

DIMENSIONS AND EFFECTS OF WAR ON NATIONAL ECONOMY

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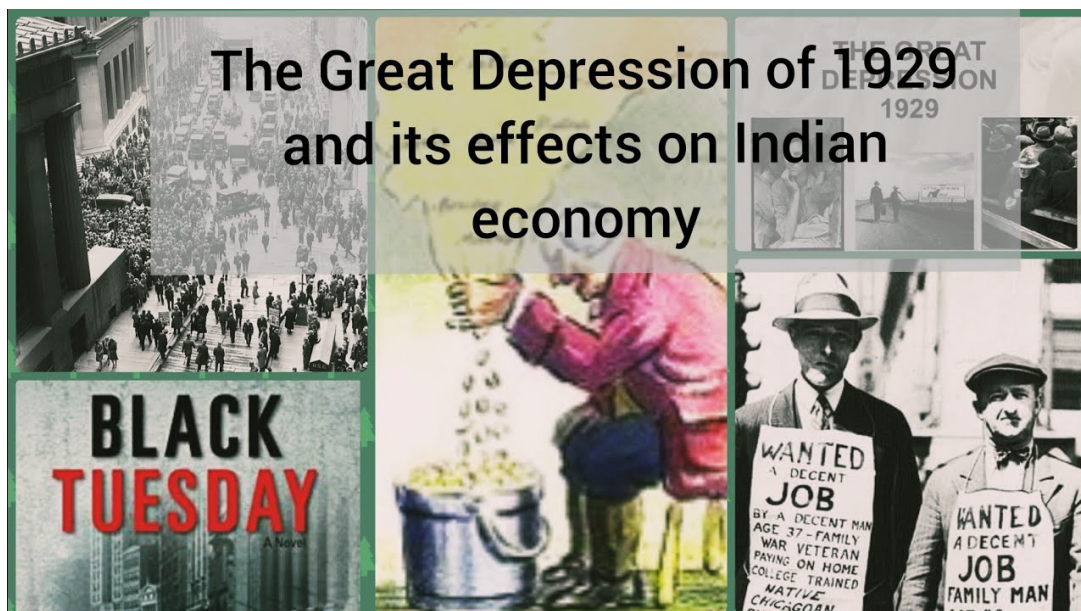
Abstract

World wars always had deeply affected the Indian Economy be it was WW1 or WW2. The reason people don't talk much about the India and its economy in First World War is that many assume that India was not attached with it, which is quite the contrary. WW2 had much serious implications because it had curtailed India's trade policies within the commonwealth of Britain and ended India's touch with European nations.

Keywords: national, dimensions, effects, war, economy, India, World

Introduction

The First World War caused India to nearly go bankrupt and also a major loss in casualties. Indian troops as high as 800,000 in numbers fought in every aspect of War and a majority 500,000 Indian people volunteered to fight for the British. Offers of financial and military help were made from all over the country. Hugely wealthy princes offered great sums of money for aiding the British in the war. But soon after the war Great Depression occurred in the European nations which soon had its implication in India.[1,2]



