

# THE RISE OF AN ENCLAVE ECONOMY<sup>1</sup>

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Abstract: Development theories of dual economy emphasize interactions between the modern sector and the traditional sector through factor and commodity market linkages for long run growth of the economy. Within this paradigm of development this paper tries to explain why substantial investments in a modern sector in Assam during the later half of the nineteenth century failed to trigger off a process of sustained growth that encompasses the agriculture-based traditional sector. On the basis of the available historical evidences – both statistical and anecdotal – it establishes that on the eve of the British colonization Assam was a labor-short, barter economy having limited trade links with the rest of the world. After the British established their rule substantial investments took place in a modern sector that consisted mainly of tea plantation. However these investments could not establish any link between the modern and the traditional sector through important linkage effects in capital, labor and commodity markets. With these missing links the dual economy that emerged, instead of projecting the economy in a path of long run growth, gave rise to an economic enclave that remained backward for years to come.

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## **I.Introduction**

The economy of Assam<sup>3</sup> on the eve of the British colonization was characterized by acute shortages of labor and capital. A series of civil wars during the last three decades of the eighteenth century and Burmese invasions in the beginning of the nineteenth century `brought in depopulation, disorder and all-round decadence' and left the economy in a state of mess. The persistent chaos and anarchy led to the Burmese occupation of the Assam plains from 1817 to 1824. Then came the British to rescue the people from the dissolute state and the Burmese were forced to surrender their claim over Assam under the Treaty of Yandabo in 1826. With this came historic changes in the polity and, most importantly, in the economy of this region. The next few decades witnessed gradual dilapidation of the feudalistic institutions and rise of the capitalist economic entities. The discovery of tea in the Brahmaputra valley in the very beginning of the British administration was a prelude to the presence of the British capital in the following years and the subsequent evolution of a modern sector which crucially hinged on the growth of tea plantation. However the growth of the modern sector did not bring opulence to the people of this region. By the end of the 19th century `the economy of Assam had developed all the characteristics of a dual economy'<sup>4</sup> with huge investments pouring into the modern sector and the traditional sector having been left out of this development process. Notwithstanding the role of the imperialist designs, there had been deeper economic reasons as to why there were no spillovers in the traditional sector. The peculiar socio-economic conditions of the region at that time, came in the way of a process of dynamic interactions between the two sectors. Consequently the traditional sector remained an enclave in the years to come. It is in this context that the present paper tries to analyze the economic factors behind the rise of this economic enclave.

The rest of the paper is organized as follows. Section II briefly describes the economy on the eve of the British rule, emphasizing the distinctive features of the region. In section III, we discuss the growth and expansion of a modern sector in the 19th

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<sup>3</sup> over the years the political boundary of and within Assam has changed. Geographically, this paper focuses on the Brahmaputra valley. In the early British administrative reports, the five districts of the Brahmaputra valley, namely Kamrup, Darrang, Nowgong, Sibsagar and Lakhimpur were known as Assam Proper.

<sup>4</sup> Guha, A.,1991, pp.197.

century. Section VI looks into the linkages between the traditional sector and the modern sector. Section V summarizes and concludes the discussion.

### **I.The Economy on the Eve of The British Colonization**

Assam with its difficult terrain and a tribal population that lived on perpetually underdeveloped agrarian practices had been a sparsely populated region all throughout the ancient and medieval times. Shifting cultivation having been the mainstay of the agricultural practices among the tribals, theirs was a nomadic lifestyle. Under such practices land was held as communal territory. However even before the *Ahoms* established their rule over the Assam plains in the thirteenth century, efforts had been made by the rulers of the land<sup>5</sup> to encourage settled agriculture by granting lands to *Brahmins* and religious institutions. Such grants usually came with a right over the people living on those lands, which empowered the grantees with political authority. For example, during the fourteenth and fifteenth centuries the *Bhuyans* and the *Bara-bhuyans* with royal land grants wielded considerable political power by providing protection to the subjects of the kings from whom they received land grants. This kind of devolution of power led to feudalization of land to some degree.

The existence of smaller kingdoms in the region led to a situation in which there was no strong central governance. As the *Ahoms* consolidated their territories in the Brahmaputra valley, a slack political system gave way to a system with centralization of political authority. The economic institutions and the production relations that evolved under their rule, however, had distinct traits of feudalism. The entire male population excepting those who were disabled or engaged in non-agricultural activities was divided into *khels* or guilds. The *khels* were sub-divided into *gots* or units, each of which consisted of four and later, of three *paiks* or individuals. Every *paik* had to serve the state either as a private or public servant for one third of the year or to supply a certain quantity of his produce in lieu thereof. In return he was entitled to have two *puras* of *rupit* or arable land (*ga-mati*)<sup>6</sup> apart from homestead and garden (*bari* and *bori*) land.

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<sup>5</sup> At that time Assam was a cluster of small kingdoms.

