

C H A P T E R   V I

THE   ECONOMIC   CONDITION   OF   INDIA  
IN   THE   NINETEENTH   CENTURY

CHAPTER VI

THE ECONOMIC CONDITION OF INDIA IN THE NINETEENTH CENTURY

By the end of the eighteenth century, the Indian handicraft industries began to decline rapidly. India which had earned the name as the 'Industrial Workshop of the World' was converted into the "agricultural mother of Asia."<sup>①</sup> The East India Company and the British Parliament followed a discriminating commercial policy with the object of encouraging the growing manufacturing industry of England and discouraging the Indian manufactures. As a result, Indian economy became subordinate to the British economy. India produced more in agriculture and the main purpose of its agriculture was to furnish raw materials to feed the growing industries of England. Indian exports were heavily affected. It shifted its emphasis from industrial goods to cotton and food grains because agriculture constituted the main economic activity of the people. Almost eighty per cent of the population depended upon agriculture for its livelihood.<sup>②</sup>

After a century of foreign administration, the natural wealth and resources of India remained unexplored and unexploited. Up to the eighteenth century, the economic condition of India was relatively advanced and the method of production, and of industrial and commercial organisation were good enough in comparison with those in vogue in any other parts of the world.<sup>③</sup>

Indian silk and cotton goods were excluded in England by prohibitive tariffs. As against this, the imports in India consisted of textiles and the other English manufactured articles which were of daily use. These articles came to India duty free or on a

- 
1. G.R.Madan, Economic Thinking in India (New Delhi, 1966), p.30.
  2. Bipan Chandra, The Rise and Growth of Economic Nationalism in India, Economic Policies of Indian National Leadership, 1880-1905 (New Delhi, 1969, Reprinted) p.394.
  3. Vera Anstey, The Economic Development of India (London, 1939, 3rd edition), p. 5.

payment of nominal duty. Due to this policy, thousands of Indian artisans lost their earnings and the country drifted towards poverty. It can be said that the British rulers considered India as a vast estate of plantation and the profits accruing from it were deposited in Europe. India, being a dependent country, had no economic standard of her own in the beginning of the nineteenth century. However, the consciousness of growing poverty led to the expression of public opinion.

It is not necessary here to trace the political developments which led to the termination of the rule of the East India Company in India in 1858. But during the first three quarters of the nineteenth century, the British changed the economic structure of Indian society to suit their own needs. They did it by establishing a strong centralised state and by introducing Western education and institutions. In the 1880's, a new sense of the economic value of the colonies began to develop in Britain. A demand that the colonial markets must make the good loss of the American markets became wide-spread. The resources were turned towards foreign investment because it seemed more remunerative.

This new trend represented a revolutionary change in the economic strategy of the European powers who were contending for the empires. Their armies and navies were used to subjugate millions of people in the colonies, because these colonies ensured cheap raw materials and a market for manufactured goods. P.K.Gopalakrishnan observes that due to this policy "Huge sums were transferred annually to the metropolitan countries by way of profits and this steady drain of resources from the colonies pushed up the rate of capital formation in the imperialist countries."<sup>①</sup>

At this time India had ~~feudal~~<sup>udal</sup> economy. If Britain wanted to turn India to suit her capitalist economic requirements, it had to uproot the ~~feudal~~ base of Indian society and introduce capitalistic economic forms in India. Every step for the extension

---

1. Development of Economic Ideas in India, 1880-1950, (New Delhi, 1959), p.16.

of political sway of the Britain in India was paralleled by the introduction of new economic forms in the place of the uprooted Indian forms. The steps were vitally connected with the decay and even extinction of old land relations, artisans as well as handicraft industries of India. The transformation in India closely related to the British industrial, banking and trading interests. This process showed an arrested economic growth of colonial India.<sup>①</sup>

#### Effect of Conquest

Whatever might be the nature of British conquest of India, it resulted in a new era of economic development and political organisation of the country. The classes which were dependent on the old system, were thrown off. The new system led to the emergence of new relations and modern industries. It gave rise to new classes. The peasant proprietor or the Zamindar, a private owner of land, appeared in the place of village commune. The capitalists and industrial and transport workers rose up. The artisans and handicraftsmen died an unnatural death.<sup>②</sup> The process of industrialisation was visible particularly in the cotton textiles and plantations as long as the field of production was concerned. The political unity of India became more consolidated and even extended farther than what it was under the Mughals.

#### State of Agriculture and Land Revenue

Like any other country agriculture had been and is a main occupation of the majority of the people of India. The prosperity of industry and trade as well as the stability of government depended on it. In India, agriculture predominated the social economy and the people remained deeply attached to the soil. At the close of the nineteenth century more than eighty per cent of the population depended upon agriculture for its livelihood.

