Chapter 4

Industrial Capitalists and Governments in Bombay and Bengal

This chapter examines the relations between the industrial capitalists and the governments in Bombay and Bengal. These relations formed the context in which labour policy of the government was formulated and operated because most labour welfare measures necessitated concessions from the capitalists and some measures on labour disputes gave advantage to them, though other factors such as the strength of working classes and the amount of political and economic resources of the government also mattered. The business-government relations were shaped by various economic and political factors inherent in the negotiations within the contingent situations confronting the capitalists and the government. If a government had a class bias, it would be seen from their tendencies in their measures concerning the classes. While the capitalists had a significant influence on the government, their relations with them was the result of the balance of strength between the two, and the government's consideration, on the one hand, of other classes, especially of working classes and on the other hand, of other political issues like principles of governance for the colonial government or nationalist objectives addressed by the Congress Government in 1937-39. It should be noted that there were different sections within the industrial capitalist class and that not all of them can be homogenised in one category; however, our focus will be on the dominant trend within certain diversities of views.

To understand the relations of the capitalists with the newly established provincial governments under the Government of India Act, 1935 - the Congress Government in Bombay and the Coalition Government in Bengal - and to clarify the change brought about by the new Government of India Act, it is necessary to know the relations the capitalists had established with the colonial governments.
In the first part of each section below in this chapter, we consider the character of the industries, and the impact of the economic policies of the colonial government on different development of the relations with the colonial governments in Bombay and Bengal. In Bombay, the relations of the cotton millowners with the colonial government gradually worsened, as the economic policies of the colonial government such as currency and tariff policies adversely affected the Bombay cotton textile industry. The relations were more stable in Bengal, because the leading sections of the industrial capitalists did not think that the economic policies of the colonial government adversely affected the jute textile industry much.

Next, in the second part of each section below, we discuss how the relations of the capitalists with the colonial governments influenced their relations with the provincial governments in Bombay and Bengal under the Government of India Act, 1935. In Bombay, the relations between the capitalists and the Congress Government can be called interdependent. It had been shaped against the background of the former's growing discontent with the colonial government and its approach to the nationalist movement, first as a means of putting pressure on, and later as an alternative to, the colonial government. The Congress Government in turn required the support of the capitalists not only for the immediate administrative needs but also for the future independence movement and nation building. In Bengal, there was a unilateral dependence of the Coalition Government on the capitalists. The Bengal Government, which emerged out of the coalition of various political parties and interests, possessed no united vision for the future or the power to realise it. The government depended for its survival on a section of industrial capitalists, the so-called "European" block in legislature in the new political system introduced by the Government of India Act, 1935 and the political situation in the province.

Lastly, in the third part of each section in this chapter, labour policy will be located
in these capital-government relations. In Bombay, labour policy was just one of many issues to be dealt with in the relations between the Congress Government and the capitalists. Thus its role was relatively small. In Bengal, in contrast, labour policy was the issue on which the Bengal capitalists expected the Coalition Government to act in their favour. Labour policy was a focal point in the relationship.

1. Capitalists and Government in Bombay

(1) Bombay Cotton Textile Industry

Cotton was a world product: cotton crop was cultivated in various areas throughout the world and cotton textile industry grew in many countries. Quite naturally, the Indian cotton, both raw and manufactured, played relatively a small role in the 1930s in the international market. For the Indian cotton, Britain, and later Japan, were major competitors, though the former, which produced products of higher quality, was in little direct competition with the Bombay cotton textile industry whose products were only of lower count of cotton textile.

Cotton had character of an imperial product. It is well known that the industrialists in Lancashire became a driving force of the British imperial expansion. Great imperial interests were at stake in the cotton trade. It was in this branch of trade that free trade, a fundamental economic principle of the empire, was voiced most emphatically. In this important imperial product, the interests of industries in colonies like India were inevitably subordinated to the interests of the British industry or the empire as a whole.

The Bombay cotton textile industry that had developed under these international conditions, had important characteristics. First, the industry was dominated by Indian capital. In 1911, of the total cotton and other spinning and weaving mills in Bombay, thirteen were owned by companies directed by Europeans and Anglo-Indians, ninety-two by Indians, and thirteen by both races.¹ The BMOA, the representative body of the

¹ Bagchi, 1972, p.183.
cotton mill owners in Bombay, was mostly an organisation of the Indians. Second, the industry produced increasingly for the domestic market. After the loss of Chinese market, due to the competition with Japan, it shifted from the production of yarn for international market to the production of cloth for the domestic market. In 1925-26, only 7.96 per cent of the cloth produced in Bombay Presidency was exported.²

In addition to these characteristics, the Bombay cotton textile industry suffered from problems that arose in the 1920s. First, the industry had a problem of overcapitalisation. As the Indian Tariff Board pointed out in 1926, cotton mills in Bombay, especially those established or expanded after the war, were overcapitalised because they were floated or expanded "with largely increased capital" which was "based on the valuations of the boom period".³ This structural problem reduced the competitiveness of the industry.

Second, the Bombay cotton textile industry had to compete with the Japanese imports and also from upcountry mills in India, both of which had emerged in the late 1920s. Japanese cotton products began to flow into the Indian market starting from 1915 and rapidly grew in the late 1920s. As we will shall, this question was the source of conflict between the Bombay capitalists and the colonial government, and also had an effect of forging a link between the nationalists and the cotton textile capitalists in the 1930s.

Competition with the mills in other textile centres in India, so-called upcountry mills, gave another threat to the industry. In the centre of this question was the high cost of production, especially labour cost in Bombay, compared to that in other centres. The Indian Tariff Board of 1926 remarked that it was due to the high cost of labour that the effect of the slump after the end of boom was felt more acutely in Bombay than other

² ITB, 1927, vol.1, p.98.
centres. The Bombay capitalists complained about the existence of strong labour movement in Bombay which they thought was the cause of its weakness in the competition with other domestic centres. The competition with upcountry mills contributed to the reaction of the Bombay capitalists to the labour movement and the labour policy of the government in the 1930s. For the capitalists, it rendered the Bombay cotton textile industry a special case with regard to the labour policy of the government. From this standpoint, they blamed the labour movement as the cause of the slump in the industry, demanded the government to restrict it, and opposed labour welfare legislation. These problems not only prevented the industry from recovering from the slump it fell into after the post-war boom throughout the 1920s, but also enhanced the effect of the Great Depression in the 1930s on the Bombay cotton textile industry.

The Great Depression, that was triggered by the collapse of the New York stock market on 24 October 1929, spread rapidly around the world. It first caused a fall in agricultural prices and a contraction of world trade. As the demand slackened, industrial production also declined. It had an impact on Indian economy as a part of the network of world economy. The fall in the price of agricultural products caused by the Depression hit hardest the peasants, who constituted the vast majority of the population of the country. The price of cotton, the prominent cash crop in rural Bombay, dropped from Rs.0.34 per pound in 1929 to Rs. 0.19 in 1930, a fall by about 50 per cent. In spite of the plight of peasants, suspension or remission of revenue was rarely made by the government. With the contraction of rural credit, the peasants were rapidly reduced to poverty.

The Bombay cotton textile industry began to feel the effect of the Depression from around the beginning of 1930. For them, the Depression had two effects working in the

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5 Rothermund, 1992, p. 164.
opposite direction. On the one hand, they could reap the advantage of cheaper raw material and increase in real wages of workers, which offered them an opportunity for a wage cut. On the other hand, the reduced purchasing power of peasants due to the fall in the price of agricultural products led to a decreased demand for their products, because the industry was highly dependent on the domestic market. The slump in the industry proved that the latter effect prevailed.

A conspicuous sign of crisis for the industry was the fall in the price of its products. The wholesale price of longcloth, their standard product, which was priced at Rs.0-15-5 per lb. in 1929, was sold only at Rs.0-11-6 in December 1930, a fall by 24.4 per cent (Table 4-1). The contracted demand and a decreased price brought about a slump in production. The production of yarn and cloth fell by 29.6 and 18.7 per cent respectively between 1927 and 1934 (Table 4-2). The slump in production severely worsened the financial position of the mills. Some mills were forced to close down or reduce the operation. The most significant of these closures was the liquidation of the Currimbhoy Ibrahim group, one of the leading group of cotton mills in Bombay. There was a sign of slight recovery in 1937. But the industry fell in a slump again in 1939 and did not recover until the war demand rescued it.

The Depression had a political significance for the industry. It transformed the relations of the Bombay capitalists with the colonial government, and with nationalist movement, though this process had begun before the onset of the Depression. We need to examine the changing relationship of the Bombay capitalists with the colonial government, and their approach to the nationalist movement.

(2) Capitalists and Colonial Government in Bombay

The relations between the Bombay industrial capitalists and the colonial government in

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6 See Chapter 1, Section 1.
Table 4-1
Price of Cotton Piecegoods
(Longcloth 37x37 1/2x3 Per lb.)