<sup>6</sup> Earlier there was no limit to the amount of *ga-mati* but later on as population increased and as the repeated confrontation with the Mughals put pressure on the treasury, the quota of tax-free land had to be fixed.

However he could acquire additional plots of land (*katanimati*) but had to pay rent in cash<sup>7</sup> for holding such lands. In this *khel* system the land assigned to a *paik* for cultivation didn't go to his offsprings upon his death. In other words, there was no private property right over cultivable lands.

The *paiks* were supervised by the *Borahs*, *Saikias* and *Hazarikas*. In a hierarchy of officials, civil and military, they were under the command of the *Baruas*, *Rajkhowas* and *Phukans*. These officials were remunerated with *paiks* and rent free grants known as *nankar* and *manmati*. In addition they could occupy rent-free *khats* or waste lands where they employed their attendants and slaves. For the maintenance of temples and Vaishnava monasteries known as *Satras*, huge areas of land were assigned rent-free or *lakhiraj*.

Thus at the time of the British take-over of Assam, hereditary private proprietary rights existed only in the case of homestead and garden lands but not in the case of cultivable lands with exceptions in case of copper plate grants. These lands were essentially communal lands. This system of property rights over cultivable lands is one reason why there was apparently no incentive for the cultivators to innovate and to upgrade technology with an objective of increasing productivity<sup>8</sup>. In most cases the production was just sufficient for the household.

Another interesting feature of the *Ahom* system of governance was that there was no regular army and during the wartime the *paiks* were pressed on to fight for the king. This had two important implications for the economy. First, the state exchequer didn't have to incur the expenditure of maintaining an army, which is one of the major expenditure items of a modern state. Secondly, the *paiks* were expected to acquire skills as varied as working in the field and fighting. Consequently there was hardly any scope for specialization which is a characteristic of an economically advanced society.

The economy in the medieval times was essentially a barter economy. Only in the sixteenth century, local coins were used in limited quantity. As we have already seen, land revenue was paid in terms of labor and, in produce. Non-cultivators or artisans, viz. braziers, gold washers, fishermen (who constitute relatively a small fraction of the population), ryots having surplus lands and those failing to attend to their assigned duties

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<sup>7</sup> We follow Barpujari (1992) in using the term 'cash' which essentially refers to coins that were in vogue during those times.

<sup>8</sup> However, there are other reasons including absence of market, which we will discuss later.

or supply the requirement of produce had to pay the revenue in coins. Officials received a portion of the contributed labor in lieu of salaries. Thus the state expenditure did not require use of coins. Absence of a common medium of exchange and a standard of value was one factor that limited trade, and thus in a way, the scope for specialization according to comparative advantages. However, to the end of the *Ahom* rule the use of coins increased. Repeated *Mughal* invasions necessitated the establishment of a regular army which implies a heavy burden on the treasury. On the other hand, during the *Mughal* occupation of Kamrup (for a few years) money tax in lieu of personal services was introduced there<sup>9</sup>.

Also the geographic environment and the size and composition of the population kept the economic activities in this region to their bare minimums. Agriculture was the major occupation. Crafts and weaving were practised mainly to cater to the local needs. In the hills surrounding the Brahmaputra valley, rice was produced in limited quantity. Among other things, cotton, long pepper, chilies, millets, vegetables and, in some areas oranges and pineapples were produced. *Jhum* or shifting cultivation was the dominant form of cultivation. Barring a few exceptions, hoe instead of plough had generally been used in the hill regions. The people of the hills were also involved in food gathering in the jungles, hunting and fishing. In some parts they took to horticulture and bee-keeping. The breeding of livestock as a source of meat supply and for ritual purposes was common in the hills. Crafts, like weaving, pottery and basketry were practised among some tribes. The technology was however backward.

In the plains of the Brahmaputra valley, more than half of the arable lands was under paddy cultivation. Among other crops, mustard, pulses, sugarcane, areca nuts, pepper, cotton, tobacco and some trees for rearing silk were grown. Cultivation of indigo on a limited scale can be traced back to the eighteenth century. However, agriculture in Assam remained in its primitive stage for a long time. The implements used were of the archaic type. 'Population scarcity' and 'land abundance' slow(ed) down the transition from shifting hoe cultivation to permanent plough cultivation not only in the hills but also

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<sup>9</sup> Guha, A., 1991, pp.47.

in the plains'<sup>10</sup>. Heavy ploughs drawn by several bullocks or seed drills were never used in Assam.

Weaving and spinning were common to the womenfolk of the plains irrespective of caste and status. Extraction of mustard oil and *gur* was carried on in individual households. For reasons discussed above there was virtually no market and the prevalence of these practices is a pointer to this fact which, in its turn, significantly reduced the scope for specialization. There was however specialization to some degree in the making of bell-metal and brass utensils, earthenware, ornaments and a few other articles.