- 
1. G.R.Gadgil, Economic History of India, Cited by Gopalakrishnan, op. cit., p.18.
  2. Gopalakrishnan, op. cit., p.17.

Consequent to land tenure policies of the East India Company beginning from the Permanent Revenue Settlement in Bengal down to the end of the nineteenth century, the Indian cultivator was deprived of the ownership of land. The Zamindari was created and there existed no personal link between the original zamindar and his ryots. The vigorous village community and the practice of non-interference in the village affairs by the State disappeared.

### Land Revenue

Three main forms of land tenure existed in India under the British. In the East India regions generally the Zamindari system prevailed. In Bombay and Madras Presidencies and in Assam, the Ryotwari system existed. In the North and Central India, mainly the Mahalwari form existed. The land revenue system of India under the British affected the agriculture adversely. It was one of the principal causes of the poverty of the farmers. As a result, they became very sensitive to famines. The land revenue was too heavy, fluctuating, uncertain and was generally raised at each revision.<sup>①</sup>

Before 1835, the British ended the revenue farming and introduced the Ryotwari system. As is well-known, under this system the peasant proprietor holds the land directly from the Government, pays the revenue directly to the Government and there are no intermediaries in it. In Madras, Sir Thomas Munro had reduced the land revenue to one-third of the gross produce and this was also adopted in the Bombay Presidency. The high standard of the assessment ruined the agriculture.

In 1835, a new effort was made to improve the system. Gross produce or the yield from the farm was given up as the basis of assessment. Instead, the soil in each field was classed according to its character and depth. In the former, the texture of the soil and its colour were considered. Soil of the first order had fine uniform texture and was deep black to dark brown. In the second order, soil was also uniform, but coarser and red in colour.

---

1. T.B.Desai, Economic History of India Under the British, 1757-1947, (Bombay, 1969 Revised Second Edition), pp. 65-66.

After classifying soils on the basis of their character and depth, each class was given a value in annas (One Rupee = 16 Annas = 100 Paise).

This "annawari" classification was only used to distribute the total land revenue among various soils. The total revenue itself was determined by purely practical considerations like the capability of the land, the estimated value of lands and the general circumstances of the district. The settlement was to be made for thirty years. Under this system, the land revenue increased greatly and it caused poverty, wide-spread distress, and heavy debts to the farmers. The transfer of land to the money-lenders was also the result of indebtedness of the farmers. In 1864, the maximum limit of land revenue was fixed as fifty per cent of the net value of the crop. The assessment was revised and fixed at a high level during the American Civil War due to rise in agricultural prices particularly in the cotton producing areas. The increase in land revenue caused the Deccan Riots by peasants in 1874. Therefore, the Land Revenue Code of 1879, was based on the assessment mainly on the rents paid. Rental value was accepted as the basis of assessment and it was continued as late as 1939.<sup>①</sup>

#### Famines and Famine Policy of the Government of India

Due to natural causes like the failure of rains, droughts, floods, hail-storms, crops diseases and locusts India had been frequently subjected to heavy disasters like famines. Apart from these factors "official indifference, lack of sympathy, heavy burden of taxation, iniquitous land revenue policy, and general poverty"<sup>②</sup> were also responsible in one way or the other for the calamities.

After the transfer of the Government from the Company to the Crown, more than twenty famines had visited the British

---

1. Ibid., p. 73.

2. BPIR, Vol. X, Part II p. 828.

Indian territories till the end of the nineteenth century. In the case of Gujarat and Saurashtra seventeen climatic disasters - either famines or scarcity conditions - occurred between 1718-19 and 1896-97.<sup>①</sup> It is quite obvious that the Baroda State territories situated in Gujarat and Kathiawad could not have escaped from such disasters.

Looking to the terrific effects of the great famine of 1876-78, Lord Lytton, the then Governor-General, felt the need of deciding general principles of famine relief and appointed a commission under the chairmanship of General Richard Strachey. The Commission in its Report in 1880 formulated some general principles of famine relief and suggested certain measures which were of preventive and protective nature.

The Commission "... recognised to the full the obligation imposed on the State to offer to the necessitous the means of relief in times of famine." But the cardinal principle of its policy was to be "that this relief should be so administered as not to check the growth of thrift or self-reliance among the people, or to impair the structure of society, which, resting as it does in India upon the moral obligation of material assistance, is admirably adapted for common effort against a common misfortune."<sup>②</sup> According to the recommendations of the Commission, relief was to be administered by providing work to the able-bodied men and distributing money or food to the aged and infirm.

