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Economic Impact of British Rule in India

The major difference between the British colonists in India and earlier invaders was that none of the earlier invaders made any structural changes in Indian economy or drained away India's wealth as tribute. British rule in India caused a transformation of India's economy into a colonial economy, i.e., the structure and operation of Indian economy were determined by the interests of the British economy.

According to historians, at the beginning of the eighteenth century India had some 23 per cent of the world economy. This share came down to some 3 per cent when India got independence.

A detailed survey of the economic impact of British rule follows.

Deindustrialisation—Ruin of Artisans and Handicraftsmen

One-Way Free Trade

Cheap and machine-made imports flooded the Indian market after the Charter Act of 1813 allowing one-way free trade for the British citizens. On the other hand, Indian products found it more and more difficult to penetrate the European markets. Tariffs of nearly 80 per cent were imposed on Indian textiles so that Indian cloth could no longer be cheap. After

Views

The misery hardly finds a parallel in the history of commerce; the bones of cotton weavers are bleaching the plains of north India.

—William Bentinck

The armour of the isolated self-sufficient village was pierced by the steel rail, and its life blood ebbed away.

—D.H. Buchanan

1820, European markets were virtually closed to Indian exports. Cheap British made cloth flooded the Indian market. The newly introduced rail network helped the European products to reach the remotest corners of the country. From being a net exporter, India became a net importer.

No Steps towards Modern Industrialisation

The loss of traditional livelihood was not accompanied by a process of industrialisation in India, as had happened in other rapidly industrialising countries of the time. This resulted in deindustrialisation of India at a time when Europe was witnessing a reintensified Industrial Revolution. This happened at a time when Indian artisans and handicraftsmen were already feeling the crunch due to loss of patronage by princes and the nobility, who were now under the influence of new western tastes and values.

Ruralisation

Another feature of deindustrialisation was the decline of many cities and a process of ruralisation of India. Many artisans, faced with diminishing returns and repressive policies (in Bengal, during the Company's rule, artisans were paid low wages and forced to sell their products at low prices), abandoned their professions, moved to villages and took to agriculture. This resulted in increased pressure on land. An overburdened agriculture sector was a major cause of poverty during British rule and this upset the village economic set-up.

Impoverishment of Peasantry

The government, only interested in maximisation of rents and in securing its share of revenue, had enforced the Permanent Settlement system in large parts. Transferability of land was one feature of the new settlement which caused great insecurity to the tenants who lost all their traditional rights in land. There was little spending by Government on improvement of land productivity. The zamindars, with increased powers, resorted to summary evictions, demanded illegal dues and *'begar'* to maximise their share in the produce and, as such, had no incentive to invest for improvement of agriculture. The overburdened peasants had to approach the moneylenders to be able to pay their dues to the zamindars. The money-lender, who was often also the village grain-merchant, forced the farmer to sell the produce at low prices to clear his dues. The powerful money-lender was also able to manipulate the judiciary and law in his favour.

The peasant turned out to be the ultimate sufferer under the triple burden of the Government, zamindar and money-lender. His hardship increased at the time of famine and scarcity. This was as much true for the zamindari areas as for areas under Ryotwari and Mahalwari systems. The peasant became landless.

View

… for most of the colonial era, the story of India manufacturing was of dispossession, displacement and defeat. What happened to India's textiles was replicated across the board. From the great manufacturing nation described by Sunderland, India became a mere exporter of raw materials and foodstuffs, raw cotton, as well as jute, silk, coal, opium, rice, spices and tea. With the collapse of its manufacturing and the elimination of manufactured goods from its export rosters, India's share of world manufacturing exports fell from 27 per cent to 2 per cent under British rule.