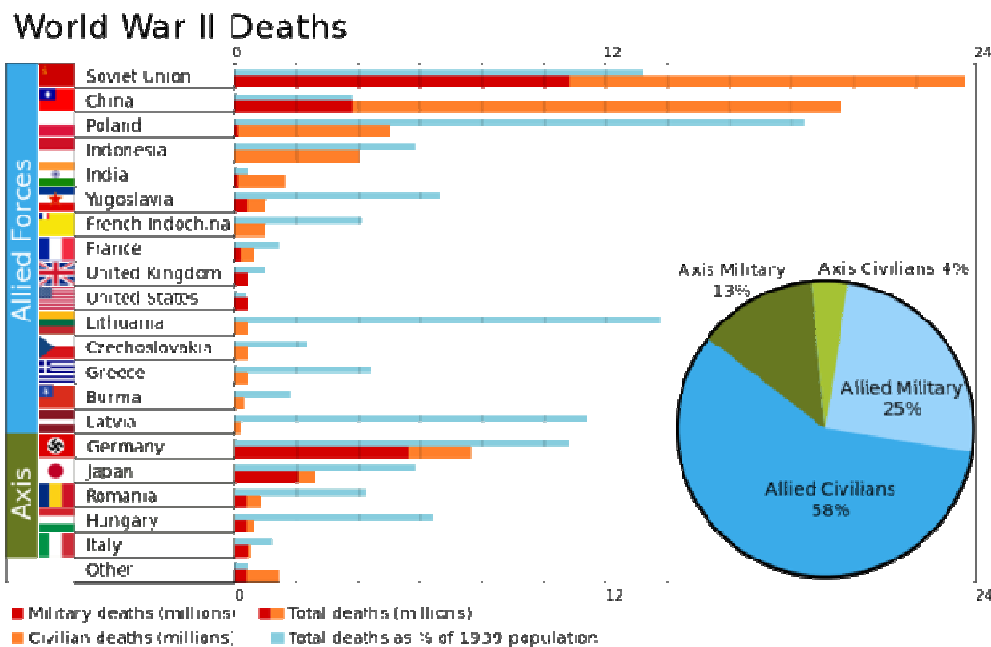
The Great Depression that occurred in 1929 had a detrimental effect on India which was then ruled by British. To save them from the depression Government of British India ordered for a protective trade policy, which was just in the interest of England but made India suffer by deteriorating its Economy. The sea based trade was drastically reduced while the agricultural sector crippled. The ambiguous policies that were adopted by the British Governance in India and the international recession lead to very high

inflation as the prices sky-rocketed for various goods and services. The high prices which would then be subjected to very high taxes laid by the government made Indians suffer heavily. The Great Depression took a huge toll on the farmers as they had to sell their possessions like gold and silver at petty rates just to survive.

In the Second World War had also caused a catastrophic loss to the Indian economy, between the years of 1939-45 external factors influenced the economy majorly which led to huge economic imbalances that prevailed long after peace was attained in India. The root cause of the entire Indian economic problem was Inflation which manifested due to tremendous amount of treasury which was used to finance various military activities. There were four major consequences of Second World War on India and they included high inflation which was on account of war expenditure, the value of Indian currency took a nose dive, economic imbalances due to currencies exchange problems and the development of exchange control.

Review of Literature

The biggest cause of Inflation in India could be explained through the Sterling Balance problem that exhibited in India. The British Government used their currency to its advantage, for financing the war the British just transferred sterling bonds to the Government of India's account which was there in the Bank of England.



An agreement was made that upon the end of war the British Government would pay India those bonds in installments so that it would not affect their economy, also it was agreed that the Sterling balance would be locked and fixed during the term of war. On the basis of blocked currency in England some more paper money was granted to India by the Government of British India, also during trade with various countries India purchased even more Sterling which further increased their Sterling reserves. As much as 1600 crores was held as Sterling securities with the RBI, owing to which even more paper currency was flushed into the market which finally led to uncontrolled Inflation.[3,4]