The consumption basket of the valley people included rice, wide variety of edible greens, milk, fish and meat. Salt was an expensive item as it was not locally available. However needs were limited and people could afford their basic needs easily. There was hardly any inequality in terms of economic condition among the common people.

Difficult topography and the relative ease with which the basic minimum needs were locally satisfied – mainly due to abundant supply of land and relatively small population – contributed to the stagnation of the economy by restricting movement and trade. There was limited trade between the plains and the hills. Raw cotton, forest products, oranges, rock salt and iron from the hills were bartered for rice, dried fish, silk and cotton cloth from the plains in a chain of foothill marts and fairs. The trade between Assam plains and the rest of India was limited by difficult navigation on the Brahmaputra. The difficulty in using wheeled carts for carriage, the limited carrying capacity of canoes on rivers and of pack animals and human carriers on land restricted the volume of trade. Assam's exports to Bengal during the eighteenth and the early nineteenth century included raw cotton, lac, mustard seeds, *muga* silk cloth, *muga* silk thread, elephant tusks, slaves, bell metal utensils, iron hoes, pepper and miscellaneous forest products. And imports from Bengal included mainly salt and muslin. The figures recorded for 1808-09 show that the total exports from Assam were valued at Sicca Rs 130,900 against the imports of the value of Sicca Rs.228,300, thus Assam having a balance of trade deficit with the rest of India. During the first three decades of the

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<sup>10</sup> *ibid* .pp.23.

nineteenth century trade increased in volume and value and in thirties the trade deficit turned into a trade surplus as shown in Table 1.

Table 1  
Assam's Trade Statistics, 1808-1835

YEAR	EXPORTS TOTAL VALUE IN RS.(SICCA)	IMPORTS TOTAL VALUE IN RS.(SICCA)	TRADE BALANCE TOTAL VALUE IN RS.(SICCA)
1808-09	130,900	228,300	-97,400
1832-33	146,772	59,007	-87,765
1833-34	249,367	244,055	5,312
1834-35	304,186	247,393	56,793

Source : Tables 7.1 & 7.2 in Guha, A. 1991.

The difficulties of export and the absence of a local market limited production though the abundant land of the Brahmaputra valley had the potential for producing considerable surplus. In other words, on the eve of the British rule Assam was a demand-constrained economy.

At the time of the British takeover, Assam didn't have big urban centres. The most important towns had no more than a few thousand inhabitants in the medieval times. As market-oriented activities were almost nonexistent none of these centres had grown into a business hub. Villages were mostly a hamlet type settlements scattered over the agricultural fields in an elongated, linear fashion along banks of tributaries of the Brahmaputra.

The most important change that took place immediately after the British had taken over was the monetization of the economy. A poll-tax of three rupees per *paik* was introduced in place of the liability of personal service without changing the existing *khel* system. However this was gradually replaced by a proprietary system under which regular assessment of land based on actual measurement was held. Lands were assessed according to their uses and the crops grown on them<sup>11</sup>. Also the already money-short, barter economy had to bear the brunt of transition from the use of local currencies to that of British-Indian currency. The scope for currency flow was limited. A substantial

<sup>11</sup> A brief description of the revenue administration during the early years of the British rule could be found in Gait, E., 1984, pp 294-96, 343-44.

portion of trade surplus generated in early thirties either accrued to traders of non-indigenous origin or represented the value of the goods received by the government in lieu of revenue. The administrative machinery was manned by people from outside the state and `of the public money that has gone to defray the establishments, civil and military, at least half has been remitted out of the province, whilst all surplus revenue, above these expenses has been withdrawn to the treasuries of the government'<sup>12</sup>. Thus there was an acute shortage of money during the transitional period which, in a way, debarred the indigenous people from taking advantage of the opportunities that came up in the subsequent periods.

From the above discussion one can draw the following conclusions about the state of the economy on the eve of the British colonization. First, Assam was a labor-short, barter economy having limited trade links with the rest of the world. Secondly, a system of governance that devolved no private property rights over cultivable lands, small size of the population and absence of `money'<sup>13</sup> severely restricted the evolution of a market. The topography of this region aggravated the situation by restricting trade. Thus the potential for producing substantial surplus was never realized and the economy was stagnated. Moreover after the British take-over of Assam, the monetization of the economy had brought in transitional crises that affected the local economy in an adverse way.

## **II. Growth of a Modern Sector**

In the early twenties of the nineteenth century, tea was discovered growing wild at many places in the Brahmaputra valley. Since the East India Company monopolized importation of the Chinese tea to Europe, it didn't pay attention to growing tea in Assam which recently came under their control. The charter of 1833, which stripped the company of its monopoly over the British trade to China, expedited its initiatives to take up tea plantation in the newly conquered region. In 1839, the Assam Company was launched in London with initial capital of 200,000 pound sterling<sup>14</sup>. In the early stages of

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<sup>12</sup> Francis Jenkins as quoted in Guha, A.,1991,pp.143.

