
Food Prices and Industrialisation: Some Questions from Indian Economic History

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It is perhaps too little appreciated by those interested in development studies that a major current of economic history is the study of development as it occurred in the past. The aim is to understand and extract the principles upon which development is based in order to suggest how it may be induced. Major writers on the principles of development such as W. W. Rostow, W. A. Lewis and A. K. Cairncross all drew their ideas from their work as economic historians. Now, a new generation of economic historians is coming forward whose ideas are not based merely on the history of the developed world, but also upon their personal research and experience in the developing world, and who understand more intimately than those earlier writers how the peculiar circumstances of the developing world may modify the general patterns of development followed elsewhere.

In the 1960s much innovative work was done on the economic history of pre-colonial and colonial Africa, but more recently there has been a shift of interest to Asia and South America. Much of the new work has begun at the grass-root level of trying to establish how undeveloped economies actually worked, and how development, if any, took place within them. Only then can the necessary groundwork exist upon which grand generalisations may subsequently be made. This fundamental research has thrown up queries which have direct implications for those actually involved in the day to day planning of development and one such question has recently been raised by my current research on Indian history.

In the late nineteenth and early twentieth century, Asia in general, and British India in particular, formed a central part of the international economic system. The surpluses which Britain earned on her trade with India, enabled her to meet the deficits which she suffered on her trade with the United States and Europe. Without these surpluses, she would have been forced to balance her books with the USA and Europe by reducing her purchases there, which would have impeded their economic development. They in turn would have no longer been able to sustain their deficits with India, whose surpluses with USA and Europe went a long way to meeting her deficit with Britain, closing the payments circle. Although

India's deficit with Britain was greater than her surpluses with America and Europe, India remained in overall surplus due to her own surplus with the rest of Asia, especially China, and throughout the period she continued to receive a massive inflow of gold and silver. Thus India's position in the international economy was crucial to all the other participants. For Britain, India was a major market, and the largest and fastest growing market for Lancashire cotton manufactures. Asia as a whole was only marginally less important than Industrial Europe as a market for home-produced British goods, and much more important than the USA. Accordingly, fluctuations in demand for British goods in Asia had a direct influence on incomes and employment in Britain.

The question of fluctuations in British exports to Asia prompts the further issue of the effect of agricultural prices in India upon the level of imports from Britain. Most scholars of cyclical economic activity have concerned themselves with characteristics internal to the developed world. Their ideas do not explain the pattern of fluctuations in British trade with Asia. Brief consideration would suggest certain obvious factors which might influence the level of British trade with Asia prior to the First World War. Asia was essentially agricultural and poor, thus movements in food prices might well have been crucial.

Indeed it could be assumed that when food was cheap, people would have money left over to buy imported British goods. In other words, when food was cheap, real incomes would increase. Britain was the principal supplier of industrial goods to Asia, and her exports there would fluctuate inversely with food prices, exports rising as food prices fell. However, it was necessary to test this assumption against the evidence. The problem was to find adequate series which could be related to the known pattern of fluctuations in British exports. There appeared to be a simple solution. Rice was the major food staple in Asia, and it was possible to obtain a series giving the annual average price of rice imports to China in this period. When this was set against the fluctuations in British exports to Asia, the inference was somewhat surprising. Far from the fluctuations in the two series moving in opposite directions, they did, if anything, move in similar directions.

British exports to Asia seemed to increase when the price of rice went up, rather than when it fell.

In order to check that there was no peculiar aberration in the price series based on Chinese rice imports, it was necessary to check the figures with the price of rice exports from India and Siam. These actually confirmed the overall pattern of price movements, and also thereby the fact that there was a truly international market in rice. Yet although the implication was that rice prices and Asian imports from Britain moved in the same direction, the evidence did not appear strong enough to state this conclusively. Several things could have affected the evidence. Some Asian imports of British goods, for example, of railway equipment, were not likely to respond to fluctuations in rice prices in the way cotton goods might. And the rice price series derived from the value of imports divided by overall weight hid shifts in the quality mix. So it became necessary to look more closely at the situation in a part of Asia where the statistical information was more precise, namely British India.