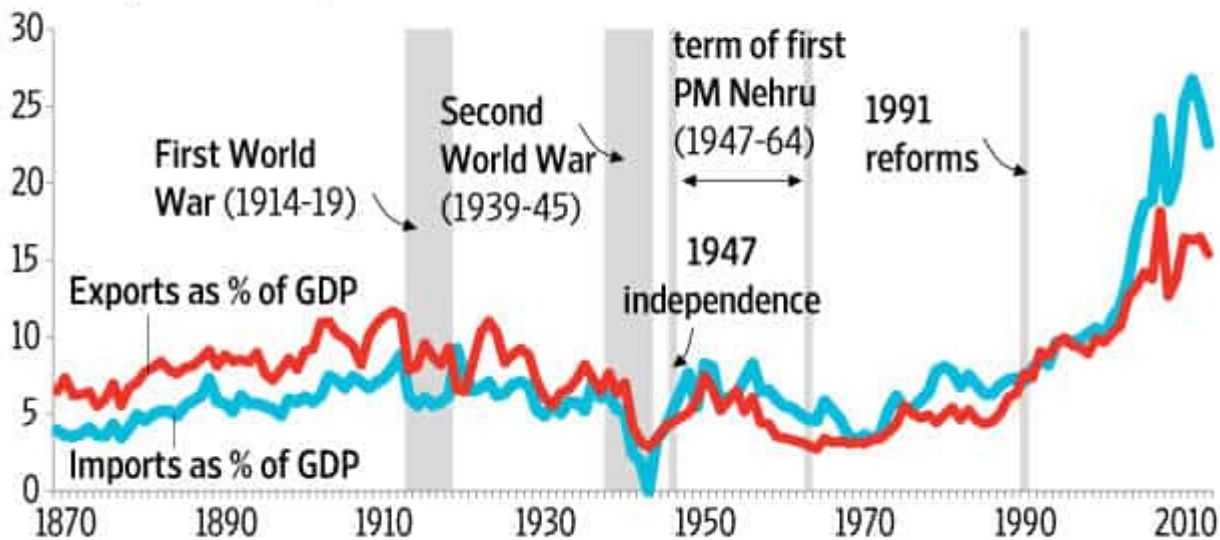
The conditions were further exacerbated when Indians found out that the British had ulterior motives and they were reluctant to unlock the Sterling Securities. Not only this the various amount of resources that were looted and taken back to England during Independence was enough to make India already suffer but also they induced internal tension in India by the elms of partition that led to an internal civil war. One can say that though First World War had huge implications on India but the Second World War affected the nation in such a manner that its effects were prolonged and were seen few decades after the Second World War was dealt with.

Discussion and Results

The economic history of World War I covers the methods used by the First World War (1914–1918), as well as related postwar issues such as war debts and reparations. It also covers the economic mobilization of labor, industry, and agriculture leading to economic failure. It deals with economic warfare such as the blockade of Germany, and with some issues closely related to the economy, such as military issues of transportation. For a broader perspective see Home front during World War I.

INDIA'S INTEGRATION WITH WORLD ECONOMY HAS EXPECTEDLY INCREASED POST 1991

India's exports and imports as % of India GDP



Source: Michel Fouquin & Jules Hugot (May 2016), "Two Centuries of Bilateral Trade and Gravity Data: 1827-2014" [CEPII Working Paper] and Mint calculations

All of the powers in 1914 expected a short war; none had made any economic preparations for a long war, such as stockpiling food or critical raw materials. The longer the war went on, the more the advantages went to the Allies, with their larger, deeper, more versatile economies and better access to global supplies. As Stephen Broadberry and Mark Harrison conclude, once stalemate set in late in 1914: "The greater Allied capacity for taking risks, absorbing the cost of mistakes, replacing losses, and accumulating overwhelming quantitative superiority should eventually have turned the balance against Germany".[5,6]

The Allies had much more potential wealth they could spend on the war. One estimate (using 1913 US dollars) is that the Allies spent \$147 billion on the war and the Central Powers only \$61 billion, but Germany concentrates the largest industrial conglomerate in the Renania region. Among the Allies, Britain and its Empire spent \$47 billion and the U.S. \$27 billion (America joined after the war started) while among the Central Powers, Germany spent \$45 billion.