<sup>13</sup> We here use the word money in the sense of a common medium of exchange.

<sup>14</sup> Buchanan, D. H.,1966,pp.55.



plantation, `experiments with tea plants were being carried on by officials, army officers, medical men and others. Most were technically successful, but for those who undertook tea growing as a commercial venture, hard times lay ahead. The Assam Company had virtual monopoly of tea production during the first decade'<sup>15</sup>. But soon it faced rough weather mainly due to ineffective management and incurred losses. From the early fifties, however, it started making profits. The glimpse of first success led to speculation and great expansion of tea plantation - first in upper Assam and then it was extended to Sylhet and Cachar. This process received government patronage in the form of extremely favorable regulations for reclamation of waste lands for tea plantation. Under these regulations the planters had to pay virtually nothing for lands cleared for tea cultivation. As a result there was a mad rush for opening tea gardens. `Clearances were made wholesale, often with the sole object of selling them to companies at a large profit; land was taken up irrespective of its suitability for the object in view, or of the supply of labor available, and was planted out with a wholly insufficient number of tea bushes'<sup>16</sup>. The result was an inevitable depression which, however, didn't last for long. The following table shows increase in area under, and output of tea plantation in Assam during 1850-1901.

Table 2  
Growth of Tea Plantation in Assam, 1850-1901

YEAR	NO.OF ESTATES	AREA IN ACRES	OUTPUT IN POUNDS
1850	1	1,876	216,000
1853	10	2,425	366,700
1859	48	7,599	1,205,689
1869	260	25,174	4,714,769
1871	295	31,303	6,251,143
1875-76	--	59,864	12,602,098
1879-80	--	88,210	19,625,634
1880	--	89,475	21,465,551
1885	--	107,492	32,530,061

<sup>15</sup> *ibid*, pp.55.

<sup>16</sup> Gait, E.,1984, pp. 356.

YEAR	NO.OF ESTATES	AREA IN ACRES	OUTPUT IN POUNDS
1887	--	115,578	39,081,121
1892	--	139,582	48,916,479
1895	--	154,389	56,497,593
1900	--	204,285	75,125,176
1901	--	204,682	72,381,251

Source : Buchanan, D.H. (1966)  
: Statistical Tables for British India, 5th issue,  
Agricultural Statistics of British India, vol.I  
and subsequent volumes.

This table shows that the area under tea plantation increased by leaps and bounds in first three decades beginning 1850 and so did the output. During 1850-59 the annual average growth in acreage under tea cultivation was about 34 percent. In the next two decades it was hovering around 23-25 percent and in the last two decades of the 19<sup>th</sup> century it dropped down to 4-6 percent. It may be noted that liberal terms for holding lands for tea cultivation led to a situation in which the planters used to hold lands in excess of areas they actually planted. For example, in 1858-59, the planters held 54,860 acres of which 7,599 acres were actually brought under tea plantation. In 1900, the total area held by the planters was 1,059,624 acres.<sup>17</sup> Increase in output followed a pattern similar to that of acreage : from an annual average growth rate of as high as 51 percent during 1850-59 it plummeted to 7 percent by the end of the century. The differences in growth rates were accounted for by a steady growth in per acre productivity. During this half century the average yield per acre more than doubled from an estimated 115 lbs per acre to 354 lbs in 1901. The reasons are rather obvious : first few years were the period of experimentation. After a few trials and errors the cultivation and processing techniques were perfected. Secondly, in the beginning there was a scarcity of labor. Before the migrant workers flocked in to this region from 1860s onwards, tea cultivation often fell short of ideal ratio of 1.5 workers per acre.

As we have mentioned, the regulations enacted by the British administration for reclamation of the waste lands for tea plantation were extremely favorable to the European planters. At first the government let land on lease for long terms and with

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<sup>17</sup> Barpujari, H.K., 1993, pp47.

liberal postponements of the beginning of rentals and taxes. In 1861, regulations were introduced to facilitate holding of waste lands in *fee simple*. By 1873, nearly all tea lands were held in one of three ways, namely, on clearance lease for 99 years, in *fee simple*, or on cultivation lease. Clearing and improving of waste land for tea plantation were difficult. According to an estimate, 'in the early days....an estate could be cleared, planted and brought to the bearing stage for about 40 to 50 pound sterling per acre. In 1887,.....the investment was nearly 70 pound sterling for each acre planted in tea.'<sup>18</sup>. However since the estates included vast areas partly reclaimed or totally untouched, the expenses could in fact be much higher.

The average size of the tea gardens in Assam in 1871 was a little more than 100 acres<sup>19</sup>. Gradually the gardens became larger, partly through the taking in of more waste land and partly through the consolidation of smaller gardens into large-scale enterprises. The financial stresses of 1860s forced the individual planters to hand over the gardens to the managing agencies that were in company forms. These companies were mostly British registered in England.