—**Shashi Tharoor** in *An Era of Darkness*

Emergence of Intermediaries, Absentee Landlordism, Ruin of Old Zamindars

By 1815, half of the total land in Bengal had passed into new hands—merchants, moneylenders and other moneyed classes living in towns. The new zamindars, with increased powers but with little or no avenues for new investments, resorted to landgrabbing and sub-infeudation. Increase in number of intermediaries to be paid gave rise to absentee landlordism and increased the burden on the peasant. Since the demand for land was high, prices went up and so did the liabilities of the peasant. With no traditional or benevolent ties with the tenants, the zamindar had no incentive to invest in the improvement of agriculture. The interests of the zamindars lay only in the perpetuation of British rule and in opposing the national movement.

Stagnation and Deterioration of Agriculture

The cultivator had neither the means nor any incentive to invest in agriculture. The zamindar had no roots in the villages, while the Government spent little on agricultural, technical or mass education. All this, together with fragmentation of land due to sub-infeudation, made it difficult to introduce modern technology which caused a perpetually low level of productivity.

Famine and Poverty

Regular recurrence of famines became a common feature of daily existence in India. These famines were not just because of foodgrain scarcity, but were a direct result of poverty unleashed by colonial forces in India. Between 1850 and 1900, about 2.8 crore people died in famines.

Commercialisation of Indian Agriculture

In the latter half of the nineteenth century, another significant trend was the emergence of the commercialisation of agriculture. So far, agriculture had been a way of life rather than a business enterprise. Now agriculture began to be influenced by commercial considerations. Certain specialised crops began to be grown not for consumption in the village but for sale in the national and even international markets. Commercial crops like cotton, jute, groundnut, oilseeds, sugarcane, tobacco, etc., were more remunerative than foodgrains. Again, the cultivation of crops like condiments, spices, fruits and vegetables could cater to a wider market. Perhaps, the commercialisation trend reached the highest level of development in the plantation sector, i.e., in tea, coffee, rubber, indigo, etc., which was mostly owned by Europeans and the produce was for sale in a wider market.

The new market trend of commercialisation and specialisation was encouraged by many factors—spread of money economy, replacement of custom and tradition by competition and contract, emergence of a unified national market, growth of internal trade, improvement in communications through rail and roads and boost to international trade given by entry of British finance capital, etc.

For the Indian peasant, commercialisation seemed a forced process. There was hardly any surplus for him to invest in commercial crops, given the subsistence level at

View

The servants of the Company forced the natives to buy dear and sell cheap... Enormous fortunes were thus rapidly accumulated at Calcutta, while thirty millions of human beings were reduced to the extremity of wretchedness. They had never [had to live] under tyranny like this...

—Macaulay

which he lived, while commercialisation linked Indian agriculture with international market trends and their fluctuations. For instance, the cotton of the 1860s pushed up prices but this mostly benefited the intermediaries, and when the slump in prices came in 1866, it hit the cultivators the most, bringing in its turn heavy indebtedness, famine and agrarian riots in the Deccan in the 1870s. Thus, the cultivator hardly emerged better from the new commercialisation trend.

Destruction of Industry and Late Development of Modern Industry

Indian industry was steadily destroyed. The destruction of textile competition of India is a glaring example of the de-industrialisation of India. The British stopped paying for Indian textiles in pounds, choosing instead to pay from the revenue gained from Bengal and at very low rates, thus impoverishing the peasants further.

A thriving ship-building industry was crushed. Surat and Malabar on the western coast and Bengal and Masulipatnam on the eastern coast were known for their ship-building industries. The British ships contracted by the Company were given a monopoly over trade routes, while even the Indian merchant ships plying along the coast were made to face heavy duties. In 1813, a law by the British parliament prohibited ships below 350 tonnes from sailing between India to Britain; this effectively put a large proportion of Bengal-built ships out of commission on the Indo-British trade routes. In 1814, another law was passed under which Indian-built ships were refused to be considered 'British-registered vessels' which could trade with America and the European continent. So the decline of the Indian shipping industry was ensured.

The British did not allow the Indian steel industry to grow. Industries like the Tatas which began to produce steel after a lot of trouble getting the required permissions were restricted by being forced to produce a higher standard of steel for British use. The firms were not able to produce the lower standard of steel at the same time, so they were left out of the larger market that demanded the lower quality of steel. As restrictions were placed by Britain on Indian steel imports, this steel could only be used in India. Obviously, the growth of the industry was hampered.