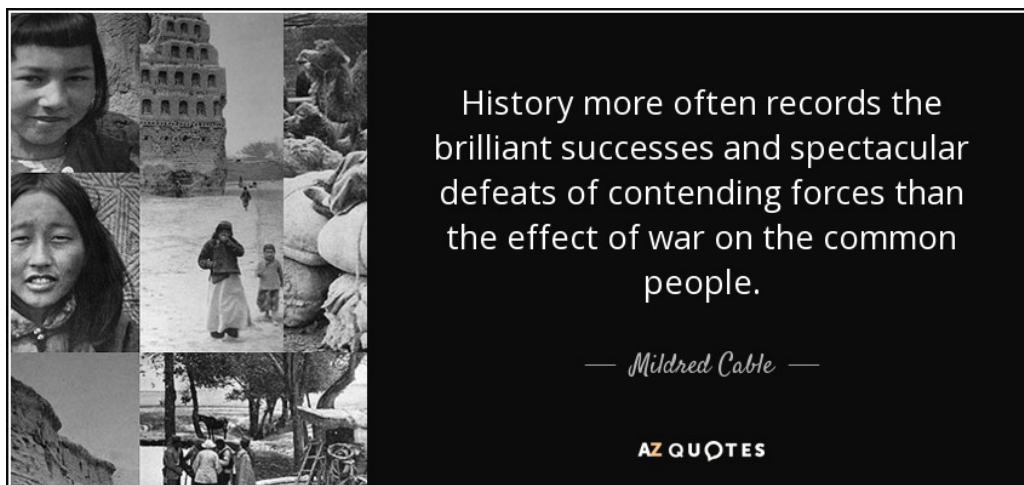
Total war demanded total mobilization of all the nation's resources for a common goal. Manpower had to be channeled into the front lines (all the powers except the United States and Britain had large trained reserves designed just for that). Behind the lines labour power had to be redirected away from less necessary activities that were luxuries during total war. In particular, vast munitions industries had to be built up to provide shells, guns, warships, uniforms, airplanes, and a hundred other weapons both old and new. Agriculture had to provide food for both civilians and for soldiers (some of whom had been farmers and needed to be replaced by women, children and the elderly who now did the work without animal assistance) and for horses to move supplies. Transportation, in general, was a challenge, especially when Britain and Germany each tried to intercept merchant ships headed for the enemy. Finance was a special challenge. Germany financed the Central Powers. Britain financed the Allies until 1916 when it ran out of money and had to borrow from the United States. The U.S. took over the financing of the Allies in 1917 with loans that it insisted be repaid after the war. The victorious Allies looked to defeated Germany in 1919 to pay reparations that would cover some of their costs. Above all, it was essential to conduct the mobilization in such a way that the short term confidence of the people was maintained, the long-term power of the political establishment was upheld, and the long-term economic health of the nation was preserved.[7,8]

Cash and Carry was a policy by US President Franklin Delano Roosevelt announced at a joint session of the United States Congress on September 21, 1939, subsequent to the outbreak of war in Europe. It replaced the Neutrality Act of 1937, by which belligerents could purchase only nonmilitary goods from the United States as long as the recipients paid immediately in cash and assumed all risk in transportation using their own ships.[1] A later revision, the Neutrality Act of 1939, allowed the sale of military arms to belligerents on the same cash-and-carry basis. Because of the conclusion of the Nye Committee, which asserted that United States involvement in World War I was driven by private interests from arms manufacturers, many Americans believed that investment in a belligerent would eventually lead to American participation in war. The first Neutrality Act was passed in August 1935. It was renewed in 1936 and later extended to May 1937. The Act forbade selling implements of war or lending money to belligerent countries under any terms. US passengers traveling on foreign ships were advised that they did so at their own risk.