The price of Assam tea steadily declined from as high as eight shillings a pound in the forties to a low of 8.5d by the turn of the century. As a result of massive expansion of tea plantation during the last quarter of the nineteenth century supply outgrew demand and the industry was on the verge of making losses. There were concerted efforts to venture into new markets and to halt further expansion and these efforts bore fruits : the price rose to new heights by the 1920s.

Growth and expansion of a modern industry that was almost entirely dependent on external market necessitated a reasonably well-developed infra-structure. The basic minimum prerequisites for the expansion of tea plantation in Assam included construction of roads and bridges and establishment of a regular link route with Bengal. In the beginning, the Assam Company on its own and later on its insistence the government took up road and bridge construction on limited scale. The Public Works Department started constructing roads from the late sixties. The government started a steamer service on the Brahmaputra from 1847. But it became more regular only from

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<sup>18</sup> Buchanan, D. H. 1966, pp.57.

<sup>19</sup> Buchanan, D. H. 1966, pp.57.

1861 under a British private company. The construction of railways in Assam was started in 1881 but their importance in communication was greatly enhanced only in 1901 when the Assam-Bengal Railways was opened. During the eighties and the nineties a number of small railways were built. Prominent among them were the Sadiya-Dibru Railways and the Tezpur-Balipara Railways. These railways linked the remote tea gardens with the transit points to the steamer service. Often they passed through places without human habitation. There was hardly any concern for providing better communication to the traditional agriculture sector.

Coal-mining was first carried on in Assam in 1828. A more regular exploitation of the coal mines was started in 1847 when there arose a steady demand for coal from the government steamers and the Assam Company's tea factory. According to the data provided in Mills' Report on the Province of Assam, an amount of 2,500 maunds of coal valued at Rs. 625 was exported to Bengal in 1852.

Oil was first discovered in the bed of the river Burhidihing in the mid-twenties of the nineteenth century. Historical evidence<sup>20</sup> suggests that first systematic drilling of well for oil was undertaken in upper Assam by one Mr. Goodenough who was reported to have invested about half a lakh of rupees around 1866-67 and he was successful to some extent though he could never turned it into a commercially viable industry mainly due to lack of infrastructure. However after a few abortive attempts by Messrs Balmer Lawrie and Co, the Assam Oil Syndicate and the Assam Railways and Trading Company, the later had been successful in extracting oil, though in small quantities, at Digboi by the end of the nineteenth century. Then the Assam Oil Company was floated in London with a capital of 310,000 pound sterling. The company set up a refinery at Digboi and started producing lubricants and illuminating oils, candles and wax. In 1911 the production of petroleum was 3,565,163 gallons<sup>21</sup>.

There were attempts by European investors to develop other industries based on available resources. For example, in the early forties Mr. Becher set up a Shellac factory and Dr. Scott a 600-acre farm with patches of sugarcane, coffee and tea cultivation, both at Guwahati. Dr. Scott also set up a sugar factory. In the early fifties export of rubber

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<sup>20</sup> Barpujari, H.K., 1993, pp87.

<sup>21</sup> *ibid*,pp91.

looked promising. A European set up a rubber press at Tezpur for processing the juice collected from wild rubber trees.

As it appears from the above discussion, the growth of a modern sector in Assam in the 19<sup>th</sup> century, revolved around the growth of the tea industry, which was triggered off by immediate mercantile interests of the East India Company. Gradually the profit motives of private entrepreneurs ensured its expansion under liberal patronage of the government. As we will see this industry did not attract as much investments from outside the country as it did from within. Given the infrastructural bottlenecks and the topsy-turvy market condition particularly in the later half of the nineteenth century, the British capital did not find it worthwhile to travel all the way to the north-east region of India. However with extremely favorable government concessions those who were already in business found it highly lucrative to reinvest their profits and savings in tea plantation and a few other resource based industries. The government contributed to the rise of this modern sector by extracting revenue from the agriculture sector. Thus, in a sense, the modern sector thrived at the cost of agriculture. This cost to the agriculture sector was multiplied by other linkage effects or by the absence of them.

### **III. Linkages Between the Modern and the Traditional Sector**

By the early seventies tea plantation was established as an industry that held tremendous potential for growth. By 1871, as Guha has estimated, a total investment of Rs. 18.6 million had gone into tea plantation. In the next decade ending 1881, the total investment in tea had gone up by an estimated amount of Rs. 63.8 million. As we have already discussed the growth of a few other industries and the infrastructure gave shape to a modern sector in the late 19<sup>th</sup> century.

According to an estimate<sup>22</sup>, 'total investments in the organized economic sector' of Assam during the period 1881-1901 were of the tune of Rs.200 million. Equivalently, there had been an average annual investment of Rs 10 million. As we see from the table 3, tea accounted for more than half of these investments; railways took the second place with Rs 62.4 million or 31 percent. Investments in other sectors were rather insignificant.