<table>
<thead>
<tr>
<th>Year</th>
<th>Rs.</th>
<th>p.</th>
<th>A</th>
</tr>
</thead>
<tbody>
<tr>
<td>1926</td>
<td>1</td>
<td>0</td>
<td>5</td>
</tr>
<tr>
<td>1927</td>
<td>0</td>
<td>15</td>
<td>1</td>
</tr>
<tr>
<td>1928</td>
<td>0</td>
<td>15</td>
<td>4</td>
</tr>
<tr>
<td>1929</td>
<td>0</td>
<td>15</td>
<td>5</td>
</tr>
<tr>
<td>1930</td>
<td>0</td>
<td>12</td>
<td>9</td>
</tr>
<tr>
<td>1931</td>
<td>0</td>
<td>11</td>
<td>2</td>
</tr>
<tr>
<td>1932</td>
<td>0</td>
<td>11</td>
<td>0</td>
</tr>
<tr>
<td>1933</td>
<td>0</td>
<td>10</td>
<td>4</td>
</tr>
<tr>
<td>1934</td>
<td>0</td>
<td>10</td>
<td>3</td>
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<tr>
<td>1935</td>
<td>0</td>
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<td>1936</td>
<td>0</td>
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</tr>
<tr>
<td>1937</td>
<td>0</td>
<td>9</td>
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</tr>
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<td>1938</td>
<td>0</td>
<td>9</td>
<td>6</td>
</tr>
<tr>
<td>1939*</td>
<td>0</td>
<td>13</td>
<td>0</td>
</tr>
</tbody>
</table>

*on 22nd December

### Table 4-2
Cotton Textile Industry in Bombay City and island (1927-39)

<table>
<thead>
<tr>
<th>Year*</th>
<th>Average Working Spindles (In thousands)</th>
<th>Looms (In thousand)</th>
<th>Yarn Span (in thousand)</th>
<th>Cotton Woven (in thousands)</th>
<th>Average Number of hands Employed</th>
</tr>
</thead>
<tbody>
<tr>
<td>1927</td>
<td>2,952</td>
<td>70</td>
<td>862</td>
<td>1,135</td>
<td>154,698</td>
</tr>
<tr>
<td>1928</td>
<td>1,826</td>
<td>45</td>
<td>797</td>
<td>1,132</td>
<td>129,275</td>
</tr>
<tr>
<td>1929</td>
<td>2,109</td>
<td>48</td>
<td>384</td>
<td>537</td>
<td>106,710</td>
</tr>
<tr>
<td>1930</td>
<td>2,804</td>
<td>64</td>
<td>658</td>
<td>889</td>
<td>136,774</td>
</tr>
<tr>
<td>1931</td>
<td>2,703</td>
<td>63</td>
<td>677</td>
<td>968</td>
<td>129,057</td>
</tr>
<tr>
<td>1932</td>
<td>2,716</td>
<td>62</td>
<td>804</td>
<td>1,217</td>
<td>129,534</td>
</tr>
<tr>
<td>1933</td>
<td>2,431</td>
<td>59</td>
<td>782</td>
<td>1,217</td>
<td>119,943</td>
</tr>
<tr>
<td>1934</td>
<td>2,044</td>
<td>49</td>
<td>607</td>
<td>923</td>
<td>95,007</td>
</tr>
<tr>
<td>1935</td>
<td>2,393</td>
<td>57</td>
<td>663</td>
<td>1,025</td>
<td>111,147</td>
</tr>
<tr>
<td>1936</td>
<td>2,306</td>
<td>58</td>
<td>762</td>
<td>1,236</td>
<td>109,670</td>
</tr>
<tr>
<td>1937</td>
<td>2,322</td>
<td>59</td>
<td>691</td>
<td>1,156</td>
<td>109,479</td>
</tr>
<tr>
<td>1938</td>
<td>2,585</td>
<td>63</td>
<td>827</td>
<td>1,376</td>
<td>118,993</td>
</tr>
<tr>
<td>1939</td>
<td>2,484</td>
<td>61</td>
<td>918</td>
<td>1,439</td>
<td>113,338</td>
</tr>
</tbody>
</table>

*ending 31st August

**Source:** *Annual Report of the Bombay Millowners' Association, 1939*
the 1920s and the 1930s can be described as a process of gradual alienation. The decline of the industry and its characteristics were closely related to this process.

The Bombay industrial capitalists were generally loyal to the colonial government until the early 1920s. They were not willing to support the Non-Cooperation started in 1921. It cannot be denied that Bombay cotton mills benefited from Swadeshi, which was an essential part of the movement. The output increased by about 9 per cent in 1921-22 and their share in piecegoods market expanded from 25 per cent in pre-War years to 42 per cent in 1920/21-1925/26. But they generally stood aloof from the movement, though merchants and traders in Bombay gave support to the non-cooperation movement "on a large scale", though not openly. The leading millowners signed a manifesto against Gandhi's passive resistance. Purshotamdas Thakurdas, a famous Bombay industrialist, formed the Anti-Non-Cooperation Association. Commenting on the growing sway of the movement he wrote, "The commercial classes are naturally more thoughtful and more anxious about the wisdom of such action." For one thing, they really had a fear of the participation of the masses in politics as a result of the intensification of the movement. For another, they felt no need to antagonise the colonial government by cooperating with nationalists.

From the latter half of the 1920s, however, the Bombay capitalists often came into conflict with the colonial government, and severely criticised their economic policies. Behind this change was the slump of the Bombay textile industry after the collapse of war boom. The cause of the slump could not be attributed to the failure of the

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10 Bhattacharya, 1980, p.32. For the difference of interests between small traders and merchants, and industrialists in Bombay, see A. D. Gordon, 1978, chapter 3.
12 Purshotamdas Thakurdas to Thomas Holland, Purshotamdas Thakurdas Papers, NMML, No.24, File 2. For the activities of the association, see Bhattacharya, 1980, pp.28-31.
government policy alone. They desperately needed help from the government to get out of this plight and, by criticising the current policies, they tried to manipulate some favourable policies from the government. Their failure led them to criticise the currency and tariff policies of the government.

The currency policy of the colonial government was most severely criticised by the Bombay industrial capitalists. The Bombay industrial capitalists believed that the rupee which was linked to sterling at the rate of 1s. 6d. was overvalued and this unjustly strengthened the competitiveness of the imported goods in the Indian market. In spite of the opposition from the Bombay capitalists, the rate was confirmed by the Indian Currency Commission (Hilton Young Commission) in 1926, and given statutory status by the enactment of the Indian Currency Act, 1927.

The tariff policy of the Government of India was another source of discontent of the Bombay cotton textile industry. In 1926, the Bombay capitalists asked the Government of India to increase the rate of import duty on cotton piecegoods, insisting that they were "suffering from unfair competition from Japan". In the meantime, the ITB of 1927 recommended the increase in cotton duty by 4 per cent. But the Government rejected the recommendation. The Government of India introduced the principle of imperial preference with the Cotton Protection Bill, which provided for different rates of duty between British and non-British imports. Indian capitalists and nationalists joined hands in the Assembly in opposing the Bill and the passage of the Bill led to the resignation of Birla and Thakurdas from the Legislative Assembly. While the Bombay industrial capitalists were fluctuating in their attitude to this question, as they made a compromise with the British interests about the imperial preference in the Ottawa

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Agreement and Mody-Lees Pact, the general trend was the alienation of the Bombay industrial capitalists from the colonial government and leaning towards the nationalists. Tariffs remained an important economic issue throughout the 1930s.

Though the Indian capital dominated the Bombay textile industry, we should not have a simple view that the unfavourable economic policy of the colonial government resulted from the racial composition of the Bombay cotton textile industry. Rather, the Bombay cotton textile industry suffered severely from the economic policy of the colonial government because of the character of the industry mentioned above: their product was an imperial product. It was traded in the British imperial economic structure in which the interests of colonies were subordinated to those of the British industry. The essence of the currency and tariff questions was that the Government of India did not have any autonomy in their economic policies and that it was dictated by the British government. The Bombay capitalists gradually became aware of the bias in the structure and of their incapability to change it under the colonial government.

Moreover, new methods of capitalist politics in this period made their confrontation with the colonial government more acute, and helped the shift of their loyalty towards the nationalists. In the campaign against currency and tariff policy of the colonial government, the capitalists gradually established new methods of political activity. The establishment of the Federation of Indian Chambers of Commerce and Industry to oppose the European-dominated Bombay Chamber of Commerce, the speech in annual meetings of the BMOA and the Indian Merchants' Chamber, the debates in the Assembly, and the issue of pamphlets were their chief methods of campaigning. Their methods of politics changed from making representations to the government to the formation of public opinion. They did not stop making representations to the government, but now they made them in the hope of affecting public opinion.