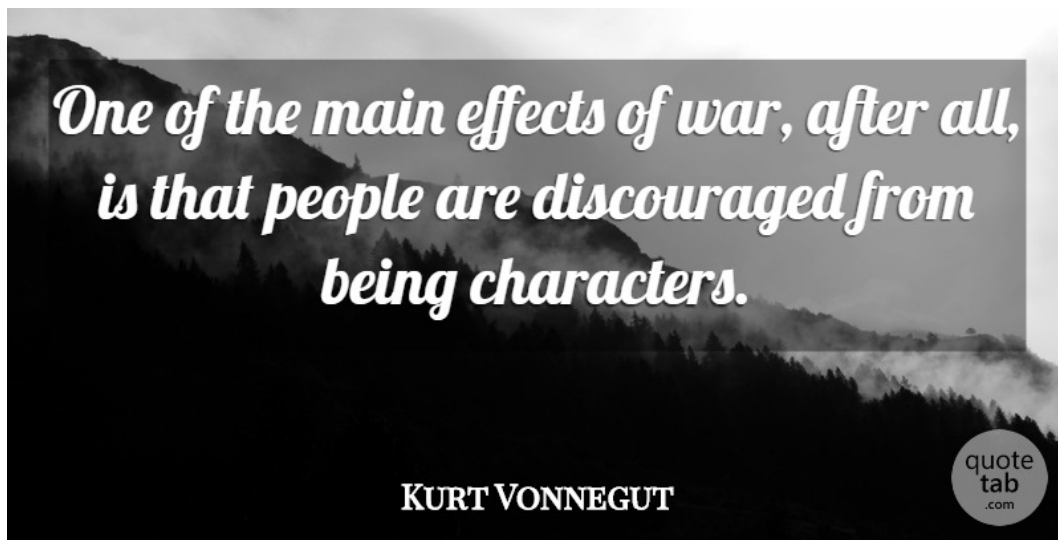
The Neutrality Act of 1937 continued this policy, and in addition, forbade U.S. citizens from traveling on belligerent ships. However, belligerent countries could purchase non-military items provided they paid cash and the goods were not transported on American ships. (Raw materials such as oil were not considered "implements of war".) Roosevelt arranged the inclusion of the "cash and carry" clause "...as a deliberate way to assist Great Britain and France in any war against the Axis Powers, since he realized that they were the only countries that had both the hard currency and ships to make use of "cash-and-carry." The clause was set to expire after two years.

Implications

It is a well-known fact that India's rapid growth in recent decades has taken place in spite of an almost stagnant contribution of an average of 16% in manufacturing sector to its GDP over 2000-2018. In order to address this constraint and develop India as the next global manufacturing hub, 'Make in India' a flagship program for industrialization, has been launched by the Government of India since 2014.[9,10]



This has two broad types of features first being business-friendly to reduce transaction costs and improve doing business in India, while the second involves protectionism against import competition for domestic manufacturing firms. The combined effect of these two features on the expected success of this programme has been ambiguous, partly because these are not very clearly laid out in one document but instead they have been captured by a slew of policy measures and announcements over a period of the past four years. Some of them have been proactive while others have been reactive to global policies. The reactive policies have been mainly shaped in the last couple of years, in response to the global trade wars being triggered by the US tariff hikes in several commodities, some of them as recent as June 2019. Therefore, we may observe a link between the global trade wars and Make in India, though both of them have their own effects separately on Indian economy. Since Make in India initiative was conceptualized in an environment wherein a global trade war situation was non-existent, it is imperative to analyse whether the overall and sectoral impact of Make in India may have been dented due to the ongoing global trade war, which has hitherto not been addressed in any empirical studies. This assumes significance due to the fact that Make in India program's positive measures may have a favourable effect on the industries and people at large in the longer term, while its protectionist measures may have an ambiguous effect. In the above backdrop, our study explores the effects of Make in India and the global trade war in a combined way utilizing a dynamic applied general equilibrium analysis based on 2017 data utilizing the GDyn database. This is a unique attempt on two counts; first, we put together the details relevant for global trade wars and Make in India, which in itself is a fresh attempt; second, this is the first time to capture all these contemporary policies in an economy wide dynamic global modelling framework to analyse changes.

