UPSC PATHSHALA

Modern History

03

Economic Expliotation by British

Opinion:

> "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."

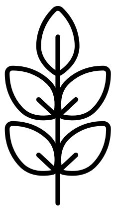
-John Sullivan,
President, Board of Revenue, Madras

Economic Impact of British in India

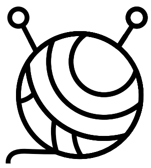
Three distinct periods of economic exploitation were seen during British rule in India. Second half of 18th century was the "Era of mercantilists". East India Company was interested only in making money and thus wanted monopoly over trade. To keep other countries out they fought fierce wars. For wars, the company needed money, which came through taxation of its fortified towns. Excess of wealth was drained to finance Britain's Capitalist development. Officials were permitted to take their savings back. Indian merchants were squeezed out. Then 1st half of 19th Century was seen as the "Era of Industrial Capitalism and Free Trade" from Britain but internal custom duties were posed for trade within India. There took Industrial Revolution in Britain and the Co. had to yield ground to industrial interests. Britain now wanted India as a "Subordinate Trading Partner". There was drain of wealth to meet Industry's needs through savings of officials and payment of interests and dividends.

Vast structure Internal Custom duties placed on Indian products i.e. taxing the movement of its own products while letting foreign goods move free. British didn't want to allow India to export goods that would compete with Britain's home Industries e.g. textiles. Therefore, high import duties (70%) were placed on Indian products. For centuries the exporter of textiles, India became an importer. Third phase was marked in second half of 19th century which was the "Era of Foreign Investment" and international competition for colonies. Unlimited accumulation of capital in Britain took place as a result of industrial revolution. There started a search for outlets to invest it. Under-developed countries with very low wages and high profits offered lucrative destinations. Therefore, in post-1850, large British Capital investments in railways, and loans to Indian Government took place. To safeguard this investment, the British Control was further tightened.

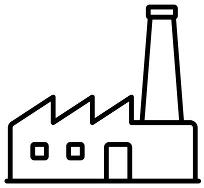
Impact on Different Sectors



Agriculture
Indian agriculture was forced to play its assigned role in a colonial economy i.e. Supplier of food-stuffs. In addition, commercialization of agriculture for British interest left peasantry more prone to any fluctuation of prices in international market. Cultivators were forced to pay very high rents. Therefore, wide scale transfer of land from cultivators to moneylenders leading to evolution of landlordism. New structure of agrarian relations, which was extremely regressing in nature and semi-feudal and semi-colonial in character. No efforts were made to improve, develop or modernize agriculture and this lead to its continuous deterioration.



Artisans and Handicrafts
Cheap machine-made products produced on mass scale from Europe reached Indian villages, Restrictions were placed on Indian products in Britain and Loss of patronage by princes and nobles, and impact of Western values added to their misery. Therefore, there was progressive decline and destruction of urban and rural handicraft industries. Therefore, they were forced either to sell their product at uneconomical rate or hire themselves out to British or get sucked in already burdened agriculture.



Modern Industries
2nd half of 19th century, the excessive Capital in Britain saw investment in industry in India mainly in textile, jute, coal mining and tea plantation. Industrial development was slow and stunted, mainly from foreign capital and much dependent upon Britain. No heavy capital goods and chemical industries. No technological research. Thus, did not at all represent industrial revolution or even the initiation of one.

Disruption of the Traditional Economy

The economic policies followed by the British led to the rapid transformation of India's economy into a colonial economy whose nature and structure were determined by the needs of the British economy. In this respect the British conquest of India differed from all previous foreign conquests.

The previous conquerors had overthrown Indian political powers, but had made no basic changes in the country's economic structure; they had gradually become a part of Indian life, political as well as economic. The peasant, the artisan and the trader had continued to lead the same type of existence as before.

The basic economic pattern that of the self-sufficient rural economy, had been perpetuated. Change of rulers had merely meant change in the personnel of those who appropriated the peasant's surplus. But the British conquerors were entirely different. They totally disrupted the traditional structure of the Indian economy.

Moreover, they never became an integral part of Indian life. They always remained foreigners in the land, exploiting Indian resources and carrying away India's wealth as tribute. The results of this subordination of the Indian economy to the interests of British trade and industry were many and varied.

Contribution of Early Nationalists and the Economic Drain Theory

Perhaps the most important political work of early nationalists was exposing the exploitative nature of British. They showcased the transformation of Indian economy into a colonial economy, that is how India had merely become a supplier of raw material and food stuffs and importer of man-made goods. They propounded 'Economic Drain Theory' (Dadabhai Naoroji in "Poverty and Un British Rule in India") which says that Economic drain is that portion of national product of India with is drained away to Britain for political reasons and leads to accelerated growth there, while India getting no returns on it. Also, it was established that Poverty in India because of British policies as a major drain was in the form of salaries and pensions.

They urged the Government for development of Modern Industry through financial subsidies, technical education and protection. Organized agitation led to abandonment of duties on imports and imposition of Cotton Excise Duties. Popularized the idea of Swadeshi. Also they demanded agriculture development and Modernization. Agitated for decrease in land revenue, cheap credit and irrigation facilities. They agitated for radical change in existing taxation and expenditure patterns. Demanded abolition of salt tax and make taxes poor-friendly. Condemned high expenditure on army and administration.