The methods, the capitalists employed in their campaign, determined the contents. For the activities of capitalists in the earlier period, see Bhattacharya, 1971.
Insisting on the loss to the industry or unfair competitions was not strong enough a reason if they tried to convince the public of the unfairness of the government's economic policies. They had to emphasise its adverse effect on industrial workers and peasants. They asserted that the high ratio of rupee, and the excise duty on were causes of the unemployment of workers and the distress of peasants. They embraced the theory of economic nationalism that the British benefited at the cost of India. Their statement in this regard ranged from the claim that the British used the high ratio to solve their own debt problem to the extreme of a "general conspiracy theory" of British economic policy towards India that the ratio of rupee was manipulated to ruin the Indian industry by the British government in favour of Lancashire or the City.\(^{17}\) The use of the arguments of economic nationalism was also necessary to get the support from the nationalists. Since the Congress was thought to be the most influential representative of "national" interests, their support was crucial for influencing public opinion. In addition, the Bombay industrial capitalists found advantage in cooperating with the nationalists to prove that the campaign was not for their sectional interests.

By mid-1930s, the Bombay capitalists began to notice that the economic policy of the Government of India was a projection of the British imperial policy. Neither in their campaign against the currency nor the tariff policy, could the Bombay capitalists affect the government. At first, they might have thought that their voice was not heard because it was weak, and therefore they strengthened the campaign. When the colonial government ignored them even then, they realised that they were wrong. It was the question of colonial interests. For the Bombay capitalists, there was still room for compromise with the government on the economic benefit in the short run, which made the leftist politician take for "fascist compact",\(^{18}\) but it was clear that it was a disadvantage in the long run to be under the economic policy of the colonial

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\(^{18}\) Rothermund, 1992, p.204.
government. Furthermore, the impact of the Great Depression in the early 1930s and its lingering effects on Indian economy narrowed the possibility of even short-term compromise. It was at this stage in the early 1930s that the protest of the capitalists was extended beyond the economic policy to the colonial rule. They might not have considered Swaraj as an immediate goal, unlike nationalists, but it was indispensable for them to join nationalist movement to achieve their goals.

(3) Capitalists and Indian National Congress, 1920-1935

The relationship between the Bombay industrial capitalists and the Congress became closer towards the latter half of the 1920s and early 1930s, as the capitalists alienated themselves from the colonial government because of their discontentment with the government's economic policies. The theory of economic nationalism and the cooperation between nationalists and businessmen in the legislature helped to strengthen the ties. In 1928, Thakurdas, in a speech at the meeting of the Federation of Indian Chamber of Commerce and Industry, stated: "Indian commerce and industry are intimately associated with and are, indeed integral part of the national movement - growing with its growth and strengthening with its strength. ..."¹⁹

However, apart from the personal view of Thakurdas, it is doubtful if the Bombay industrial capitalists really considered themselves an "integral part of the national movement", at the end of 1920s. Their approach to the nationalist movement simply derived from their discontent with the economic policy of the colonial government. The cooperation with the Congress was just an instrument for putting pressure on the colonial government, and it was by balancing between the colonial government and the Congress that they tried to achieve their demands on economic issues. They were not serious to join the nationalist movement because that meant complete severance with the colonial government, which, they still thought, possessed the power to change the

policy in their favour. For them, it was better to leave their options open between the colonial government and the Congress.

Some nationalist leaders resented this selfish attitude of the Indian capitalists. Motilal Nehru, a leader of the Swarajist Party, even during the period when they were cooperating with the capitalists on currency and tariff, did "congratulate" them on their "devotion and loyalty to the Government and the Banks it controls". He went so far as to say: "An alliance between the Congress and Capitalists who are bent on profiting by the sufferings of the nation is an impossible one. The more suitable field of work for the Congress is among the workers in and not the owners of the mills." 20

When we consider the behaviour of Indian capitalists in the Civil Disobedience, we have to take into account this fluctuating relationship between them and the Congress.

This fluctuating relationship of the Bombay industrial capitalists with the Congress was reflected in their behaviours in the Civil Disobedience. They willingly joined the movement in its first phase which ended with the Gandhi-Irwin Pact, but after the resumption of the movement, they were reluctant to give any support to the movement and willingly offered their help to conciliate the government and the Congress. Considering the danger of agitational politics, which was experienced in the Non-Cooperation, it is rather surprising that Indian capitalists participated in the first phase of the movement. But their discontent with the economic policies of the colonial government was so grave that they tried to put pressure on the government by showing their intention to cooperate with the Congress. That the boycott of foreign cloth and financial support to the movement had an aspect of demonstration, was reflected in the openness with which they carried it out. Their signing a pledge of boycott prepared by the Congress had "a symbolic value" and appeared "as an act of allegiance to the Congress", though there were a number of the cases of breach. 21 The motive of their

20 Motilal Nehru to Husseinbhoy Lalji, 21 April 1928, Purshotamdas Thakurdas Papers, No.40/3.
21 Markovits, 1985, p.73.
participation in the movement would be clearer if we compare this with the case of the Non-Cooperation a decade ago, where few of them "were prepared to declare themselves openly as supporters of Gandhi's programme of boycott."\(^{22}\)

In the second phase of the movement, the capitalists were reluctant to stay in the movement. The repressive apparatus of the colonial government functioned to its full extent. The Congress was declared illegal and most of the leaders were arrested. The colonial government proved its firmness against any agitational movement. In addition, it gradually became clear to the capitalists that the economic gain from the movement was much smaller than what they had expected.\(^{23}\) Moreover, they feared labour unrests and communal riots that agitational politics would cause. To be sure, it might not have been an immediate concern of the capitalists in Bombay, as the labour movement lost its strength after the general strikes of 1928 and 1929 failed.\(^{24}\) But increasing militancy of the Civil Disobedience reminded the capitalists of the inevitable connection between agitational politics and labour unrests. They felt it immature to replace the colonial government by the Congress and once again questioned the effectiveness of agitational politics.

However, the failure of the Civil Disobedience and the ambiguous behaviour of the Bombay capitalists in it did not hurt their relationship with the Congress. The convergence of interests between the Bombay industrial capitalists and the Congress, or a section of it, advanced as the confrontation of their interests with the colonial government was increasingly apparent.

In the first half of 1930s, through the campaign against the economic policy of the colonial government and the participation in the Civil Disobedience, the Bombay industrial capitalists learned two important lessons: the importance of the help of the

\(^{22}\) Bhattacharya, 1980, p.32.


\(^{24}\) Labour unrest "appears to have played a minimal role in the millowners' calculations." Markovits, 1985, p.76.
Congress to influence the colonial government and the danger of agitational politics. The Bombay industrialists were to make good use of these lessons in their attitudes towards the new political situation brought about by the Government of India Act, 1935.

(4) Capitalists and the Government of India Act, 1935

The Government of India Act, 1935 included almost nothing which the Bombay capitalists had demanded. Fiscal autonomy, which they had been hoping for a long time, was not attained. The Government of India had no budgetary control over matters such as debt service, sinking fund charges, military charges and salaries and pensions, covering 88.5 per cent of the total budget. Currency matters were out of the hands of the Government of India. The Assembly could not deal with the issues relating to the Central Reserve Bank. The Governor retained special powers protecting British business interests from discriminative legislation or measures. In the annual meeting of the FICCI held on 30 March 1935, Kasturbhai Lalbhai, the President, criticised the Government of India Bill, stating that the Bill seemed "to be deliberately framed with a view to cripple the political and economic progress of the country" and that the safeguards would have "the effect of perpetuating the economic drain of the country". The meeting adopted a resolution against the safeguards in the Bill.25

Nonetheless, Indian capitalists accepted the Act. G. D. Birla assessed the Act as not any worse, if not better, than the Mongtagu Reforms.26 This attitude of Indian capitalists towards the Act was due to the prospect of provincial autonomy, however limited it was. The capitalists expected the provincial autonomy to benefit them because they could exert greater influence over the elected Indian government than the colonial provincial government, which, as they gradually noticed, had acted for the economic interest of Britain.

Their support to the Government of India Act, 1935 was also the result of the lessons they learnt from Civil Disobedience, where they experienced the danger of agitational politics. Although the cause which urged them to join the Civil Disobedience - incompatibility with the economic policy of the colonial government under the imperial economic system - still remained or became even worse, they did not consider returning to the agitational politics. They decided to confine their activities to strictly the constitutional ones.

However, the Government of India Act, 1935 brought an adverse effect on the Bombay capitalists. With the enforcement of the Act, it was inevitable that the influence of the capitalists in politics would decrease relatively, if not absolutely. This had already begun even before the Act was introduced. To the extent that popularisation of Indian politics during and after the Civil Disobedience made the role of the mass in politics essential, relative decrease of the influence of the capitalists in politics occurred.

The Government of India Act, 1935 would decisively accelerate this process. First, the Act gave the legislatures greater importance, though decisive powers still remained in the hands of the Governors. Under the Government of India Act, 1935 the provincial government owed responsibility only to the Legislative Assembly. The number of seats in the Legislative Assembly meant the extent of influence with the policies of the government. Further, the provision of extended franchise under the Act prompted various social groups to enter the legislatures. In other words, popularisation of the legislature happened, though to a limited extent. While the number of seats allotted to the capitalists remained the same as before, their relative strength in the legislatures declined. This prompted the Indian capitalists to change their stand from a interest participating in politics by themselves to that being represented by other political parties.