Indian traders, moneylenders and bankers had amassed some wealth as junior partners of English merchant capitalists in India. Their role fitted in the British scheme of colonial exploitation. The Indian moneylender provided loans to hardpressed agriculturists and thus facilitated the state collection of revenue. The Indian trader carried imported British products to the remotest corners and helped in the movement of Indian agricultural products for exports. The indigenous bankers helped both in the process of distribution and collection. But, the colonial situation retarded the development of a healthy and independent industrial bourgeoisie, and its development was different from other independent countries like Germany and Japan.

It was only in the second half of the nineteenth century that modern machine-based industries started coming up in India. The first cotton textile mill was set up in 1853 in Bombay by Cowasjee Nanabhoy and the first jute mill came up in 1855 in Rishra (Bengal). But most of the modern industries were foreign-owned and controlled by British managing agencies.

There was a rush of foreign capital in India at this time due to prospects of high profits, availability of cheap labour, cheap and readily available raw material, ready market in India and the neighbours, diminishing avenues for investments at home, willingness of the administration to provide all help, and ready markets abroad for some Indian exports such as tea, jute and manganese.

Indian-owned industries came up in cotton textiles and jute in the nineteenth century and in sugar, cement, etc., in

View

…deindustrialisation was a deliberate British policy, not an accident. British industry flourished and Indian industry did not because of systematic destruction abetted by tariffs and regulatory measures that stacked the decks in favour of British industry conquering the Indian market, rather than the other way around.

—**Shashi Tharoor** in *An Era of Darkness*

the twentieth century. Indian-owned industries suffered from many handicaps—credit problems, no tariff protection by Government, unequal competition from foreign companies, and stiff opposition from British capitalist interests who were backed by sound financial and technical infrastructure at home.

The colonial factor also caused certain structural and institutional changes. The industrial development was characterised by a lopsided pattern—core and heavy industries and power generation were neglected and some regions were favoured more than the others—causing regional disparities. These regional disparities hampered the process of nation-building. In the absence of careful nurturing of technical education, the industry lacked sufficient technical manpower. Socially, the rise of an industrial capitalist class and the working class was an important feature of this phase.

Nationalist Critique of Colonial Economy

The early intellectuals of the first half of the nineteenth century supported British rule under the impression that it would modernise the country based on latest technology and capitalist economic organisation. After the 1860s, disillusionment started to set in among the politically conscious and they began to probe into the reality of British rule in India.

The foremost among these economic analysts was

Economic Drain

The term 'economic drain' refers to a portion of national product of India which was not available for consumption of its peoples, but was being drained away to Britain for political reasons and India was not getting adequate economic or material returns for it. The drain theory was put forward by Dadabhai Naoroji in his book *Poverty and UnBritish Rule in India.* The major components of this drain were salaries and pensions of civil and military officials, interests on loans taken by the Indian Government from abroad, profits on foreign investment in India, stores purchased in Britain for civil and military departments, payments to be made for shipping, banking and insurance services which stunted the growth of Indian enterprise in these services.

The drain of wealth checked and retarded capital formation in India while the same portion of wealth accelerated the growth of British economy. The surplus from British economy re-entered India as finance capital, further draining India of its wealth. This had immense effect on income and employment potential within India.

Dadabhai Naoroji, the 'Grand Old Man of India', who after a brilliant analysis of the colonial economy put forward the theory of economic drain in *Poverty and UnBritish Rule in India.* Other economic analysts included Justice Mahadeo Govind Ranade, Romesh Chandra Dutt (*The Economic History of India*), Gopal Krishna Gokhale, G. Subramaniya Iyer and Prithwishchandra Ray. The essence of nineteenth century colonialism, they said, lay in the transformation of India into a supplier of foodstuffs and raw-materials to the metropolis, a market for metropolitan manufacturers and a field for investment of British capital. These early nationalist analysts organised intellectual agitations and advocated a complete severance of India's economic subservience to Britain and the development of an independent economy based on modern industries.