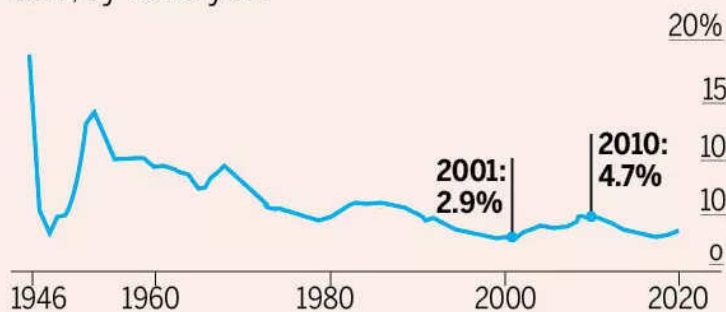


The wars put an end to a period of relative prosperity based on a growing integration of India into the world capitalist economy. That prosperity, which never reached the mass of the population, rested basically on the export of a number of cash crops, mostly jute, cotton and tea, to Europe, North America and Japan. While the production of tea was almost entirely in the hands of big British companies which employed a mass of poorly paid coolies, cotton and jute were grown mostly by small Indian farmers and commercialized by Indian intermediaries who sold the produce to big British, European and Japanese trading firms based in the port-cities of Bombay and Calcutta. Apart from commercial agriculture, other sectors which had been expanding in the pre-war years were coal mining, largely dominated by British firms, and manufacturing industry. The latter was dominated by textiles, cotton and jute. While jute mills in Calcutta were in the hands of British (mostly Scottish) capitalists, the cotton industry was more dispersed (Bombay being the largest centre) and dominated by Indian capitalists. In the ten years from 1905-1914 some Indian firms had diversified from textiles into other industries such as cement or steel. Most spectacular had been the foundation of a steel industry in the jungles of Bihar by the great Bombay Parsi firm of Tatas.[11,12]

The wars impacted the economy in many ways, mostly negatively. Massive requisitions of cereals, in particular for the needs of the cavalry, led to a rapid rise in the price of food that hurt the urban poor and agricultural labourers who depended on the market for their daily needs. Producers did not derive many benefits from higher prices, as intermediaries reaped most of them.

Military spending since world war II

US national defence spending as a percentage of GDP, by fiscal year



Source: White House Office of management and budget; Bloomberg

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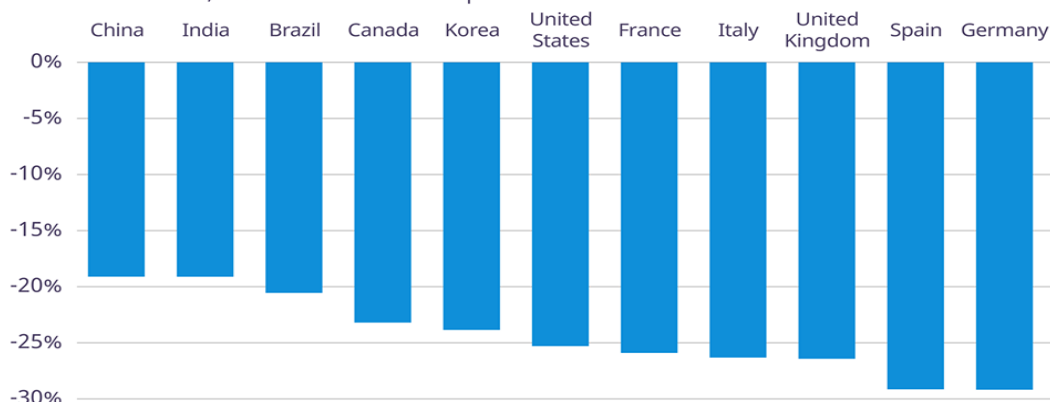
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A thriving black market developed, as always in times of war, in which fortunes were made. Exports of cash crops, especially jute, suffered from the loss of the German market and from the obstacles to communications with Britain due to the threat of German submarines. The main beneficiary of the wars was the domestic manufacturing industry, especially the cotton mills which profited from the decline in imports of Lancashire piece-goods which dominated the market before the war. The production of piece-goods was 50 percent higher in 1917-18 than in the pre-war years. The Tata steel mills were saved from looming bankruptcy by a contract to supply rails to Mesopotamia where the British built 1,500 miles of railway lines to transport troops and material. From a longer-term perspective, Indian capitalists benefitted from the fact that British businessmen felt powerfully the pull of loyalty to the homeland and tended as a result to somewhat reduce their involvement in the Indian economy, a trend that would only accelerate throughout the interwar period. All in all, while some operators, both British and Indian, reaped handsome profits from war contracts, the mass of the population suffered a fall in an already low purchasing power. Although the 1920s saw the return of a modicum of prosperity, the dynamics of the colonial economy had been somewhat broken and it would never recover its pre-1914 shine (however misleading that shine may have been in many ways). The role played by India in the imperial economy was clearly diminished. In particular, India's contribution to the overall imperial balance of payments, so crucial before 1914, was soon eclipsed by that of Malaya and Northern Rhodesia.