These contradictory factors for the Bombay capitalists, namely, the expectations
from the new political system of the Government of India Act, 1935 and the relative
decline of their influence in it, encouraged a new relationship between the Bombay
capitalists and the Congress. The Bombay capitalists increasingly thought it to their
advantage to act through the Congress and influence the party for that purpose. G. D.
Birla, who placed himself in the position of nationalist capitalist and kept some distance
from the Bombay industrial capitalists, understood the significance of this relationship
better than the Bombay capitalists. He clarified it to one capitalist in Bombay, when he
wrote on the capitalists' opposition to socialist tendencies in the society: He noticed that
there existed "the wider interest of the country" about which capitalists were not "fit
person to talk". He stated:

"It looks very crude for a man with property to say that he is opposed to
expropriation in the wider interest of the country. It goes without saying that
anyone holding property will oppose expropriation. I do not mean that
expropriation is not against higher interests but the question is, "Are you or myself
a fit person to talk?" Let those who have given up property say what you want to
say." 27

It was the best course for the Bombay capitalists that the Congress should limit their
nationalist struggle against the British rule to constitutional sphere. For this purpose,
they had to persuade the Congress leaders to accept the Government of India Act,
1935. 28 But it was not an easy task. First, the rejection of a new constitution of any kind
had been their principle since the boycott of the Indian Statutory Commission. Although
the attitude on the part of Congress leaders towards the constitutional struggle had
gradually been relaxed after the failure of the Civil Disobedience, as seen in the revival
27 G. D. Birla to Walchand Hirachand, 26 May 1936, Purshotamdas Thakurdas
Papers, 177.
of Swarajist Party, Gandhi was still reluctant to openly admit the necessity of the change of policy and other Right-wing leaders were yet to find a good pretext for accepting the coming constitution.

The increasing influence of the Congress Left-wing and their opposition to the Act made it more difficult. Since the constitutional question was the focal point of contest between the Right and Left-wings, the failure of the Congress to accept the new constitution meant the victory of the Left-wing over the Right-wing and their dominance in the party and in the future nationalist struggle. That was what the Bombay capitalists feared the most. In this sense, the interests of the Bombay capitalists and the Congress Right-wing coincided. It was for this reason that the Bombay capitalists so ardently tackled with the constitutional question.

This formed the background of G. D. Birla's role as a mediator between the British Government, Government of India, and the Congress on the question of office acceptance of the Congress under the Government of India Act, 1935. His role as a mediator was not voluntary one based on his personal motivation. Whereas the fact that he had an excellent insight into the political situation and strong personal connections with both British officials and the Congress leaders, gave him this role, it was prompted by the requirement of the Indian capitalist class as a whole in the face of the new constitution.


The relationship between the Bombay Congress Government and the Bombay capitalists can be characterised as interdependence, not unilateral dependence of the former on the latter. Truely, the Congress Party and the Bombay Congress Government depended on the Bombay capitalists. For one thing, the Bombay capitalists were the

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29 See Chapter 3.
30 Birla, 1953, pp.169-197; 205-229.

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main financiers of the Congress, as they had been in the past. The Congress election campaign was funded by them. The Bombay cotton textile industry was an important economic basis of the government whose revenue was unstable because of their pursuit of prohibition policy.\textsuperscript{31}

But there was a more important reason for their dependence. The Congress regarded the capitalist class as an essential part of the nationalist struggle in future. The Congress' claim in their nationalist struggle against colonial rule that they represented all sections of the society, would not hold if the capitalist class did not take part in the struggle. Moreover, if working classes would constitute a part of independent India in the multi-class nation that the Congress envisaged,\textsuperscript{32} then so would the capitalist class. As was apparent from the experiment of the class policy by the Congress Government under provincial autonomy, no radical change in labour-capital relations was anticipated in independent India, except a little more interventionist role of the government. Either on labour questions or other issues, it was out of question for the Congress Government to take measures that would decisively alienate the capitalist class.

The gradual approach of the Bombay capitalists towards the Congress in the 1930s and their expectation from the Government of India Act, 1935 resulted in their support to the Bombay Congress Government established under the Act. Their support to the Congress Government should not be considered as an inevitable consequence of their class character nor their awakening to the nationalist causes. Even in the 1930s, as the Left nationalists were afraid, there was a possibility of their betrayal and compromise with the colonial government. It was an outcome of the growing conflicts of their interests with the British Government and the Government of India under the British imperial economic system. Their approval of the Government of India Act, 1935 and the strong advocacy of the acceptance of office by the Congress were motivated by

\textsuperscript{31} For prohibition policy of the Bombay Congress Government, see Chapter 3.
\textsuperscript{32} See Chapter 2.
prospects of profits under the provincial autonomy. It was also due to the political concern. Given the nature of their economic activities, adherence to constitutional method was the only option open to the Indian capitalists, as the lesson of the Civil Disobedience taught them, and it was necessary for them to make the Congress follow the same way in the rise of popular politics in the 1930s. In addition, they had to prevent the Leftists, who rejected the Government of India Act, 1935 and the acceptance of office, from dominating the Congress. It is doubtful if they had any other option except to give support to the Congress Government. The failure to do so meant the thrust of colonial authority in economic sphere, growing violence and disorder in society and politics, and the gaining of power by the Left-wing in the Congress and nationalist movement. The Bombay capitalists, therefore, had reasons to hope for the Congress to stay in office.

From this period onward, the relations between the Congress and the Bombay capitalists took a form of negotiation in which all economic and political issues were dealt with. For example, international trade negotiation was one of such issues. For the Bombay capitalists, the support of the Congress in the negotiation was particularly important because the negotiation with the British commercial interests increasingly assumed a character of national question especially after the adoption of imperial preference in tariff by the Ottawa Agreement in 1932. In the Indo-British Trade Negotiation in the latter half of the 1930s, the Bombay capitalists could no longer act without consulting the Congress, and would not hesitate to make concessions in other issues for their support.33

The beginning of the relations characterised by negotiation and compromise between the capitalists and the Congress in this period was most clearly symbolised by the establishment of the National Planning Committee in 1938 and the participation of the Bombay capitalists in it. The "rapprochement" had "taken place between the

33 For the Indo-British Trade Negotiation, see Basudev Chatterji, 1981.
economic conceptions of Indian big business and those of a large section within the Congress" in the process of the Committee, which resulted in the so-called Bombay Plan in 1944 and the official report published in 1949.  

34 For the Bombay capitalists, it was necessary to maintain good relations with the Congress in this Committee, considering the fact that it would be an opportunity to make a compromise with the Left nationalist leaders like Nehru, who chaired the Committee, and that it would inevitably affect their position and the relations with the state in independent India. For the capitalists, certain short-term sacrifices had to be made for the long-term benefits, such as the maintenance of existing social orders or their position in the society and economy of independent India.  

In their relations as negotiation, the labour policy of the government was only one of the issues that had to be negotiated. The labour policy of the government was not handled on its own merit but linked with other issues. The linkage was evident, when Thakurdas maintained to one Congressman: "if the textile industry is to make the sacrifice indicated in the proposals (of the Board of Trade) under piece goods and prints, obviously they will not be able to stand any more burden which provincial governments in India may have in mind to put on them" in the labour welfare.  

35 For the Bombay Congress Government, their relations with the capitalists put limitations on their labour policy. While the Congress had developed ideas and the programme for the future nation in which working classes were to be integrated, the Bombay Congress Government could not fully realise them due to the necessity of concessions to the capitalists.  

34 Markovits, 1985, pp.141-145.  
35 For the relationship between Indian capitalist class and the Congress as
Government only for gains in labour policy. That would inevitably put various losses on them. It would become more difficult to get cooperation or support of the Congress in other economic issues. Further, if the Bombay Congress Government failed in their labour policy, the stability or even the existence of the government would be threatened. This would undermine the dominance of the Right-wing in the Congress party, as the acceptance of office under the provincial autonomy was the centre of their policy and the point of contest with the Left-wing, who were rejecting the Government of India Act, 1935. For the capitalists, the diminished influence of the Right-wing was the loss of the means by which they affected the Congress. The capitalists had to make concessions regarding the labour policy in expectation of the long-term benefits. Therefore, it became possible in Bombay for the capitalists to accept labour welfare measures, which were apparently contrary to their interests.

2. Capitalists and Government in Bengal

(1) Bengal Jute Textile Industry

From the first half of the eighteenth century, jute began to be used as packing material in grain trade throughout the world. Dundee in Scotland had been the largest producing centre of jute products for more than half a century. The Bengal jute textile industry started in the middle of the nineteenth century when the first jute mill was established in the suburbs of Calcutta in 1855, and rapidly expanded to be the world's largest jute producing centre by the end of the nineteenth century. By the 1890s, Calcutta outstripped Dundee in output, and replaced the products of Dundee in the international manufactured jute markets.