Drain of Wealth

The constant flow of wealth from India to England for which India did not get an adequate economic, commercial or material return has been described by Indian national leaders and economists as 'drain' of wealth from India. The colonial government was utilizing Indian resources- revenues, agriculture, and industry not for developing India but for its utilization in Britain. If these resources had been utilised within India then they could have been invested and the income of the people would have increased.

The drain of wealth was interpreted as an indirect tribute extracted by imperial Britain from India year after year.

The major components of this drain were salaries and pensions of civil and military officials, interest n 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

Early Drain of Wealth

After Plassey the situation was reversed and the drain of wealth took an outward as England gradually acquired monopolistic control over the Indian economy.

So, the 'Drain of wealth' from India to England started after 1757 (Battle of Plassey), when the Company acquired political power and the servants of the Company a 'privileged status' and, therefore, acquired wealth through dastak, dastur, nazarana and private trade.

After the East India Company extended its territorial aggression in India and began to administer territories and acquired control over the surplus revenues of India, the Company had a recurring surplus which accrued from:

- profits from oppressive land revenue policy,
- profits from its trade resulting from monopolistic control over Indian markets,
- exactions made by the Company's officials.

This entire 'surplus' was used by Company as an "investment" i.e. for making purchases of exportable items in India and elsewhere. Against the exports of goods made out of this 'investment', India did not get anything in return.

This is how there began the 'Drain of Wealth 'which was nothing but a unilateral transfer of fund; the Early nationalist leaders made this point central to their economic criticism of the British colonialism.

Dadabhai Naoroji's theory of the Drain of Wealth

Dadabhai Naoroji was the first man to say that internal factors were not the reasons of poverty in India but poverty was caused by the colonial rule that was draining the wealth and prosperity of India. The drain of wealth was the portion of India's wealth and economy that was not available to Indians.

The Drain of Wealth theory was systemically initiated by Dadabhai Naoroji in 1867 and further analysed and developed by R.P. Dutt, M.G Ranade etc

In 1867, Dadabhai Naoroji put forward the 'drain of wealth' theory in which he stated that the Britain was completely draining India. He mentioned this theory in his book "Poverty and Un-British Rule in India". He put forward the idea that Britain was draining and bleeding India and that, too, for nothing.

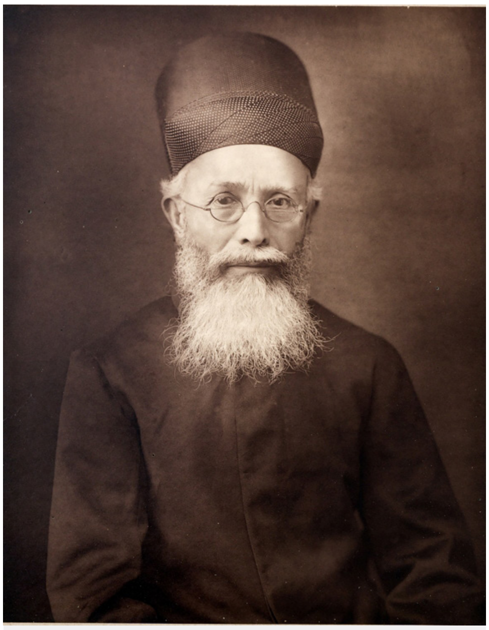
Further in his book, he stated the loss of 200-300 million pounds of revenue to Britain. Dadabhai Naoroji considered it as a major evil of British in India.

Naoroji observed in 1880, "It is not the pitiless operations of economic laws, but it is thoughtless and pitiless action of the British policy; it is pitiless eating of India's substance in India and further pitiless drain to England, in short it is pitiless perversion of Economic Laws by the sad bleeding to which India is subjected, that is destroying India."

On the footsteps of Dadabhai Naoroji, R. C. Dutt also promoted the same theory by keeping it as a major theme of his book "Economic History in India".

M.G Ranade published books on Indian economics. He also talked about drain of wealth and saw the need for heavy industry for economic progress and believed in Western education as a vital element to the foundation of an Indian nation.

John Sullivan, President of the Board of Revenue, Madras, had wrote "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."



Dadabhai Naoroji

Dadabhai Naoroji's theory of the Drain of Wealth

1. Home charges refer to the interest on public debt raised in England at comparatively higher rates; expenditure incurred in England by the Secretary of State on behalf of India;

2. Annuities on account of railway and irrigation works;

3. Indian office expences including pensions to retired officials who had worked in India or England, pensions to army and navals etc.

4. Remittances to England by Europeans to their families

5. Remittances for purchase of British Goods for consumption of British employees in India.

6. Interest charges on public debt held in Britain

7. Also, trade as well as Indian labour was deeply undervalued.

British Efforts at Making India Poor

1. Development was equated with industrialization which 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.

2. 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 foodstuff

3. Development of railways 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 replace indigenous products.

4. 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.