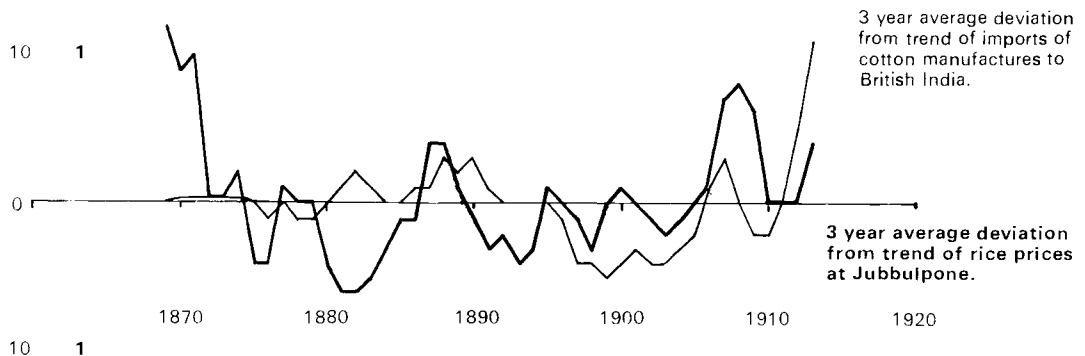
There are excellent annual price statistics for common rice in dozens of Indian cities for the period in question, and a survey showed that rice prices across the length and breadth of India moved according to the same pattern year by year, once again revealing the existence of an integrated rice market. Preliminary investigations indicate that wheat prices followed the same pattern. It was also possible to break up Indian imports, the majority of which came from Britain, into

the four major importing regions, Bombay and Sind, Bengal, Madras, and Burma. Imports to the four regions ebbed and flowed according to the same pattern, confirming an India-wide influence on imports. It was also possible to extract imports of manufactured cotton goods, which came almost entirely from Lancashire, from the import statistics, and the pattern of import fluctuations followed that of each of the four regions' general imports. The overall pattern of imports followed likewise.

How close then was the relationship between the pattern of rice price movements and the pattern of imports of manufactured cotton goods? Taking a series based upon the three-year average deviation from the trend of rice prices at Jubbulpur in the heart of India as representative of rice price movements, and comparing it with a series based upon the three-year average deviation from the trend of imports of cotton manufactures to India, a pattern emerges supporting the suggestion that rice prices and imports of cottons tended to rise and fall together to a degree. This was especially true from 1886-1914, but was generally true from 1868. The only period when prices and imports seem to have moved in directly opposed directions was in the period 1879-85, when imports rose as prices fell. So there seems to be some support for the hypothesis that increasing imports to India were dependent upon rising rice prices, not falling ones. What is more, the trend of both series, which were removed before the fluctuations were compared, was in both cases upwards.

Rice prices and imports of cotton manufactures in India 1868-1914

Rs 10	Rs per
Million	maund
20	2



Source *Statistical Abstracts for British India*

What explanation can be put forward to cover this apparent paradox? A reasonable interpretation might be that, being essentially poor, the majority of Indians, and indeed Asians, were below the level of income at which they could purchase British cottons and manufactures. Thus whether food prices rose or fell, their income was consumed in food. When food was cheap they did not buy imported luxuries, but just better food. On the other hand, those who were above the threshold of income at which they could purchase British goods, rice producers and dealers, benefited substantially when food prices rose, and were able to increase their purchases of imported luxuries. Taking demand for imported cotton manufactures as a proxy for industrial demand in India at this time, it can be suggested that industrial demand rose and fell with rice prices. Some observers have seen an exactly parallel situation in Britain in the early days of the industrial revolution, when demand for industrial goods increased when food prices rose, rather than when they fell.

Thus the question emerges, what is the relationship between food prices and demand for manufactured goods in a developing country now? Does the pattern which appeared to be true in India at the end of the nineteenth century and in Britain in the eighteenth century still apply today, both in India and in other parts of the world at a similar level of development?

A project is only now being proposed in Poona to investigate the relative importance of changes in demand generated in the agricultural sector, the export sector, and that generated by government spending. So the question remains as to what the relationship is between agricultural prices and industrial demand. Yet important issues hinge upon the answer. If the assumption that low food prices will mean high industrial demand is wrong, then policies designed to secure low food prices may also be wrong, if planners are trying to achieve a sound demand base for industrial products. Whatever political or moral justification may be advanced, it could be the case that such policies, far from promoting industrialisation, are actually guaranteeing industrial retardation. High food prices might provide a sounder base, leading to an increased pace of industrialisation and development. In the same way, policies to secure equal income distribution might be equally retardative.

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