The jute textile industry became one of the leading large-scale industries in India. In 1913-14, jute textile industry dominated 15.0 per cent of the output of all large-scale industries in India and was the second largest industry following cotton textiles.\(^7\) In \(^7\) Morris, 1982, p.641.
terms of export, jute textile industry exceeded cotton textile, which was aimed at the domestic market. From the early 1900s, jute textile industry had been the single largest exporting industry in India. It was also one of the largest employer in the modern industrial section in India. At its height in 1928-29, just before the Depression, they employed 343,868 workers.38

Naturally, the industry had established itself as the main industry in Bengal. The part it played in Bengal economy was enormous. In 1900-01, jute manufactures accounted for about 33 per cent of the value of export trade in Bengal.39 The jute textile industry generated a great number of jobs in the province, though, as we have seen, they were increasingly engaged by migrant workers from outside the province. Moreover, the influence of the industry on the rural economy of Bengal was enormous because a large number of peasants cultivated jute for the consumption in the mills.

Besides its importance in the economy of India and Bengal, the Bengal jute textile industry had several characteristics. These characteristics derived partly from the geographical setting of the industry and partly from its position in international trades, and decided the character of the capitalists in Bengal as an interest group and their relations with labour and governments. First, the Bengal jute textile industry was an export-oriented industry. As manufactured jute was almost exclusively used as packing materials in international grain trade, it was exported to grain producing countries in North and South America and Australia. Between 70 to 80 per cent of the total output was exported from 1932/33 to 1937/38.40 The dependence of the industry on export meant that its prosperity was greatly affected by factors outside the industry, for example, the fluctuation of world trade or tariff policy of importing countries, and that the price of their products was beyond the control not only of the industry but also of

38 Bagchi, 1972, p.277.
the government. Thus, the activities of the IJMA, the representative body of the industry established in 1884, were confined to measures concerning internal problems: restriction of production, procurement of raw material, and labour control. The tariff policy of the Government of India, which had always been crucial for the Bombay cotton textile industry and was the source of conflict between the capitalists and the government, did not play any significant role in Bengal.

The second characteristic was the dominant position of the Bengal jute textile industry in domestic and international manufactured jute market. There was no jute textile industry of significance in any other part of India. The Bengal jute textile industry far exceeded Dundee, the second largest manufacturer in the world, and other manufacturers in Germany and the United States in its scale of production. The one advantage the Bengal jute industry had over its rival manufacturers in other parts of India and foreign countries was its proximity to raw material and its highly localised cultivation: jute crop was grown almost exclusively in the eastern part of Bengal and a part of Assam. This rendered the Bengal jute textile industry, whose mills were concentrated in a narrow strip along the Hooghly river, a great advantage over the competitors, who had to import the raw material from Bengal. The dominance was important because it affected the relation of the industry with the British industry, Dundee, in the imperial economic structure. The dominant position of the Bengal jute textile industry, with the relative insignificance of Dundee, made it impossible for the British government and the Government of India to force unfavourable economic policy on it for the benefit of the British industry.41

However, the dominant position of the Bengal jute textile industry was not as absolute as it appeared. First, they were facing a chronic threat of the emergence of substitutes: synthetic fibre was developed in Germany after the First World War; paper or cotton bags would replace jute bags if the price of jute rose; the use of siros, 41For this argument, see Stewart, 1998, pp.122-137.
elevators, and other means of storage and carriage in grain-producing countries would dispense with jute bags.\textsuperscript{42} The IJMA appointed a sub-committee in 1933 to investigate the competition from the substitutes.\textsuperscript{43} Second, the competition with foreign jute mills, especially those in Europe, was growing. While foreign mills had natural disadvantage that they had to import the raw materials from Bengal, they could enjoy the tariff protection of their governments.

Still, with their dominant position in the international market, it was not without reason that the Bengal jute millowners thought that the volume of production in Bengal decided the price. This made the millowners believe that the policy of restricting the production had an effect in maintaining the price. The history of the Bengal jute textile industry and the IJMA was one of a series of agreement of shorter working hours and restricting production, though the effect was doubtful.

The third characteristic was the dependence of the industry on low prices of its products. The abundant supply of cheap labour, as well as the proximity to the raw material, was one of the essential advantages of the Bengal jute textile industry in the international market. The labour cost of the Bengal jute textile industry was estimated to be one-third lower than in Dundee.\textsuperscript{44} It is natural that any businessman tries to reduce the production cost as low as possible. Indeed, the cheap labour force was the advantage in the international market for most of the large-scale industries in India as also for the Bombay cotton textile industry.

For the Bengal jute textile industry, however, the reduction of the production cost was more than an ordinary business attitude. Gordon T. Stewart points out a "cheapness mentality" prevalent in both Calcutta and Dundee jute industries, and states that "the quest to acquire cheap jute from the ryots and achieve cheap production in the mills

\textsuperscript{43} Bagchi, 1972, p.288.
\textsuperscript{44} Awwal, 1982, p.158.
became an obsession”. He observes that the idea that the popularity of jute and thus the survival of the industry depended solely on its cheapness was a familiar theme repeated from the 1890s to the post-Independence period. This idea, however obsessive, was not without basis. It reflected a delicate situation in which the industry was located. Since the threat of substitutes was still a potential and the jute millowners did not know at what price the substitutes would actually thrust themselves, all they could do was keep the price of the product as low as possible. In addition, there was little room for the diversification of production for the jute industry, as most of the jute was used as packing material and its use for other purposes was negligible. The demand for goods of higher range, which had been met by Dundee, was too small to fill the capacity of Bengal jute mills.

The dependence of the industry on the cheapness led to a constant effort on the part of millowners to save labour cost and hence lower wages in the Bengal jute textile industry compared to the Bombay cotton textile industry, though other factors like lack of strong labour movement or relatively stable supply of labour in Bengal also contributed to the disparity between these major industries. Furthermore, this mentality of the jute millowners towards labour cost resulted in their resistance to labour welfare measures, as they accompanied additional expenditure on labour.

The fourth was the dominance of European capital in the industry, more particularly Scottish. In 1911, all except one jute textile mill in Bengal were controlled by European managing agency houses, such as Andrew Yule and Co., Bird and Co., Thomas Duff and Co., Jardine, Skinner and Co. The dominant position of the Europeans in the industry was also reflected in the composition of the IJMA. There were no Indian mills as its members till the end of the First World War, though they did not prohibit the entry of Indian mills. The dominance of the Europeans originated from the fact that the entrepreneurs and investors at the early stage of the industry were mostly the Scottish.

Bagchi, 1972, pp.262-263.
from the Dundee jute textile industry. But the reason for the maintenance of their dominance for more than half a century since then has to be sought.

The racial affinity between the European capitalists in Bengal and the high-ranked officers of the colonial government helped maintain the dominance. We have already seen that the European capitalists maintained social or personal connections with the officials of the colonial government through the activities of the European community. The European capitalists turned these social and personal connections into the economic structure advantageous for their dominance. There were conscious and unconscious efforts by the British business community. The fact that most of the raw and manufactured jute was exported made it easy for the European capitalists to maintain their control over the industry. In export, the European businessmen were superior to the Indians, not only in knowledge and experience, but also in the facilities required for an exporting business. As Bagchi pointed out, the monopoly of the jute textile industry by the Europeans depended on their control of the related business fields, especially relating to export: jute trade was almost in the hands of the Europeans; transports - river transport, coastal shipping, railways, and international shipping - were dominated by the British companies, often under the same managing agency; exchange banks were under the control of the Europeans.

(2) The Impact of the Depression on the Bengal Jute Textile Industry

The 1920s was the period of prosperity for the Bengal jute textile industry. The wartime boom was by and large carried on through the decade. After the war demand receded, the growing demand for jute bags and cloths due to the continuing expansion of world trade propped up the prosperity. The mills continued to make large profits. The mills belonging to the IJMA tried to increase the production under the short-time

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46 See Chapter 1, Section 2.
47 Bagchi, 1972, pp.264-265.
agreement by augmenting the capacity. Moreover, the prospect of profit offered by the
prosperity induced the new entry into the industry. Between 1919 and 1929, twenty-one
new jute mills were established, about half of which were Indian mills. As a result, the
number of looms and spindles in India increased from 41,045 and 856,307 in 1919-20
to 53,900 and 1,140,235 in 1929-30 respectively. This worsened the problem of
overcapacity of the industry, which had existed since the 1890s and would become the
cause of the crisis in the 1930s.

But the problem did not come to surface, as long as the demand for the product was
growing. In the last years of the decade, the industry adopted longer working hours,
relaxing the restriction on the production. From the mid-1920s, voices were heard
within the IJMA for longer working hours to outsell the continental mills in the
international market and to pressurise the newly-established non-Association mills.
However, the IJMA was not prepared to withdraw all the restrictions on the production
and enter free competition with non-Association mills. The belief in their controlled
production still remained strong among most of the jute millowners. The new agreement
of 1928 was a compromise between the Association mills and non-Association mills.
The Association mills signed the agreement which provided that the Association mills
would work sixty hours a week from the 1 July 1928, instead of fifty-four hours, which
had been observed since 1921. Several non-Association mills agreed to join the IJMA
on the condition that they were permitted to operate longer hours with unrestricted
capacities.