The great famines of 1896-97 and 1899-1900, were accompanied by devastations, pestilence and deaths. The famine of 1899-1900, affected an area extending over 400,000 square miles with a population of sixty millions of both the British India and the Indian States. It affected the greater part of the then Bombay Presidency, the whole of the Central Provinces, Berar and much of the Punjab, Rajputana, the territories of Nizam of Hyderabad, Baroda State and the Central Indian principalities.

---

1. GBS, Vol. I, pp. 307-309.

2. Sir John Strachey, India, Its Administration And Progress (London, 1903), p.246. Quoted in BPIR, Vol. X, Part II p. 832.

In October 1900, Lord Curzon, the then Governor-General, claimed that one-fourth of the entire population of India had come to a small or great extent within the radius of relief operations.<sup>①</sup> The magnitude of the effects of the famine was so great that the Government of India was forced to think out a settled policy. A Famine Commission under Sir Anthony (afterwards Lord) MacDonnell, Lieutenant Governor of the North-Western Provinces and Chief Commissioner of Awadh was appointed. The Commission in their Report endorsed the general principles enunciated in 1880 and laid special emphasis on the great importance of moral strategy and observed that "It is scarcely possible, to overstate the tonic effect upon the people of early preparations, of an early enlistment of non-official agency, of liberal advances in the early stages, and of early action in regard to suspension of revenue."<sup>②</sup>

The Commission recommended for the appointment of a separate Famine Commissioner for uniformity of procedure and promptness in action for carrying out relief measures.

The important recommendations made by the Commission were as under:

- (a) Prudent administration of the system of advances by Government,
- (b) Suspensions and remissions of revenue as a preventive measure of constant application in adverse years
- (c) Establishment of Agricultural banks for the benefit of the cultivators
- (d) Agricultural development and improvement through effective working of the Agricultural Department,
- (e) Extensive irrigation works
- (f) The greater use of non-official agencies for distribution of relief

---

1. BPIR, Vol. X, Part II, p. 834.

2. Report of The Famine Commission, 1901, p. 11, para 30. <sup>Quoted</sup> in BPIR, Vol. X, Part II, p.834.



- (g) In certain circumstances preference to local works in rural areas over large public works which had been hitherto the main feature of relief operations

The Government of India accepted the recommendations and many of them were incorporated in the Famine Codes.

#### Rise and Thought of Indian Leadership

With the impact of the Western education and institutions as well as the political and economic policies of the Government of India, "... new social classes and forces unique in themselves" grew up.<sup>①</sup> There was also an unprecedented rise in the number of journals and newspapers. The grievances and the feelings of particularly the urban middle class began to appear in their columns. The economic problems were also taken up by different political associations established at various places in India.

With the founding of the Indian National Congress, a profound change in ideology was visible. The Congress provided a strengthening forum for representing the grievances of the Indian people. It put up demands of a political and economic nature for changing the character of the government. The leaders of the Congress protested against "... an irresponsible government measure" and posed themselves as "... a possible guide on matters of general public policy."<sup>②</sup> They demanded for increasing the association of the Indians in framing the State policies and implementing them steadily.

Observing the plight of the masses of the period Bisheshwar Prasad has said that, "The masses were ... not intimately touched by a mere programme of constitutional advance..." because they were "... groaning under the weight of heavy taxation and suffered from unemployment and scarcity."<sup>③</sup> Therefore, the only way to "... stir them from their stupor" was the economic appeal. The Indian political leadership realised that without their visible and active support the political national movement will remain

- 
1. E.H.Carr, Nationalism, p. 7. Quoted by P.K.Gopalakrishnan, op. cit., p.1.
  2. Bepan Chandra, op. cit., p. 174.
  3. Ibid., Forward, p. vii.

distintegrated and paralysed. So it focussed their attention to the plight of the people and searched out the factors responsible for the economic sufferings.

### Land Revenue

Of all the problems of Indian agriculture, the national leadership attached the greatest importance to the system of assessment and the standard of land revenue. Justice Ranade wrote a series of articles on the problems of Indian agriculture in the Journal of the Poona Sarvajanik Sabha.<sup>①</sup> He contended that no other agrarian reform would "lead to any permanent beneficial result as long as the pressure of land revenue under the existing system of assessment continues unabated," and charged that "... the state monopoly of land and its right to increase the assessment at its own discretion are the two most pre-eminent obstacles in the way of the growth of our material prosperity."<sup>②</sup> The other Indian national leaders and the Indian National Congress also raised their voice against the land revenue policy of the government. From 1888 to 1903, the Congress consistently passed resolutions on one or the other aspect of the land revenue administration.

