low expected incomes. Here, poor rates of return or uncertain rates of return in alternative uses of capital drove credit expansion.

Despite an initial surge in moneylender investments in land, interventions and endogenous changes weakened the tendency. It was also regionally variable as the location and intensity of debt-related peasant revolts suggest. Limits to this tendency were set by the rich peasants beginning to finance the crops of poor peasants, starting up as full-fledged bankers, or by the moneylender's outsider/specialist status such that unsecured loans tended to be more popular than land mortgage (for examples of each, see essays in Bose, 1994). Further, Eric Stokes suggested that moneylender investment in land was influenced by cyclical rhythm, because, by transfer of ownership the creditor assumed the risk of cultivation (reprinted in Ludden, 1994).

The point that the structure of credit markets was subject to business cycles is demonstrated most acutely in the 1930s Depression. Unsecured loans were destroyed, consumption reduced, capital shifted to urban investments, informal bankers organized themselves into more formal institutions, cooperative credit expanded to partially meet the rural credit crisis, and peasants tended to displace moneylenders.

Conclusion

To end this brief survey, I return to the question this essay began from, what were the changes in the nature of transactions in land, labour and credit markets during the transition to colonialism? In land, the essay argues, precolonial markets were largely markets in taxation rights or markets in state offices relating to control on the use of land. These transactions in offices extended for some time into early colonial rule, but the trend was clearly to divest land market from prebendal rights. In consequence, we hear for the first time, peasant profits emerging as a significant force behind transactions in land, a theme conspicuously absent in the scholarship on precolonial India. In respect of labour, the essay describes a process of emergence of casual wage labour relations from a bed of household and hierarchical relationships. The latter did not preclude markets, wages or hiring, but had a significant presence of ‘non-economic’ influences on terms of transaction. Several important stylized facts in the recent history of wage labour in rural and urban India can be understood as a weakening but not disappearance of these influences. In credit, the transition to colonialism implied a dual process. On the one hand, the flourish of credit observed in the revisionist scholarship on the eighteenth century had been dependent on a close and many-sided interlinkage between state offices and commercial transactions. This dependence practically disappeared in the nineteenth century. Simultaneously, however, credit penetrated from the towns into the countryside and from fiscal uses to productive uses much more deeply. Arguably, creditors continued to flourish. But now they thrived on market-failure, whereas earlier they did on state failure.

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