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<sup>22</sup> Guha, A.,1991,pp189.

From this pattern of investments it is clear that British interest lay in promoting tea plantation and the diversification that took place was to serve the interests of the plantation industry.

Table 3  
Distribution of Investments during 1881-1901

INDUSTRY	INVESTMENTS(IN MN OF RS)
Tea	110.9(55.5)
Railways	62.4(31.0)
Coal	5.4(3.0)
Petroleum	4.6(2.0)
Saw Mills	1.0(0.5)
Others	--

Note : Figures in brackets represent approximate shares of the respective industries in total investments.

Source : Guha, A. pp.189.

As far as the sources of capital are concerned, two distinct phases are discernible. In the beginning there was an inflow of British capital that originated in London. Later, the capital investment that took place in the tea industry mostly originated within India. According to an estimate<sup>23</sup>, an amount of Rs five million of British capital was invested in Assam until 1859. However this entire amount did not originate in the U.K. In fact, the inflow of capital into the Assam Company, that originated in Britain, stopped in 1845. From the 1850s `the surplus extracted from plantations as well as savings from the personal earnings of the British officers on Indian Services, which were available for investment, were large enough for financing the rapid expansion of the tea acreage'<sup>24</sup>. The planters accumulated huge surplus mainly because of the following reasons : workers were paid low wages<sup>25</sup>, and the planters hardly paid anything to the government for the land in their occupation.

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<sup>23</sup> Guha, A.,1991,pp170.

<sup>24</sup> *ibid*,pp190.

<sup>25</sup> The wage rates were much lower than those prevalent in other sectors. For example, in 1864 while free laborer was able to earn a wage of Rs.7 per month from the PWD, the going wage in the Assam Company's plantations was Rs.4 to Rs.5.[Guha,A.1991,pp191]. In a few instances, they were even lower than the minimum wage rates stipulated by the government.

The government at all levels, bore the expenditure of constructing railways in Assam. The funds were usually made available from increased taxation and were invested on railways to serve mainly the interests of the plantation industry.

Since domestic capital formation has a crucial role to play in the process of industrialization, a few comments are in order. At the beginning of the British rule the indigenous people had low per capita income and as such they didn't have the capacity to save. And throughout the century the lot of these people who were mainly engaged in agriculture hardly improved. To the end of the century the peasants earned some cash by selling rice, mustard, pulses, poultry, vegetables, bamboo, thatching grass etc to the tea gardens. However, a portion of this income was appropriated by non-indigenous traders and middlemen. The remaining cash income was mostly eaten up by increased land revenue leaving virtually nothing in savings to contribute to capital formation. On the other hand, those who came from outside to work as wage earners in plantation, as traders and as skilled professionals had no particular interest in saving and investing within the state. One possible explanation is that they were risk averse in the sense that they didn't want to venture into relatively new industries in an unfamiliar land. They remitted a significant proportion of their income to their families and relatives living outside the state.

There was no organized banking to elicit savings from the commoners. The *Keyas* or the *Marwaris* who carried on limited banking services were mainly engaged in usury. Since 1870s the government introduced Savings Banks on an experimental basis at a few places. The depositors were mostly government servants. The interests paid on deposits were low and hence these banks failed to invite deposits in sufficient quantity.

The investments in the modern sector, financed mainly through reinvestment of undistributed surplus, were not sufficiently diversified so as to facilitate a wholesome development of the economy. There was virtually no movement of capital from the modern sector to the traditional sector and vice versa.

On the other hand, the environment was not at all conducive for the development of local entrepreneurship. As we have mentioned earlier there was a dearth of local capital at the advent of the British rule. Domestic capital formation was nonexistent. The regulations enacted by the British administration for reclamation of waste lands for tea

cultivation stipulated too high a limit for land to be reclaimed in order to be able to get the concessions. Also the financial requirements of the entrepreneurs were exorbitant even for the local aristocrats. Nevertheless, by the end of the century there emerged a class of local entrepreneurs who tried their hands in a few business ventures. Prominent among them were Manik Chandra Baruah who 'was both a timber-merchant and a tea-planter', Bholanath Baruah who 'carried on extensive timber-trade in Orissa', and tea planters Jagannath Baruah, Kali Prasad Chaliha, Bishnuram Baruah, Ghanashyam Barua, Radhakanta Handique, Sheikh Sahanur Ali and Munshi Muhammad Ali. 'The area under cultivation of each estate was limited to a few hundred acres with exception of Jagannath Baruah whose two gardens, Raraiah and Letekujan, reached 2,811 acres. Financial constraints prevented most of indigenous planters from extension of cultivation, and in fact majority of them had no factory of their own; they had to send their green leaves for manufacture to nearby European gardens.'<sup>26</sup>