At the turn of the twentieth century and in the prevalent situation of the devastating famines, R.C.Dutt criticised the land revenue system which was at its highest limit. His famous Open Letters (Calcutta, 1904) to Lord Curzon in 1900 and the publication of his two volume monumental work - The Economic History of India - revealed in details the land revenue system with the paralysing state of agriculture. For this he held that the land revenue system was responsible for causing poverty to the Indian people and for deepening the extent and effect of famines.<sup>③</sup>

- 
1. These articles have been attributed to Ranade by G.A.Mankar in A Sketch of the Life and Works of the Late Mr. Justice M.G.Ranade, 2 Vols. (Bombay, 1902.) Quoted by Bipan Chandra, op. cit., p. 397.
  2. Journal of the Poona Sarvajanik Sabha, Oct., 1881 (Vol. IV. No. 2). Quoted by Bipan Chandra, op. cit., p. 397.
  3. Romesh Dutt, The Economic History of India, Vol.I, 1757-1837, (Delhi, Indian edition, 1960), Ch.V, VI, XII and in Vol. II Chapters III to VI.

G.V.Joshi wrote a series of letters in the Times of India during 1900-1901 under the pseudonym "J" and exposed the administration of land revenue in Bombay. Gokaldas K. Parekh also assailed effectively the land revenue system in Gujarat.<sup>①</sup> Many other Indian public men and newspapers attributed to the decay of agriculture and the poverty of the peasant due to the administration of the land revenue.

### Poverty of India

After the Revolt of 1857, a general belief among the educated Indians began to develop that the British rule in India was productive of considerable benefits to its people. With the passage of time and as a result of increase in the political activity and consciousness, doubts began to arise about the value and material content of such benefits. Nevertheless, till 1905 '... the positive aspects of the legal, constitutional, and other non-material consequences of the British impact were recognised and acknowledged by a section of the Indian national leadership.'<sup>②</sup> Peace, law and order, Western education, centralised administration, political unification of the country, the growth of the feeling of nationality, railways, telegraphs, hospital and others were acclaimed as benefits.<sup>③</sup>

However, the general feeling grew that economically the results of the British rule were both disappointing and injurious. As early as 1867, Dadabhai Naoroji (1825-1917), the Grand Old Man of India, wrote that the mass of the people understand very little of the benefits of the British rule.<sup>④</sup> Four years after he referred to the "continuous impoverishment and exhaustion of the country."<sup>⑤</sup>

---

1. Bipan Chandra, op. cit., p. 399.

2. Bipan Chandra, op. cit., p. 1.

3. These have been expressed by Dadabhai Naoroji, in the Congress Presidential Addresses, by G.V.Joshi, S.N.Banerjea, Ranade, G.K. Gokhale, R.C.Dutt etc. and a number of newspapers and journals like Amrit Bazar Patrika, Hindustan Review etc.

4. C.L.Parekh, Dadabhai Naoroji, Essays, Speeches and Writings (ed.) (Bombay, 1887), p.28.

5. Ibid., pp. 134-135.

Many of the Indian national leaders initially believed that their rulers and the British public were unaware of the real condition of India. So they held that the existing economic condition of the people must be perceived and assessed correctly and the real exigencies of the economic position should be frankly recognised. They hoped that by doing so the rulers might effectively grapple with it and discover the best means of improving it.<sup>①</sup> They also wanted to define their attitude towards the contemporary British economic policies in India.

In <sup>the</sup> 1870's, the Indian leaders began an intensive investigation into the economic ills of India. In 1873 Bholanath Chandra made a scathing attack on the British economic policy in India in the short-lived Bengali quarterly, the Mookerjee's Magazine.<sup>②</sup> Dadabhai Naoroji published his famous paper The Poverty of India and exposed the poverty of the Indians by quoting facts and figures and attributed it to the evil effects of the administration of India as its root cause. M.G.Ranade who started the Quarterly Journal of the Poona Sarvajanic Sabha in the late 1870's, along with G.V.Joshi, analysed practically every aspect of Indian economy for nearly two decades. Almost every Indian publicist of the day wrote articles or books on the economic situation in India and also discussed the same things from the public platform or in the Council Chambers. The whole field of Indian political literature of the period was concerned mainly with economic affairs. With the appearance of R.C.Dutt's invaluable two-volume Economic History of India, the investigations in economic affairs of India reached its Climax. Dutt very truly presented a history "... of the people of India, of their trades, industries, and agriculture, and of their economic condition under British administration."