The impact of the Depression hit the industry just after the agreement came into
force. The contraction of the world trade due to the Depression resulted in a sharp
decline in demand for jute products. From 1929-30 to 1934-35, the volume of export of

49 Bagchi, 1972, p.277.
50 Bagchi, 1972, p.281. The start of the agreement was postponed for one year
and in force from 1 July 1929.
jute manufactures declined from 945,000 tons to 713,000 tons (24.6 per cent); the value of export decreased from Rs. 486,914,000 to Rs.223,509,000 (54.1 per cent) (Table 4-3). The wholesale price of manufactured jute in Calcutta fell by 49 per cent between 1927 and 1931.51 The industry did not recover from the effect of the Depression up to the Second World War, when the war demand for sandbags and cloths gave a boost to the industry.52

In this critical circumstances of the Depression, the IJMA was compelled to suspend the agreement of 1928 and return to the traditional policy of controlled production to keep up the price. The member mills agreed to reduce the working hours to fifty-four hours a week from 1 July 1930. From March 1931, moreover, they reduced the working hours to forty hours with fifteen per cent of the looms sealed.53 On the other hand, the non-Association mills got out of control of the IJMA and increased their production. The demand for jute products being contracting, they were now making a profit at the expense of the Association mills. The capitalists demanded the legal intervention of the government, which became the central question in the government-capital relations in the 1930s.

The fall in the price of manufactured jute and the crisis of the IJMA's traditional regime of controlled production made the millowners resort to an advantage of the industry, that is, cheapness of the products, through the reduction of labour cost by way of wage cut and retrenchment on the one hand, and the manipulation of the price of raw material on the other hand. We have seen that after the Depression, wages of the Bengal jute textile workers were cut and massive retrenchment was enforced.54 The millowners

52 Official order for 912 million sandbags for the United Kingdom and 10 million sandbags for other part of the British Empire was placed in 1939-40 by the British armament programme. Indian Investors: Year Book (IIYB), 1939-40, p.xlii.
53 Bagchi, 1972, p.281.
54 See Chapter 1.
<table>
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<th>Year (July-June)</th>
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<th>Export of Manufactured jute</th>
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<tr>
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<tr>
<td>1929-30</td>
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**Source:** Report of the Jute Enquiry Committee, 1939, Vol.II, p.196
employed methods such as arbitrary alteration of grades of raw jute or fixation of
minimum purchase price, and succeeded in reducing the price of raw jute which had
already been depressed by the Depression. In other words, they passed the burden of the
Depression on industrial labour and jute growing peasants.

(3) Capitalists and Colonial Government in Bengal
As we have mentioned, the dominance of European capital was an important
classictric of the Bengal jute textile industry. How did this fact affect the relations
between the capitalists and the government? From the economic point of view, the
structure of the dominance of the European capital was challenged by the entry of
Indian jute textile mills after the economic turmoil during and after the First World War.
The first Indian jute mills, the Birla Jute Mill and the Hukumchand Jute Mill, were
established in 1922-23, which were followed by others in subsequent years. By 1947,
Indians controlled twenty-eight out of eighty-five jute mills. 55

However, we should give a separate consideration to the political influence of the
European capitalists over the government. Tomlinson argues that the decline of the
European expatriate capital in India was not caused by their political decline but by
purely economic causes, though he does not mention whether such a decline of political
influence of the capital occurred or not. 56 The political influence of the European
capitalists over the colonial government was maintained not only because of the social
and personal contacts among the European community that continued but also because
the new Indian mills cooperated with the European mills in their activities as a pressure
group. The first two Indian mills joined the IJMA and were as ardent as the European
mills in opposing the non-Association mills. G. D. Birla, as a jute millowner, was not as
nationalistic as he was in other issues. A brief examination of the question of the

56 Tomlinson, 1981.
government intervention for restricting the production of manufactured jute, which was repeatedly raised in the later 1920s and the 1930s, proves that there was a connection between the capitalists and the colonial government.

In the 1930s, the restriction regime of the IJMA was facing a crisis because of the decrease in demand for their products caused by the Depression and the increasing activities of non-Association mills. The IJMA officially began to demand that the government should intervene in the question through a legislation. There was an opinion against intervention among officials of the Government of Bengal. R. N. Gilchrist, Secretary to the Government of Bengal, in his memorandum on this issue, doubted the motive of the IJMA in asserting their concern for the prosperity of jute peasants and the entire Bengal economy. He warned the Government that it would "give no encouragement to even the breath of intervention." 57 They thought that mere losses to manufacturers would not justify the intervention. Only concern of the Government of Bengal was its effect on the rural economy and, as a consequence, on the revenue. The Government of India, with whom the Government of Bengal consulted, opposed intervention right from the beginning.

But the Government of Bengal did help the jute millowners regarding the question of restricted production. John Anderson, the Governor of Bengal, convened a conference of the representatives of the IJMA and non-Association mills at Government House, Calcutta. It was possible that the non-Association mills felt in this intervention a hint of further measures being adopted by the Government. In May 1932, an agreement was reached between the Association mills and non-Association mills. It provided that (1) the Association mills work forty hours a week with fifteen per cent of the looms sealed, (2) the non-Association mills work fifty-four hours a week, (3) no mill should increase its capacity. 58

57 Confidential Note by R. N. Gilchrist, 22 April 1932, WBSA, Commerce Dept, Commerce Branch, September 1932.
58 Bagchi, 1972, pp.281-2.
The Government of Bengal, in backing the interests of the jute millowners, even differed from the Central Government in the opinion regarding the intervention. In July 1934, the IJMA again proposed that the government should impose a legal restriction on the production of manufactured jute. They mentioned foreign competition and non-Association mills as factors hindering the IJMA's effort to restrict the production. It was informed that a prominent member mill told the Association that it would withdraw from the Association if any new mills were started. Their proposal was "that the terms of the arrangement regarding working hours, mill extensions etc., which at present exists, between the Association and certain mills outside its organisation, should, by legislative action on the part of the Government of Bengal, be given statutory force and made applicable to all jute mills situated in Bengal".59

The Government of Bengal informed the Government of India that they would communicate to the IJMA their intention to support the proposal, and that their "idea would be to keep the Bill in readiness and to introduce it only when satisfied that the threat of expansion is grave and imminent and cannot be averted by any other means". The Government of Bengal stated that unrestricted competition as a result of the end of the short-time agreement would not only bring the collapse of the market for manufactured jute but also have the grave effect on the price of raw jute. The jute cultivators, argued the Government of Bengal, might temporarily benefit from the increased output due to unrestricted competition, but would soon face the contracted demand due to the closing of weaker mills. They were already receiving a price "that barely covers the cost of cultivation, and, in the opinion of the government, a further fall in the price must, if possible, be prevented at any cost".60 It is interesting to note that the

59 The IJMA to the Government of Bengal, Commerce Department, 26 July 1934, in "Proposal for the control of output of manufactured jute in Bengal", WBSA, Commerce Dept, Commerce Branch, No. 2-J-11, March 1936.

60 The Government of Bengal, Commerce Department to the Government of India, Department of Labour and Industry, 3 September 1934, in "Proposal for the control of output of manufactured jute in Bengal", WBSA, Commerce Dept, Commerce Branch, File No. 2-J-11, March 1936.
expressed concern of the Government of Bengal was the effect of the collapse of the jute textile industry on the jute cultivators. Such linkage of the prosperity of the industry with the jute cultivators or the economy of Bengal as a whole was a conventional way of the IJMA in justifying their measures. The Government of Bengal not only supported the proposal of the IJMA, but also employed the same argument as the IJMA in doing so.

However, the Government of India rejected the proposal. The main objections of the Central Government was, first, that the legislation for restricting production as proposed by the IJMA, would be a benefit not for the common good, but of the industry alone. Second, they doubted the effect of the proposed legislation on the protection of jute cultivating peasants, as the IJMA claimed. The Government of India stated: "the proposal does not appear to give adequate protection to the cultivators. ... the effect of legislation which would give the manufacturers complete power to control production would be to strengthen considerably their position as purchasers of the raw products." Third, the Government of India pointed out that the proposal would offer "no guarantee and indeed no likelihood of any internal reorganization of the jute textile industry". The Government was not convinced that the industry was "on a sound footing at present". "The mills", they continued, "have a productive capacity which is greatly in excess not only of the present demand, but of any demand that has existed in the past, or in view of the changes in world market, is likely to exist in any future that need now be considered." The government came to the conclusion quite opposite to that of the IJMA and the Government of Bengal: "The closing of the weaker mills, provided that it was not accompanied by a serious economic convulsion, would probably benefit both the community and the industry as a whole."61

61 A. G. Clow, Joint Secretary to the Government of India, Department of Industry & Labour to the Secretary to the Government of Bengal, Commerce Department, 12 December 1934, in "Proposal for the control of output of manufactured jute in Bengal", WBSA, Commerce Files, 2-J-11, March 1936.
The principle of non-intervention in the private economic activities was an essential tenet for the colonial government. It was for this reason that the IJMA required a pretext that the proposal came not for their self-interest but due to the concern for the entire Bengal economy. While the Central Government did not mention this principle directly in its reply to the Government of Bengal its point was that the IJMA's case was not strong enough to justify any action by the government, which would mean deviation from the principle of non-intervention. As a result of the rejection by the government of the demand from the IJMA, the 1932 agreement had become dead letters by 1934-35, and finally broke down in 1936-37, when all restrictions were withdrawn.\footnote{Goswami, 1982, pp.168-70.}

This episode shows that the Government of Bengal stood by the opinion of the capitalists, even though it was against the principle of the colonial governance and the Government of India took objection to it. The Bengal jute mill owners almost succeeded in persuading the Government of Bengal to make a legislative intervention into the question of restricting production. The only reason for the failure for the IJMA was that the question was so important that the Government of Bengal could not act without consulting the Government of India, with which the IJMA had little influence.

