CHAPTER 8

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.

A detailed survey of the economic impact of British rule follows.
DEINDUSTRIALISATION—RUIN OF ARTISANS AND HANDICRAFTSMEN
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. After 1820, European markets were virtually closed to Indian exports. The newly introduced rail network helped the European products to reach the remotest corners of the country.

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.

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. From being a net exporter, India became a net importer.

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 money-lenders to be able to pay their dues to the zamindars. The moneylender, 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 moneylender. 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.

EMERGENCE OF NEW LAND RELATIONS, RUIN OF OLD ZAMINDARS

By 1815, half the total land in Bengal had passed into new hands. 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-irtfeudation, made it difficult to introduce modern technology which caused a perpetually low level of productivity.

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 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.

DEVELOPMENT OF MODERN INDUSTRY

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 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.

RISE OF INDIAN BOURGEOISIE

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.

ECONOMIC DRAIN

The term 'economic drain' refers to a portion of national product of India which was not available for consumption of its people, 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 British 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.

FAMINE AND POVERTY

Regular recurrence of famines became a common feature of daily existence in India. These famines were not just foodgrain scarcity-based phenomena, 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.

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 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 British

Rule in India. Other economic analysts included Justice Mahadeo Govind Ranade, Romesh Chandra Dutt (The Economic History of India), Gopal Krishna Gokhale, G. Subramaniya Ayer 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.

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

These analysts exposed the force of British arguments that the growth of foreign trade and railways implied development for India. They argued back 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."

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 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.

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.

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.

Views

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.

Taxation raised by the King, says the Indian poet, is dike 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. DIM.

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.

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.
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.

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.