The subject of poverty began to dominate all discussions of economic problems in India and the leaders began to devote the

---

1. G.K.Gokhale, Speeches (2nd Edition, Madras, 1916), p. 52.

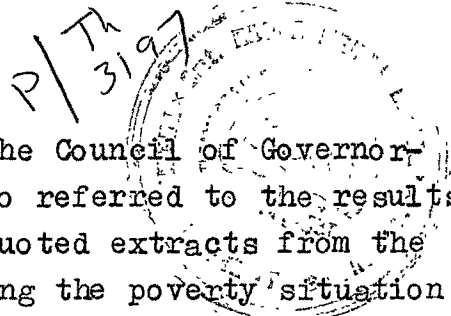
2. Vols. IV-V, 1873-76. Cited by Bipan Chandra, op. cit., p.4.

highest importance to it. Dadabhai described it as "... the one rock, the one thing, the one test, which in its settlement will either make Britain a blessing to India, or Heaven knows what distress it may bring forth."<sup>①</sup> The poverty of India was considered as the supreme problem.

In 1901 R.C.Dutt called it as "a question of graver import connected with any part of the British Empire than the present condition of India."<sup>②</sup> Bipin Chandra Pal, one of the spokesmen of the Extremist party, wrote that "of all the perplexing problems that confront New India, the economic problem seems to our mind, the most pressing and important."<sup>③</sup> Justice Ranade in his essay on "Indian Political Economy" emphasised on the supremacy of the economic problems over the political ones in 1892.<sup>④</sup>

So the 'poverty problem', remained the central theme in Indian politics 'in the formative period of Indian nationalism'.<sup>⑤</sup> To prove the existence of poverty in India, the Indian nationalist leaders quoted short extracts from the writings of British Indian administrators. The two most often quoted extracts were from Sir W. Hunter's book England's Work in India. The writer said; "Forty millions of the people of India habitually go through life on insufficient food. " Another writer Sir Charles Elliott remarked: " I do not hesitate to say that half the agricultural population never knows from one year's end to another what it is to have a full meal."<sup>⑥</sup> The former was the Director General of Statistics to the Government of India

- 
1. ~~Dr~~ C.L.Parekh; Eminent Indians on Indian Political (ed.), (Bombay, 1892), p. 161.
  2. R.C.Dutt, Speeches and Papers on Indian Questions, 1901 and 1902. (Calcutta, 1904), p. 86.
  3. New India (Calcutta), 12 Aug. 1901. This was written in the first issue of his militant weekly.
  4. Essays on Indian Economics (Bombay, 1898), p. 5.
  5. Bipin Chandra, op. cit., p. 7.
  6. Ibid., p. 15. Quoted.



and the latter was the P.W.Member of the Council of Governor-General. Many writers and speakers also referred to the results of the Dufferin Inquiry of 1888, and quoted extracts from the district officials' reports for exposing the poverty situation of the country.

Dadabhai Naoroji was the first to prepare and publish the first statistical estimate of the average per capita income. In 1873, he calculated that for the year 1867-68, the national income of the British India was 3.4 billion rupees for a population of 170 millions or twenty rupees per head.<sup>①</sup> He argued that the chief cause of the poverty, misery and all material evils of India " ... is the exhaustion of its previous wealth, the continuously increasing, exhausting and weakening drain from its annual production by the very excessive expenditure on the European portion of all its service, and the burden of a large amount a year to be paid to foreign countries for interest on the public debt, which is chiefly caused by the British rule."<sup>②</sup> In the later years the figure of Rupees twenty as the per capita income was widely quoted in the nationalist newspapers, speeches, pamphlets and books and it became the rallying cry of the national movement.

Dadabhai also expressed<sup>d</sup> his concern over the moral poverty of India. He stated that the Europeans who occupied almost all the higher posts in every department of Government, directly or indirectly, acquired money, experience and wisdom. When they departed from India, they carried with them everything and left India "much poorer in material and moral wealth." He stressed on the point that India must have natural guides for the rising generation in their national and social conduct.<sup>③</sup>

He considered India's problem as one of production rather

- 
1. Refer pp.4-25 and pp.147-73 of his Poverty and Un-British Rule in India (London, 1901).
  2. Poverty of India (1876) p.79. Quoted by G.R.Madan, op. cit., p.33.
  3. Poverty and Un-British Rule in India, p.186.

than distribution.<sup>①</sup> He compared the poverty of India with that of the countries of Western Europe. He said, "Any poverty in the countries of Western Europe is not from want of wealth or income, but from unequal distribution." While in India the level of production or income was in "such a wretched" condition that "the question of its right distribution is very far off indeed."<sup>②</sup> He held that the "Whole produce of India is from its land."

He included manufactures, products of the mining industry and profits of foreign commerce as well as the output of the protective food like milk, fish and meat.<sup>③</sup> He excluded 'services' from this because he thought that their remuneration for services came out of the primary production and might not be counted separately. In all these, he regarded material primary production as the source of wealth and income in direct and indirect forms and considered it basic in a backward country.

