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The Interwar Slump in India: The Periphery in a Crisis of Empire*

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1 India in the Great Depression

India’s encounter with the Great Depression has unfortunately been of greater interest to students of the country’s history than to students of the interwar world economy. Historians of India have conventionally regarded the Depression as a turning point in the country’s political and economic history. Nationalist opposition to colonial rule intensified in the 1930s partly because of growing support from a peasantry burdened by falling prices and fixed rent and revenue liabilities. Thus, according to one view, the Depression ‘precipitated the end of empire’ (Rothermund, 1992). Nearly two decades later, the Depression also seemed to justify India’s resort to a strategy of import-substituting industrialization sustained by sales in the domestic market.

In contrast, studies of the worldwide impact of the interwar Depression do not carry many references to India. Until recently, accounts of the slump revolved around the propagation of an ‘initial shock’ and individual countries’ resistance or vulnerability to that shock.

As might be expected of a small economy, India did not set off any worldwide shocks. Nor did it actively resist the Depression because government policies, which were formulated mainly in conformity with London’s priorities and preferences, were determinedly pro-cyclical throughout these years. But even in the 1920s India was less dependent than other developing countries on foreign trade while exporting a more diversified basket of commodities. According to some estimates, its exports made up about 10 per cent of estimated national income and imports about 8 per cent (Chaudhuri, 1983, p. 804; Goswami, 1986, p. 165). The proportions for commodity trade excluding treasure were even lower. Thanks to the relatively large size of its domestic economy, endogenous stimuli to reallocation and expansion were also not entirely absent. Consequently, in the aggregate, the Indian economy did not passively succumb to the Depression. Given this record, it is perhaps not surprising that India should
have eluded attention in most ‘shock-response’ accounts of the interwar Depression.

The Depression undoubtedly caused a steep decline in Indian trade. According to figures the Indian government submitted to the League of Nations, commodity exports at current prices bottomed out in 1932–3 at about 43 per cent of the 1929–30 level, while imports fell to slightly below half the 1929–30 level in 1933–4 before beginning to recover.\(^1\)

Export prices (1927–8 = 100) plunged to 53.5 in 1933–4. The drop in import prices (to 62 in 1935–6) was less sharp though more prolonged. But the adverse movement in the terms of trade was relatively short-lived. The bulk of the fall in Indian export prices (from 90 to 59) took place between April 1929 and March 1931. In contrast import prices fell more steadily through the early 1930s and India’s terms of trade (1927–8 = 100) hit the trough at 82.6 in 1931–2, though doubtless recovery remained slow thereafter (Chaudhuri, 1983, p. 840).

Broadly similar trends are discernible in the movement of agricultural and non-agricultural prices. Aggregate price movements confirm the intensity of the shock between 1929 and 1931, the weighted index of all commodity prices (1928 = 100) collapsing to 60 in 1931 and sliding to 52 in 1934 before beginning to recover (McAlpin, 1983, pp. 903f.). The Depression is also widely regarded as a grim event for the large majority in rural India. Commercialized segments of agriculture such as jute bore the brunt, but elsewhere, too, the slump took its toll. The burden of rural indebtedness, in particular, became more crushing. According to Goldsmith, the nominal value of agricultural debt increased from Rs 11,500 million in 1929 to 18,000 million in 1939. The rural debt/income ratio also doubled. A quarter of the farmer’s income went towards debt servicing in 1939, as against an eighth in 1929.\(^2\)

Estimates of Indian national income vary widely.\(^3\) Yet there is widespread agreement that taken as a whole the Indian economy was not amongst the worst hit: to a considerable extent, unlike in the industrial economies, the Depression affected prices more than aggregate output.\(^4\) Although 1929–30 levels of real national income were not attained once again until 1934–5 (Sivasubramonian, 1965) or 1936–7 (Heston, 1983), the peak to trough (in both cases 1929–30 to 1931–2) variation works out to 1.3 per cent and 1.9 per cent respectively. (In contrast, Sivasubramonian and Heston estimate a real national income decline of about 6 and 10 per cent respectively between 1919–20 and 1920–1.) The rural credit system all but collapsed in the Depression. But contrary to trends elsewhere, the largely urban commercial banking system saw significant expansion during these years. There was even a minor stock-market boom after the early 1930s reflecting and sustaining an accelerated tempo of industrial growth and diversification which had its origins in a combination of higher tariffs and rising urban incomes, and which was assisted by low interest rates and a flexible reallo-