What factors determined the relations between the Government of Bengal and the Bengal jute capitalists? For one, the economic importance of the industry. For the Government of Bengal, the jute textile industry was highly important as it could affect the prosperity of jute peasants and, in consequence, the amount of revenue earned. The loss of revenue due to the collapse of the industry would be enough for the Government of Bengal to justify a deviation from the principle of free trade. It was for this reason that the IJMA persistently stressed that the proposal for the government intervention stemmed not from their self-interest but from the concern for the Bengal economy as a whole. This concern of the government for the revenue also explains the different attitudes between the Government of India and the Government of Bengal. The
Government of India, which was less dependent on the revenue from rural Bengal, flatly rejected the proposal.

The characteristics of the Bengal jute textile industry mentioned above worked favourably towards friendly relations between the capitalists and the government. The economic policy of the government, generally speaking, was not so harmful to the interests of the industry. There was no economic question causing a conflict between them. The international trade aspect of the industry did not necessitate the protection of domestic market by tariff policy, or else it would have been a source of conflict between the government and the industry. Due to the overwhelmingly dominant position of the industry in the international market, the Bengal jute industry did not suffer from imperial economic policy.

Moreover, the European business community possessed the political device by which they could convert the economic importance of the industry into a political pressure on the government. Their political influence was partly derived from the capitalists' personal connections with the officers of the government, which was encouraged by the racial affinity between them. The activities of the European commercial bodies as pressure groups also worked. The effectiveness of the IJMA in communicating their opinion to the government was under no doubt, as frequent contacts between them regarding the question of restricting production indicate.

The political activities of the European business community in Bengal were greatly helped by the institutional framework provided by the Government of India Act, 1919. The Bengal Chamber of Commerce, the representative of the European commerce, was represented by four seats in the Bengal Legislative Council. They were better represented than their counterparts in Bombay, the Bombay Chamber of Commerce, which was given two seats in the Bombay Legislative Council. The IJMA possessed one seat and another seat was allotted to the Calcutta Baled Jute Association. In
addition, six other commercial and industrial seats were given to the European commercial organisations like the Indian Tea Association, Indian Mining Association, Calcutta Trades Association, and Inland Water Transport Board. Those representatives of the European business community and European communal representatives formed the so-called "European bloc" in the legislature. Further, the "European bloc" always cooperated with "Official bloc" consisting of ministers and bureaucrats. This alliance in the legislatures gave the European capitalists in Bengal a leverage in politics.

For these economic and political reasons, the Bengal capitalists maintained close relationship with the colonial government. Their relationship could be described as symbiotic. In spite of their economic and political importance, the European capitalists were never coercive in their attitude towards the government. They never acted against the interests of the colonial government. In turn, the government gave sympathetic considerations to their demands as far as possible.

(4) Bengal Coalition Government and Capitalists

With the introduction of the Government of India Act, 1935 the Bengal Coalition Government took office in April 1937. The administrative responsibility was shifted from the colonial government to the elected Indian government. The introduction of the Government of India Act, 1935 changed the balance of political strength between the government and the capitalists.

The political implication of the Government of India Act, 1935, was complex for the Bengal capitalists. From the purely legal point of view, it might have reduced their influence with the provincial government. The number of seats allotted to commercial and industrial interests in the Bengal Legislative Assembly under the new Act was not increased from those under the Government of India Act, 1919, other interests including

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additional labour representatives, were introduced in the legislature.64 This meant that their voice would have been relatively weakened on legislative matters.

Actually, it was not, owing to another feature of the Government of India Act, 1935. Under the Act, provincial governments became responsible for the legislature. In other words, the number of seats that the ruling party could command in the legislature was the decisive factor of the fate of the government. For any elected provincial government, there was always a risk of being thrown out of power whenever they were numerically overpowered in the legislature. This was the case in Bengal.

The Bengal capitalists commanded greater influence with the Coalition Government than with the colonial government, due to the historical contingency in Bengal being combined with the framework of the Government of India Act, 1935. For the Bengal Coalition Government, the risk of being thrown out of power was real. We have already mentioned that the result of the election in early 1937 and the following political manoeuvre produced a situation in which the ruling party and the opposition were facing each other with almost the same number of seats on each side, and that the vote of the European group was decisive in this situation.65

A strong point of the Bengal capitalists was that they owed nothing to the Coalition Government, except that they wanted to keep the Congress out of power. The Bengal capitalists expected from the Coalition Government only benefits that would have an immediate effect on their economic and other activities. For them, the idea of building a long-term relationship with the Coalition Government was meaningless. First, there was no guarantee that the Coalition Government would last for a long time because the coalition was based not on any ideological basis but on a simple political arithmetic. Moreover, the Congress, the biggest opposition in the legislature, maintained the

64 Fifteen commercial and industrial seats under the Government of India Act, 1919 was recommended to be left untouched. Report of the Indian Franchise Committee, 1932, pp.131-133.
65 See Chapter 3.
potential to become a ruling party in future. Second, if the government survived, they could not have any social or economic programme covering a long period. As a coalition of various vested interests, whose main purpose was to maintain or promote their own sectional interests, they could not develop any clear vision covering the entire society. Third, the Bengal capitalists could not rely on the Coalition Government about issues concerning national interests. The political influence of the Coalition Government was limited to the province. Those who constituted the Coalition Government were men of local significance. It was absurd, therefore, to expect the Coalition Government to represent their interests at, for example, international trade negotiations. It was far more futile for the Bengal capitalists to hope that the Coalition Government would play any significant role in larger issues like the security of their interests in Independent India. For the Bengal capitalists, there was no reason to hesitate to replace the Coalition Government by another coalition government.

Personal connection between the capitalists and the government officials, the traditional way of influencing the government by the capitalists, was preserved because the bureaucracy was untouched by the constitutional reform. To the symbiotic relations between the capitalists and the bureaucracy, an element of coercion was added to the relations between the capitalists and the ministers in Bengal under the provincial autonomy, due to the decline of the position of the government vis-a-vis the Europeans. At the annual meeting of the Bengal Chamber of Commerce in 1938, J. Reid Kay, the President, stated: "Hon'ble Ministers will have no cause to feel that they are not given the support of the European representatives in the Bengal Legislature, so long as they tread carefully along the path they have chosen, and work constitutionally for the happy development of the province."66 That this statement was not a simple guarantee of support was evident from the fact that the survival of the government against the no-confidence motion submitted by the Opposition in August that year depended solely on

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the support of the European Group.\textsuperscript{67}

The weakened position of the provincial government under the Government of India Act, 1935 and that the capitalists took advantage of it was expressed clearly in the promulgation of the Bengal Jute Ordinance, 1938 (Bengal Ordinance No.II of 1938) in September 1938.\textsuperscript{68} It was stated in the Preamble that it was "urgently necessary in the public interest that the manufacture of jute products should be restricted" and that "immediate action should be taken for that purpose". The Ordinance gave the provincial government the power to fix "the times during which it shall be lawful for each jute-mill to be worked"; it was provided that looms should not be added nor replaced without previous sanction; and penalty was imposed for any contravention of the provision. The Government of Bengal accordingly restricted the working hours to forty-five per week for the mills with more than 175 looms and seventy-two per week for the mills with 175 or less. Further, the Government pressurised the non-Association jute millowners, expressing their intent to make the Ordinance permanent legislation unless the jute millowners voluntarily reached an agreement on the production. As a result, all but two jute textile mills signed a new agreement, under which the working hours of all the mills were restricted to forty-five per week.\textsuperscript{69} This was all that the IJMA had wanted.

We should notice that the legal restriction of working hours was realised during the period of the Coalition Government, not in the period of the colonial government. The previous government could not fulfil the demand of the IJMA for the legal restriction though they were sympathetic. It is true that there was a difference between these two periods in the degree of urgency on the part of the IJMA. The latter period was the worst for the industry after the breakdown of the agreement of 1932 and the price was at the lowest point in the 1930s. It is not difficult to imagine that in this plight the lobbying

\textsuperscript{67} See Chapter 2.