Another question taken up by the Indian leaders was that of the necessary expenditure per head for subsistence. They believed that in order to get an accurate idea of the problem, average income must be judged in terms of the existing cost of living. If it could be revealed what the average Indian earned was not sufficient to meet even his bare wants, the case regarding the existence of poverty in India would be sound and unchallengeable. The studies of the cost of living or nutritional standards, were more or less non-existent in those days. So they had to rely on the meagre estimates of the necessities of life of the emigrant coolies, labourers at famine works, common agricultural labourers, native sepoys, agriculturists, prisoners in jail and others.<sup>④</sup>

Dadabhai and some other Indian writers calculated the official cost of food and clothing only for prisoners in jail of different provinces and came to the generalisation that "...a large number of Indians were chronically starved and lived below the margin of subsistence."<sup>⑤</sup> Dadabhai, G.V.Joshi, G. Subramaniya

---

1. B.N.Ganguli, Dadabhai Naoroji and the Drain Theory (Bombay, 1965), p. 142.

2. Ibid., pp.142-143. 3. Ibid., p.118. 4. Bipan Chandra, op.cit., p.20.

5. Ibid.,

Iyer and Surendranath Banerjea considered the word 'average' as an economic fiction under which multiplicity of sins were hidden and stressed on that the poorer sections of the population did not get the full share of the average income. They also held that the average per capita income included the incomes of the foreign capitalists, highly paid civil servants, big zamindars, city merchants and others. As a result, the lower strata of the population had very little average income.<sup>①</sup>

### Industry

A reference has been already made that "...up to the 18th century, the economic condition of India was relatively advanced, and Indian methods of production and of industrial and commercial organisation could stand comparison with these in vogue in any other part of the world."<sup>②</sup> The establishment of the British supremacy in India eventually led to the disruption of the centuries' old "union between agriculture and manufacturing industry" and they caused the progressive decline and destruction of the Indian town handicrafts and village artisan industries.<sup>③</sup>

The early Indian national leaders felt that the major economic problem of India was related to the ~~condition~~ condition of its industry. They considered "... the destruction of the indigenous industries and the failure of the modern machine industry to grow rapidly enough to compensate adequately for this destruction."<sup>④</sup> R.C.Dutt called the displacement of Indian manufactures by foreign products as "one of the saddest chapters in the history of

- 
1. Ibid., p. 21.
  2. Vora Anstey, op. cit., p. 5.
  3. This trend has been traced in innumerable books on Indian Economic history. D.R.Gadgil in his The Industrial Evolution of India in Recent Times (Calcutta, 4th edition, 1942) and B.D.Basu in his The Ruin of Indian Trade and Industries (Calcutta, 1935) and others have dealt with this topic in details.
  4. Bipan Chandra, op. cit., p.56.



British India."<sup>①</sup> As a result of this displacement, the balance between the agricultural and industrial sectors of the economy was disrupted and it deprived thousands of workers of their traditional occupations and forced them to fall back more and more upon agriculture. M. G. Ranade called agriculture as the one remaining source of subsistence in sight.<sup>②</sup> The overcrowding of agriculture affected its efficiency and also led to the subdivision of holdings, overcultivation, cultivation of inferior unproductive land and encroachment upon village pastures, forests and others.<sup>③</sup> Ranade also felt that the progress of ruralisation in the country also meant "its rustication namely a loss of power, and intelligence, and self-defence."<sup>④</sup> The increasing loss of the traditional industries and the failure to build new industries in their place had the worst effect. The economic life of the country came more and more under foreign economic domination and India came to be looked upon by its rulers as a plantation growing raw produce for the British industries and as a market for the British manufactured goods.

The early national leaders though opposed the destruction of handicraft industries, also conceived as an alternative the growth of modern industry. They favoured its introduction and stressed on its promotion.<sup>⑤</sup> They also accepted the need of complete economic transformation of the country with the help of modern machines and took it as "panacea for all the economic ills

- 
1. England and India, p.128. Quoted by Bipan Chandra, op. cit., p.57.
  2. Essays on Indian Economics, p.27.
  3. Ranade, Essays on Indian Economics, p. 66; G.V.Joshi, Writings and Speeches (Poona, 1912), pp. 871 and 874.
  4. Essays on Indian Economics, p. 27.
  5. Ibid., p. 193; Joshi, op. cit., p. 974; S.N.Banerjea, Indian National Congress, Congress Presidential Addresses (Madras, undated), p. 691. The nationalist papers very often voiced the demand for rapid industrialisation of the country.