British Policies Making India Poor

The basic assertion of these early intellectuals was that India was poor and growing poorer due to British imperialism, and

Views

'India Reform Tract' II, p. 3, says: 'It is an exhausting drain upon the resources of the country, the issue of which is replaced by no reflex; it is an extraction of the life blood from the veins of national industry which no subsequent introduction of nourishment is furnished to restore.

—**Dadabhai Naoroji** quoting from Mill's History of India

Our system acts very much like a sponge, drawing up all the good things from the banks of the Ganges, and squeezing them down on the banks of the Thames.

—**John Sullivan**, President, Board of Revenue, Madras

Where foreign capital has been sunk in a country, the administration of that country becomes at once the concern of the bondholders.

—***The Hindu*** (September 1889)

It is not the pitiless operations of economic laws, but it is the thoughtless and pitiless action of the British policy; it is the pitiless eating of India's substance in India, and the further pitiless drain to England; in short, it is the pitiless perversion of economic laws by the sad bleeding to which India is subjected, that is destroying India.

—**Dadabhai Naoroji**

Taxes spent in the country from which they are raised are totally different in their effect from taxes raised in one country and spent in another. In the former case the taxes collected from the population... are again returned to the industrious classes... But the case is wholly different when the taxes are not spent in the country from which they are raised... They constitute [an] absolute loss and extinction of the whole amount withdrawn from the taxed country... [The money] might as well be thrown into the sea. Such is the nature of the tribute we have so long exacted from India.

—**Sir George Wingate**

Under the native despot the people keep and enjoy what they produce, though at times they suffer some violence. Under the British Indian despot, the man is at peace, there is no violence; his substance is drained away, unseen, peaceably and subtly—he starves in peace, and peaceably perishes in peace, with law and order.

Dadabhai Naoroji

since the causes of India's economic backwardness were man-made, they were explainable and removable. The problem of poverty was seen as a problem of raising productive capacity and energy of the people or as a problem of national development, thus making poverty a national issue. This helped in rallying all sections of society around common economic issues. Also, development was equated with industrialisation. This industrialisation was to be based on Indian and not foreign capital because, according to the early nationalists, foreign capital replaced and suppressed instead of augmenting and encouraging Indian capital. This suppression caused economic drain, further strengthening British hold over India. The political consequences of foreign capital investments were equally harmful as they caused political subjugation and created vested interests which sought security for investors, thus perpetuating the foreign rule.

Growth of Trade and Railways to Help Britain

These analysts exposed the force of British arguments that the growth of foreign trade and railways implied development for India. They pointed out that the pattern of foreign trade was unfavourable to India. It relegated India to a position of importer of finished goods and exporter of raw materials and foodstuffs. The development of railways, they argued, was not coordinated with India's industrial needs and it ushered in a commercial rather than an industrial revolution. The net effect of the railways was to enable foreign goods to outsell indigenous products. Further, the benefits from impetus to steel, machinery and capital investment in railways accrued to the British. G.V. Joshi remarked, "Expenditure on railways should be seen as an Indian subsidy to British industries."

One-Way Free Trade and Tariff Policy

The nationalists claimed that one-way free trade was ruining Indian handicrafts industry, exposing it to premature, unequal and unfair competition, while tariff policy was guided by

Views

There can be no denial that there was a substantial outflow which lasted for 190 years. If these funds had been invested in India they could have made a significant contribution to raising income levels.

—Angus Maddison

Taxation raised by the King, says the Indian poet, is like the moisture sucked up by the sun, to be returned to the earth as fertilising rain; but the moisture raised from the Indian soil now descends as fertilising rain largely on other lands, not on India.

—R.C. Dutt

Trade cannot thrive without efficient administration, while the latter is not worth attending to in the absence of profits of the former. So, always with the assent and often to the dictates of the Chamber of Commerce, the Government of India is carried on, and this is the 'White Man's Burden'.