The shortage of labor posed formidable problems to the tea plantation industry in Assam in the early years of its expansion. Moreover the disinclination of the indigenous population to take continuous employment in the tea estates aggravated the situation. One explanation for this aversion is low wage rates in plantation. Nevertheless, in the beginning the tribal population of Darrang district provided an important source of labor. As a result there was internal migration taking place from mostly Darrang to the tea districts of upper Assam and thus there was a demographic redistribution. However various statistical and anecdotal evidences show that there were high rates of labor turnover and high proportion of casual labor. The British seemed to make deliberate attempts to draw labor from agriculture to work in plantation. For example, the policy to enhance land revenue is seen as a measure to dissuade people from continuing with agricultural operations. Similarly, the planters wanted the British government to ban poppy cultivation to prevent people from being indolent, and to exhort them to join the workforce in plantation. These policies failed to attract people from agriculture. This happened despite manifold increase in land revenue mainly due to low plantation wages. The wages in other sectors, on the other hand, were rising<sup>27</sup>. Consequently, the proportion

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<sup>26</sup> Barpujari, H. K., 1993, pp 367-368.

<sup>27</sup> Scarcity of labor and gradual increase in demand due to expanded activities in the modern sector resulted in steady rise in wages of free laborers. However the imported laborers who were mostly employed in plantation on contract were paid much lower wages and



of indigenous workers in the plantation workforce in Assam declined from about 46 percent in the late 1860s to about 7 percent in 1901, which represents a marginal increase of about 1200 workers in absolute number during this period. During the same period the total number of plantation workers rose from an estimated 40,450 to 307,000 or by 7 times<sup>28</sup>.

The process of recruiting indentured laborers from outside started in the early sixties. The aboriginal tribes and people from the Western parts of what was then Bengal, and the eastern parts of the United Provinces and the Central Province<sup>29</sup> were imported. The magnitude of outside recruitment during the last quarter of the nineteenth century was so high that it changed the demographic composition of the state.

Table 4  
Population of Assam Proper

YEAR	TOTAL POPULATION	NO. OF INDIGENOUS PEOPLE <sup>A</sup>
1826	7-8 lakhs	----
1853	10,59,513	----
1872	14,96,705	----
1891	20,23,708	15,84,027(78.3)
1901	21,57,025	15,04,847(67.8)

Note: a) includes indigenous Hindu Castes and tribes.  
b) figures in brackets indicate percentage shares in total.  
Source : Guha, A., 1991, pp.156-57.

As we see from the above table in about ten years time between 1891 and 1901 the proportion of the non-indigenous people in the total population rose from about one fifth to one third. This non-indigenous population consisted not only of tea garden laborers but also of traders, skilled professionals etc who flocked in to the region to take advantage of the new opportunities. The indigenous population during this period had in fact declined in absolute number. Widespread epidemic reduced the population by the

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they were kept fixed for years. The PWD and the railways had to hire workers at competitive rates. The wage rate of agricultural laborers during the later half of the 19<sup>th</sup> century reached as high as about Rs. 10 per month while the wage rate for plantation workers hovered around Rs 3 to 6 per month.

<sup>28</sup> It is difficult to get proper statistics for workers employed in plantation due to high rates of turnover and high proportion of casual workers.

<sup>29</sup> Buchanan, D. H. 1966, pp.60.

turn of the century and the indigenous people were the worst hit. This demographic pattern had important bearing on the dynamics of the economy.

First, unlike the development theories would predict, the traditional sector did not provide a source of labor supply to the modern sector. And hence the important link between the two sectors in the labor market was never established. In a dual economy such a link has a crucial role to play for long run growth. However as we have already mentioned there was some migration of indigenous tribal population from the district of Darrang to the tea districts. Also there was reverse movement of laborers from plantation to agriculture. Many tea garden workers, after their contract had been over, started working in the agricultural fields. However this limited interaction did not influence the growth of the traditional sector in a significant way.

Secondly, the income generated in the modern sector did not remain within the province. Apart from the profits being remitted in the form of dividends and transferred savings outside the region, a substantial part of the wages earned in this sector was also remitted<sup>30</sup>. Moreover the immigrants spent their incomes on items which were not locally supplied. Thus by the end of the century there was huge money drain from Assam.