of the country."<sup>①</sup> Justice Ranade who has been regarded as "...the apostle of industrialisation in modern India" expressed that " We have to improve our Raw Materials, or Import them when our Soil is unsuited to their production. We have to organise Labour and Capital by co-operation, and Import freely Foreign Skill and Machinery, till we learn our lessons properly and need no help!"<sup>②</sup>

The Indian leaders welcomed each and every effort to introduce new industries in the country. They lamented on the absence of Indian endeavour in any field visibly open to effort and they exhorted all ~~to~~<sup>to</sup> engage themselves in trade and industry.<sup>③</sup> They believed that the growth of industries would reduce the 'drain' of wealth and the loss of 'wages and capital' resulting from the import of manufactures and export of raw materials. For the social and cultural progress of the country large scale industries were also favoured by the leaders. In 1890, Ranade wrote that the factories and mills could give a new birth to the activities of the nation far more effectively than schools and colleges.<sup>④</sup> So the demand for rapid industrialisation of the country along modern lines had assumed national proportions.

#### Paucity of Capital

Dadabhai Naoroji and other national economists thought that India possessed land and labour in abundance but it suffered from the paucity of capital which is more important for the rising large-scale industries of the country.<sup>⑤</sup> Both Ranade and Joshi held that the inability of large-scale industries to attract capital resulted partly from the fact that the Indian capital was unenterprising

- 
1. Bipan Chandra, op. cit., p. 65.
  2. Ranade, Essays, pp. 119-20.
  3. Ibid., p. 100; Dutt, Speeches, II, p. 128; Tilak in Kesari (28-2-1893) Quoted in S.L.Karandikar, Lokamanya Bal Gangadhar Tilak (Poona, 1957), p.114. Cited by Bipan Chandra, op. cit., p.66.
  4. Ranade, Essays, p. 96.
  5. Dadabhai, Essays, p.105; Ranade, Essays, pp.22, 91-92. Joshi, op. cit., p. 742.

and unwilling to take risks.<sup>①</sup> The Indian leaders hoped that the store of accumulated capital could be increased by the removal of the running drain of wealth to Great Britain.<sup>②</sup> It could be also increased by the people of India themselves by learning to save and to 'live with rigidest economy.' The other steps suggested for the utilisation of the existing capital **resources** of the country were many.

The zamindars and princes as the only rich people in the country, should take the lead to finance the growing large-scale industries of the country. The people should take out their holdings.<sup>③</sup> For the better organisation of credit, the use of modern banks, insurance companies and other efforts should be made and they should be transformed into "organised and living capital capable of infinite expansion."<sup>④</sup> The institution of joint-stock companies based on the lines of Western Countries and the state aid for encouragement, were also suggested.

The dearth of adequately trained technicians was regarded as one of the important factors hampering the growth of industry in India. So the Indian leadership often demanded to open up the technical schools, colleges and institutes for the spread of technical education and knowledge far and wide in the country.<sup>⑤</sup> The Indian National Congress at its third session in 1887, passed a resolution (No.VII) on the necessity of technical education in

- 
1. Joshi, op cit., p. 746; Ranade, Essays, pp. 22 & 91.
  2. This will be discussed under the topic 'Drain Theory or Foreign Exploitation' first propounded by Dadabhai Naoroji.
  3. Ranade, Essays, p. 188.
  4. G.S.Iyer, Some Economic Aspects of British Rule in India, (Madras, 1903), p. 151.
  5. Ibid., pp. 90, 97; S.N.Banerjea, Speeches and Writings (Madras, undated), p.260 and Congress Presidential Addresses pp. 696-7. The National Conference held at Calcutta in 1883 passed the First Resolution on this aspect. Bipan Chandra, op cit., p. 76.

India and demanded that 'having regard to the poverty of the people,' the government should, inter alia, 'elaborate a system of technical education'.<sup>①</sup> In 1888, the Congress urged the appointment of a mixed commission to inquire into the industrial condition of the country and to introduce a general system of technical education. This request was also reiterated from 1891 to 1894 and almost every year. In 1904, the Congress advocated the establishment of at least one central, fully-equipped polytechnic institute in the country, and minor technical schools and colleges in the different provinces.