—Sachidanand Sinha

British capitalist interests. On the finance front, taxes were levied to overburden the poor, sparing British capitalists and the bureaucrats. They demanded reduction of land revenue, abolition of salt tax, imposition of income tax and excise duties on consumer goods consumed by the rich middle classes. The government expenditure, it was argued, was meant to serve colonial needs only, while development and welfare were ignored.

Effect of Economic Drain

The drain theory incorporated all threads of the nationalist critique that it denuded India of its productive capital. According to nationalist estimates, the economic drain at that time was—

- more than the total land revenue, or
- half the total government revenue, or
- one third of the total savings (in today's terms, it amounted to 8 per cent of the national product).

The concept of drain—one country taking away wealth from another country—was easily grasped by a nation of peasants for whom exploitation was a matter of daily experience.

Economic Issue a Stimulant to National Unrest

The nationalist agitation on economic issues served to undermine the ideological hegemony of alien rulers over Indian minds that the foreign rule was in the interest of Indians, thus exposing the myth of its moral foundations. It was also shown clearly that India was poor because it was being ruled for British interests. This agitation was one of the stimulants for intellectual unrest and spread of national consciousness during the moderate phase of freedom struggle (1875-1905)—the seed-time of national movement.

Till the end of the 19th century, the nationalists had been demanding some share in political power and control over the purse. During the first decade of the 20th century, they started demanding self-rule, like United Kingdom or the colonies, and prominent among such nationalists was Dadabhai Naoroji.

Stages of Colonialism in India

The fundamental character of British rule in India did not remain the same through its long history of nearly two centuries. The changing pattern of Britain's position in the world economy led to changes in the nature of British colonialism. Marxist Historians, especially Rajni Palme Dutt, identified three overlapping stages in the history of imperialist rule in India. He points out that each stage developed out of the conditions of the previous stage and the different modes of colonial exploitation overlapped—old forms of colonial exploitation never entirely ceased but got integrated into new patterns of exploitation. These stages are, however, marked by distinct dominant features i.e., qualitative changes from one stage to another.

First Stage

The Period of Merchant Capital (Mercantilism), often described as the Period of Monopoly Trade and Direct

Appropriation (or the Period of East India Company's Domination, 1757-1813), was based on two basic objectives—(i) to acquire a monopoly of trade with India, against other English or European merchants or trading companies as well as against the Indian merchants; (ii) to directly appropriate or take over governmental revenues through control over State power.

During this period no basic changes were introduced in administration, judicial system, transport and communication, methods of agricultural or industrial production, forms of business management or economic organisation. Nor were any major changes made in education or intellectual field, culture or social organisation. In fact, the traditional Indian civilisation, religions, laws, caste system, family structure, etc., were not seen as obstacles in the colonial exploitation.

The only changes made were:

(i) in military organisation and technology which native rulers were also introducing in their armed forces, and

(ii) in administration at the top of the structure of revenue collection so that it could become more efficient and smooth.

In this phase there was large scale drain of wealth from India which constituted 2-3 per cent of Britain's national income at the time. It was this wealth that played an important role in financing Britain's industrial revolution.

In this stage there was no large scale import of British manufactures into India, rather, the reverse occurred—there was an increase in export of Indian textiles, etc. The weavers were, however, ruined at this stage by the Company's monopoly and exploitation. They were forced to produce for the Company under uneconomic compulsions.

Second Stage

Owing to its mode of exploitation being trade, this stage is also termed as Colonialism of Free Trade. It started with the

Charter Act of 1813 and continued till 1860s. Soon after the East India Company became the ruler over most parts of India, there was a debate in Britain as to whose interests the newly acquired colony would serve. The newly emerging industrial capitalists began to criticise the East India Company and its exploitation of India. They demanded that colonial administration and policy in India should now serve British capitalist interests which were very different from those of the East India Company. Now India was to serve as a market for the ever increasing output of British manufactured goods especially textiles. At the same time, the new capitalists in England, needed from India exports of raw materials, especially cotton, and foodgrains. Moreover, India could buy more British goods only if it earned foreign exchange by enhancing its exports.