Thirdly and most importantly, this had crucial implications for the commodity market which potentially opened up new vistas for the two sectors to come together. The rapid growth of the workforce in the modern sector raised the demand for agricultural products. This is reflected in the fact that by the end of the century the terms of trade was extremely favorable to the agriculture sector. In particular, the price of rice had gone up by 35 percent during the last decade of the 19<sup>th</sup> century. On the other hand, the price of tea had gone down by about 22 percent during the same period. There was marginal increase in the supply of rice and bamboo to the gardens from the agriculture sector. But it had not been possible to keep pace with demand. The reasons were manifold. First, the growth of agricultural workforce was very slow. As we have already seen, the growth of the population was almost entirely accounted for by the influx of immigrants from outside the region and they were engaged in various activities in the modern sector. Second, in a labor scarce economy one would expect technological progress to take place so that agricultural productivity increases in order to fulfil the growing needs of the

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<sup>30</sup> Guha(1991) estimates that income remitted of people of small means grew from Rs.88,813 in 1880-81 to Rs.48,04,631 in 1904-05.

modern sector. That was what precisely happened in England during the time of industrial revolution. But there was virtually no technological innovation taking place in Assam. As we have already discussed it was the system of property rights in the beginning and then the absence of capital formation in the traditional sector that thwarted any initiative to innovate in agriculture. Thirdly, there was marginal increase in the acreage under cultivation. The government policy to increase land revenue for cultivated land worked as a deterrent to increasing acreage under cultivation. These factors combined together caused the domestic production of agricultural commodities to fall well short the amount sufficient to feed the growing population. In effect, imports of these commodities were on the rise. For example, `during the eighties and early nineties the rice imports from Bengal into the Brahmaputra valley ranged from four to five lakh maunds per year. Thereafter the annual net import of rice exceeded seven lakh maunds.’<sup>31</sup>

The traders, skilled professionals who landed in Assam with the advent of the modern sector had a consumption basket that differed from the one of the local populace. The main items included wheat flour, edible oil, ghee, refined sugar, shoes, piece goods which were not locally available. Also the local market was not large enough to induce people to a profitable venture of local production. The situation was aggravated by the government policy to purchase the bulk of the garden requirements of the stores in the UK and ship them to India.

On the other hand there was no perceptible change in the consumption pattern of the indigenous people. A few items such as cheaper cotton garments, shoes, umbrellas etc<sup>32</sup> were used in limited quantities but they had hardly any influence so as to effect a greater interaction between the modern and the traditional sector in the commodity market. This absence of demonstration effect is one factor that deterred the dynamics of a dual economy.

As the transportation facilities improved, trade with the rest of India, mainly with Bengal, increased in value and volume. As we see from the table below, exports in value increased by more than three times and imports by about six times between 1880-81 and 1904-05. The trade surplus increased from Rs.15.02 million in 1880-81 to Rs.376 million

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<sup>31</sup> Guha, A., 1991, pp193.

<sup>32</sup> A detailed account of change in consumption habit can be found in Barpujari(1993), pp.139-141.

Table 5

## Assam's Trade Statistics, 1880-01-1904-05

YEAR	EXPORTS RS. LAKHS	IMPORTS RS.LAKHS	TRADE BALANCE
1880-81	229.7	79	150.2
1899-1900	699	323	376
1904-05	726	457	269

Source : Barpujari,H.K.,1993,vol V,pp127.

in 1899-1900 and then decreased to Rs 269 million. Among the export items, tea became one of the largest in quantity and between 1880-1900 the amount of tea exported rose from 2,88,754 maunds to 12,39,136 maunds or by more than four times. On the other hand, export of oilseeds, the principal cash crop of the agriculture sector, increased only marginally from 6,89,103 to 7,18,311 maunds. By the end of the century rice was exported in large quantities (1,393,257 maunds in 1899-1900) only to be imported back after cleaning was done<sup>33</sup>. This reflects the modern sector's lackadaisical attitude towards the agriculture based economy. During this period, imports of European piece-goods increased from an estimated Rs.15,38,410 to Rs.63,76,023<sup>34</sup> or by four times. Imports of sugar from 4,043 maunds to 27,79,981 maunds.

We observed in this section that the dual economy that emerged as a result of substantial investment in a modern sector consisting mainly of tea plantation during the later half of the nineteenth century in Assam did not have the crucial links between the modern sector and the traditional sector in any of the three important markets : capital market, labor and commodity markets. The modern sector thrived on alien interests; employed capital and labor from outside the region and catered to the external market. There was a dearth of indigenous labor and capital and the commodity market did not evolve within the region.

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<sup>33</sup> Barpujari, H.K.,1993.,pp122.

<sup>34</sup> Ibid,pp128.

## VI. Conclusion

Thus the prospect of a profitable venture in tea plantation brought British capital in to Assam. A modern sector, consisting mainly of tea plantation, a few other resource-based industries and minimum infrastructure to support the growth of these industries, emerged by the end of the nineteenth century. The substantial investments that rolled in at the initiatives taken mainly by the Europeans however left the traditional agrarian sector untouched. The two sectors virtually did not have any link through the linkage effects of these investments in labor, capital and commodity markets. The shortages of local labor and capital at the advent of the British colonization and throughout the nineteenth century, coupled with the deliberate policies of the government came in the way of dynamic interactions between these two sectors. As a result the traditional sector which had hitherto been underdeveloped remained an enclave untouched by the process of growth and development.

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