\textsuperscript{68} The text of the Ordinance is reproduced in the Report of the Committee of the Bengal Chamber of Commerce, 1938, vol.2, pp.142-144.

\textsuperscript{69} IYB, 1939-40, p.xli.
activities of the IJMA for the control was more active than in the former period. But the increased influence of the capitalists over the provincial government in the new political situation under the Government of India Act, 1935 was more important for more sympathetic attitudes of the Coalition Government towards the demand of the IJMA and the departure from the policy of the colonial government.

What was the position of the government's labour policy in the relationship between the Coalition Government and the capitalists? Labour policy was one of the issues where the capitalists could expect an immediate return from the government. They wanted the government to hold the progress of labour welfare to the minimum if it was not possible to halt it completely. They eagerly looked for industrial peace, without giving any economic concessions to the workers. They expected the government to act as a police force that guaranteed industrial peace.

For the Coalition Government, to meet all these demands of the capitalists might destabilise the basis of the government in the long run because that would alienate the working classes and reduce the popular support to the government, which assumed great importance under the Government of India Act, 1935. The Coalition Government sometimes requested the capitalists to pay more attention to the welfare of the industrial workers. In the Budget Session in the Bengal Legislative Assembly in 1937, Nalini Ranjan Sarkar, the Finance Minister of the Coalition Government, reminded the employers of "the need of recognising the legitimate rights of labour". He stated: "They [employers] can no longer remain indifferent to the demands of the labourers - when such demands are neither exorbitant nor unreasonable. The conditions of labour have to be improved, and it is useless for employers to remain wedded to the attitude of mind of two decades ago".  

But the capitalists had no reason to care about the difficulty of the government in their pursuit of short-term benefits. Moreover, the Bengal Coalition Government had no

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70 Bengal Legislative Assembly Proceedings, vol.51, No.1, p.55.

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other issues, like international trade negotiations for the Bombay Congress Government, in which they were able to benefit the capitalists and in return for which they could extract concessions from the capitalists regarding labour welfare. The government was compelled to take risks of making a labour policy in the interests of the capitalists at the expense of labour.

However, the fact that the government owed nothing to the working classes except minimum populist appeal required under the new Government of India Act, 1935, eased the difficulty. Any party constituting the Coalition Government did not have their political basis in the jute mill workers, the majority of whom were migrant Hindus from north India. The social and cultural isolation of the jute mill workers from the rest of the Bengal society allowed the government to treat them lightly.\(^71\) It was even more so when the government began to take communalistic policies in various fields.\(^72\)

Under the provincial autonomy introduced by the Government of India Act, 1935 the balance of power between the provincial government and the capitalists leaned to the advantage of the latter even further. In this relationship, the labour policy of the government did not express the ideas of constituent parties of the government, but strongly reflected the aspiration of the capitalists.

3. Comparison and Conclusions

The economic policy of the government and the different ethnic composition of the capitalist class affected the relations of the provincial government differently - with the Bombay cotton textile industry on the one hand and Bengal jute textile industry on the other. The effect of the Government of India Act, 1935 on these relations also differed.

The economic policy of the colonial government, which reflected imperial economic interests, treated the Bombay cotton and Bengal jute textile industry differently,

\(^71\) See Chapter 1 Section 2.
\(^72\) For the reflection of these policies in their labour policy, see Chapter 6.
according to the different characteristics of the industries. The economic policy unfavourable to the Bombay cotton textile industry was a result of the character of cotton as an imperial product. The colonial government was pressurised by the British government to consider the imperial interests when they formulated their policy concerning tariff and currency. The Bombay cotton textile industry should be subordinate to the British industry in the structure of the imperial economy hence the economic policy of the colonial government tended to be unfavourable to the industry.

It was because of the export-oriented character of the Bengal jute textile industry and their virtual monopoly of the market that economic policies of the colonial government did not have an adverse effect on the industry. The industry was more compatible with the imperial economic structure because of its scale. Not only that, the industry was admitted a privileged position in the imperial economy. Thus, it never happened that the interests of the Bengal jute textile industry were sacrificed in the economic structure of the empire.

The different ethnic composition of the capitalist class in Bombay and Bengal had political implications for their relations with the colonial government. It determined the relations of the capitalists with the colonial government and with a rapidly growing political force of this period - nationalism, and its representative nationalist party, the Congress. Because of the dominance of the indigenous capital in the Bombay cotton textile industry they perceived the Congress as an alternative to the colonial government when they began to feel that their interest was incompatible with the colonial government. In Bengal, the European capitalists had no choice but to stay with the Raj. They strove to prevent the Congress from expanding its strength in economic and political spheres.

The Government of India Act, 1935 which brought about a representative political system to provinces, had changed the position of capitalists in politics. While the Act
provided the common legal framework of provincial autonomy to Bombay and Bengal. Its effect on the positions of the capitalist in provincial politics was different. In Bombay, the Government of India Act, 1935 reduced the influence of the Bombay capitalists in the legislature, represented by the BMOA, to a negligible element. While the number of labour seats was increased and wider interests were represented on account of the extended franchise in the format of the new Act, the number of commerce seats remained the same as before, resulting in the relative decline of their influence. The Congress, securing the support of the newly enfranchised, commanded the majority. In Bengal, the Government of India Act, 1935 enhanced the influence of the capitalists over the Government. In the unique political situation in Bengal, which was shown in the composition of the Bengal Legislative Assembly, only with the cooperation of the European Group, could the Coalition Government command the majority in the legislature; the failure of which under the new Act would bring serious consequence on the responsible provincial government. The vulnerability of the government and, to that extent, the influence of the capitalists over them increased under the Act.

It is useful to compare the relations between the government and the capitalists for the two provinces. At first glance, the reason for the dependence of the Bombay Congress Government seemed economic, as was seen in their contribution to the Congress party fund, their economic activities in the province. But these causes were not enough to explain the dependence of the Bombay Congress Government on the capitalists, which commanded a safe majority in the legislature and enjoyed wide support outside the legislature. The dependence should be explained from their longer-term relations. It was essential for the Congress that the capitalists should join the independence struggle led by them, in order to prove that they represented all the interests of the country and justify the struggle, apart from the practical benefits like
their financial contribution. Moreover, if the Congress envisaged independent India as a
multi-class nation, the cooperation of capitalist class was indispensable.\textsuperscript{73}

For the Bombay capitalists, the cooperation of the Congress Government was
indispensable not only for carrying on the economic activities in the province but also
for wider political and economic issues under the new circumstances brought about by
the Government of India Act, 1935. Moreover, the provincial Congress Governments
under the Act plausibly claimed that the Congress would take power in independent
India. The capitalists could not risk their position in it by antagonising the future ruling
party. The relations between the Bombay Congress Government and the capitalists were
interdependent and took the form of political dialogue in which all political and
economic issues were negotiated.

The economic reasons for the dependence of the government on the capitalists were
evident in Bengal, too. The importance of the jute textile industry - in export trade,
creating jobs, and providing market for jute, gave them significant influence over the
government. But the political reasons were also important for the dependence. The
combination of the local political situations (alienation of Muslims from the Congress,
increasing political influence of rich peasants) and features of the Government of India
Act, 1935 (responsible government, extended franchise, maintenance of the over-
represented European group), led the government into a precarious position, with the
European groups having a significant bargaining power. For the Bengal capitalists, in
contrast, the government was replaceable for reasons mentioned above. The relations
between the Coalition Government and the capitalists can be described as almost
unilateral dependence of the former on the latter.

Labour policy assumed different importance in the capitalist-government relations
in the two provinces. While the importance of the industrial labour, and to that extent,
of labour problems were increasing in both provinces, the actual weight that the
\textsuperscript{73} See Chapter 2.

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capitalists and the government put on the labour policy in relation to other economic and political issues greatly varied.

In Bombay, where the government was run by the Congress with the all-India influence and a prospect of coming into power in independent India, the relations between the capitalists and the government went beyond the limit of the immediate provincial economy and politics both in time and space. Labour policy was only one of the issues in their relations. In this context, labour policy was relativised: it was decided not on its merit, but in consideration of other broader and longer-term issues.

In Bengal, the labour policy of the Coalition Government was shaped by short-term requirements in the relations between the capitalists and the government. For political reasons, the capitalists did not believe that the Coalition Government and their relations with it would last long. From the viewpoint of the capitalists, labour policy was one of the few issues on which they could expect short-term gains from the Coalition Government, since the Coalition Government did not possess any political resources to please the capitalists except in a few fields such as labour policy and jute restriction. It is natural that the capitalists made a strong demand for a favourable policy in those fields. The Coalition Government, with no other benefits to offer to the capitalists, had to accept it. Under those circumstances, neither the government nor the capitalists was able to take a long-term view about the labour policy. The immediate result of ongoing strikes and proposed labour welfare measures became their concern.