The export of raw materials was increased sharply to meet the dividends of the Company and profits of British merchants. Besides, there was a need of money to pay for pensions of British officials who would go to Britain after retirement.

In this phase the following dominant features were visible:

(i) India's colonial economy was integrated with the British and world capitalist economy. This was made possible with the introduction of free trade. All import duties in India were either totally removed or drastically reduced to nominal rates.

(ii) Free entry was also granted to the British capitalists to develop tea, coffee and indigo plantations, trade, transport, mining and modern industries in India. The British Indian Government gave active State help to such capitalists.

(iii) The Permanent Settlement and the Ryotwari system in agriculture were introduced to transform traditional agrarian structure into a capitalist one.

(iv) Administration was made more comprehensive and included villages and outlying areas of the country. These changes were brought about to make British goods reach, and agricultural products drawn from, interior villages and remotest parts.

(v) Personal law was largely left untouched since it did not affect colonial transformation of the economy. However, the changes related to criminal law, law of contract and legal procedures were overhauled to promote capitalist commercial relations and maintain law and order.

(vi) Modern education was introduced to provide cheap manpower to the vastly expanded administration. However, it was also aimed at transforming India's society and culture for two reasons: (a) create an overall atmosphere of change and development and, (b) give birth to a culture of loyalty to the rulers.

(vii) The taxation and the burden on peasant rose sharply due to economic transformation and costly administration (civil as well as military).

(viii) India absorbed 10 to 12 per cent of British exports and nearly 20 per cent of Britain's textile exports. After 1850, engine coaches, rail lines and other railway stores were imported into India at large scale.

(ix) Indian army was used for British expansion of colonialism in Asia and Africa.

Third Stage

The third stage is often described as the Era of Foreign Investments and International Competition for Colonies. It began around the 1860s in India owing to several changes in the world economy. These changes were as follows.

(i) Britain's industrial supremacy was challenged by several countries of Europe, the United States and Japan.

(ii) As a result of the application of scientific knowledge to industry, the pace of industrialisation increased sharply (use of petroleum as fuel for the internal combustion engine and the use of electricity for industrial purposes were significant innovations).

(iii) The world market became more unified due to revolution in the means of international transport.

During this stage, Britain made strenuous efforts to consolidate its control over India. Liberal imperialist policies got replaced with reactionary imperialist policies which were reflected in the viceroyalties of Lytton, Dufferin, Lansdowne and Curzon. The strengthening of colonial rule over India was meant to keep out the rivals as well as to attract British capital to India and provide it security. As a result, a very large amount of British capital got invested in railways, loans (to the Government of India), trade and, to a lesser extent, in plantations, coal mining, jute mills, shipping and banking in India.

The notion of training the Indian people for self-government vanished (revived only after 1918 because of pressure exerted by the Indian national movement). Now, the aim of British rule was declared as permanent 'trusteeship' over the Indians. The Indians were declared to be permanently immature—a 'child' people—needing British control and trusteeship. Geography, climate, race, history, religion, culture and social organisation were all cited as factors in making the Indians unfit for self-government or democracy. The British thus tried to justify their rule over Indians for centuries to come—all in the name of civilising a barbaric people—"the White Man's burden".

Summary

- **Economic Impact of British Rule**
  Deindustrialisation—ruin of artisans and handicraftsmen.
  Impoverishment of peasantry—ruralisation of India.
  Emergence of new land relations—ruin of old zamindars.
  Stagnation and deterioration of agriculture.
  Commercialisation of Indian agriculture.
  Development of modern industry.

Rise of Indian national bourgeoisie.
Economic drain.
Famine and poverty.

- **Nationalist Critique**

  India getting poorer due to colonial exploitation.

  Problem of poverty—a national problem of raising productive capacities and energy.

  Development equated with industrialisation, which should take place through Indian, not foreign capital.

  British policies on trade, finance, infrastructure development, expenditure designed to serve imperialist interests.

  Need for complete severance of India's economic subservience to Britain and development of an independent economy.