While the economic consequences of the wars are fairly easy to chart, it is much more difficult to appraise the societal changes it may have brought about. Firstly, it should be recalled that the immediate post-war period saw a demographic disaster of first magnitude. Between June 1918 and June 1919, the influenza pandemic is thought to have resulted in 17-18 million deaths in India, i.e. one-third of the total death toll of the pandemic worldwide. Its long-term consequences remain subject to speculation. As to the direct consequences of the wars, focusing on the soldiers who took part in the conflict is one way of opening the field. The almost 1.5 million men who were enlisted during the war, enormously swelling the ranks of an Indian Army which had only 150,000 men in 1914, were not entirely recruited from the "martial races" that had been favoured by recruiters in the post-1858 era. Although almost half hailed from the Punjab, mostly Muslims and Sikhs, the British Army was forced to tap new sources in areas of Northern India such as Gahrwal but also in South India. [13,14]

The initial impact of containment measures will be felt worldwide

Selected countries, in % of GDP at constant prices



Source: OECD Annual National Accounts; OECD Trade in Value-Added database; Statistics Korea; Brazilian Institute of Geography and Statistics; and OECD calculations.

Apart from soldiers and a host of “followers,” some 50,000 labourers were also recruited for the Western Front and the majority of them came from the tribal areas of Northeastern India (Nagaland, Mizoram). This had significant consequences for these “backwards” areas. While the total casualties (65,000 dead) suffered by India’s military were low compared to figures in Europe, the departure of so many young men nevertheless disrupted life in many rural communities where women had to take up tasks that were traditionally reserved for men. In the Punjab and the Northwest Frontier Province, as revealed in letters intercepted by military censors, some men who had not enlisted took advantage of the absence of male members in some households to press their claims in property disputes against helpless women, thus sowing the seeds of enduring feuds.

Conclusions

As to the question of whether the participation of so many young men in a worldwide conflict and their discovery of foreign countries in Europe, Africa and the Middle East led to an expansion of their horizons and the absorption of new ideas, the answer remains open. Examination of the censored correspondence of Indian soldiers in France reveals a great curiosity and a generally positive appraisal of certain features of Western societies, such as a greater presence of women in public spaces in comparison with India. There is no clear indication, however, that, on their return to their villages, war veterans were behind a movement towards greater gender equality, a sign that there remained a gap between discourse and actual social practice. There are scattered indications that participation in the Great War contributed to opening India up to new emancipatory ideas which were spreading worldwide in the wake of the Russian revolution. While this did not result in the emergence of a revolutionary movement, it did give a more radical tinge to nationalist politics and thus had significant long-term consequences.[15]

The Great War exposed India to global currents in a novel way. Within a period of four years, more Indians left for faraway lands than in the preceding one hundred years. Excepting the tens of thousands who died on foreign soil and the much smaller number who remained abroad because they had found love, most of these men came back from their travels. Thus, the war was linked to circulation more than to migration. One item, whose circulation proved fatal to millions, was the virus of the influenza pandemic which originated in the United States and created more havoc in India than all the home-bred epidemics of plague and cholera. This large-scale circulation, though not so much of the virus, was to be repeated at the time of the Second World War on an even larger scale. While the First World War gave a

boost to Indian nationalism, the Second World War brought Indian independence in its wake, a reminder that India's history is part of a broader international framework.[16]

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