The Indian leadership laid great emphasis on self-help rather than entirely relying upon the government. The local boards and municipalities were called upon <sup>to</sup> ~~to~~ devote a part of their funds to the establishment of industrial schools and colleges.<sup>②</sup> The educated classes, the millionaires, the zamindars and the rulers of 'native states' in particular were urged to contribute liberally towards the opening of ~~the~~ technical schools and colleges and the endowment of scholarships for enabling Indian students to study abroad.<sup>③</sup>

#### The Drain Theory

According to the opinion of Indian national leadership one of the most important causes of the Indian poverty, was the drain of wealth to England. Dadabhai Naoroji was acknowledged as the theoretician of the drain theory. Subsequently this theory came to be regarded as a problem of "international transfers," or foreign exploitation. Dadabhai who had a passion for facts and figures propounded this theory after a thorough scientific analysis and with rare determination. The intricacies of the theory were worked out only by a few persons, while a host of others propagated it to its extremes. This drain of India came to be recognised as the fountainhead of all economic evils of

- 
1. Bipan Chandra, op. cit., p. 76. Quoted.
  2. G. S. Iyer, op. cit., p. 98.
  3. Joshi, op. cit., p. 812; Many newspapers and journals like Punjabi Akhbar (10-11-1883), Mahratta (20-4-1884), Native Opinion (30-7-1902), Indu Prakash (31-7-1902) and others contained such appeals. Quoted by Bipan Chandra, op. cit., p. 79.

the country. A great deal of nationalist agitation of the period was based on the drain theory or on the belief that a part of national wealth or total product was being exported to England and India received no adequate economic and material return.

In other words Dadabhai and his predecessors conceived the economic drain as an external-cum-internal drain.<sup>①</sup> This theory became so popular that "...several British spokesmen and writers felt compelled to make almost herculean attempts to prove that the entire theory was economically fallacious."<sup>②</sup>

Dadabhai was the first to put forward his theory in 1867. In course of time, it gathered momentum and support and reached the climax. With the publication of Dadabhai's "Poverty and Un-British Rule in India" (1901), Digby's 'Prosperous British India' (1901), and R.C.Dutt's two-volume Economic History of India, (1901), the theory received almost universal acceptance. At a meeting of the East India Association in London on the 2nd May 1867, Dadabhai read a paper on "England's Debt to India"<sup>③</sup> wherein he said that Britain was taking away wealth of India as "The price of her rule in India" and "Out of the revenues raised in India, nearly one fourth goes clean out of the country, and is added to the resources of England." He explained the way by which India was being constantly bled.<sup>④</sup> He also suggested that as a remedy "... the British people can do is to lend back to India the wealth derived therefrom, in order to develop its resources."<sup>⑤</sup>

In his subsequent papers read at different times, he touched this aspect in detail. Though he condemned the economic consequences of the drain, he believed in the value of political association between England and India. In 1870, he told the British to "repair the impoverishing effect of a foreign rule by

- 
1. Ganguli, op. cit., p. 3.
  2. Bipan Chandra, op. cit., p. 636.
  3. Dadabhai Naoroji, Essays, pp.26-50.
  4. Ibid., pp. 29-31.
  5. Ibid., p. 39.

the importation of large foreign capital" and expressed the opinion that "if sufficient foreign capital is brought into the country, and carefully and judiciously laid out..., all the present difficulties and discontent will vanish in time."<sup>①</sup>

Dadabhai literally dedicated his life to the propagation of the drain theory through innumerable speeches, letters to the British newspapers, articles in journals, correspondence with officials, evidence before official commissions and committees, and private correspondence.<sup>②</sup> As years passed, he used different adjective like, unrighteous, despotic, plundering, unnatural, destructive, to the British policy which, in his opinion, had caused the drain of wealth.

Dadabhai attributed a number of objective political factors that worked for the transfer of resources of India to England. He said that India being a colony, its economy was governed by remote control. India, like other colonies of the Whitemen in the temperate zone, did not attract labour and capital for its economic development. The country is overburdened with an expensive civil administration and an equally expensive army of occupation. India being a strategically base of operations had to bear the burden of empire-building not only in India but also beyond her borders.

India was taken to be a country for 'free trade' in other words for colonial exploitation and for creating highly paid jobs for foreign personnel. Lastly he said that India being a colony with a difference, the "...public expenditure out of the proceeds of taxation and loans failed to generate as much of domestic employment and income as would have been possible if the principal income-earners had not been 'birds of passage,' or if they spent their incomes largely within the country or on goods and services produced within the country."<sup>③</sup> Dadabhai showed that since the quantum of external transfer meaning the drain was large in relation

---

1. Ibid., p. 106.

2. Bipan Chandra, op. cit., pp. 639-40.

3. Ganguli, op. cit., p. 4.

to per capita income, there was a precarious equilibrium between the internal transfer of income and the external transfer.<sup>①</sup> In propounding the Drain Theory, Dadabhai was concerned with the economic fortunes of "India of the Indian" and not of the so-called "Prosperous India."

Justice M.G. Ranade also by about 1872, came forward and pointed out the evils of drain, in a lecture delivered at Poona on the Indian Trade and Industry. He criticised the drain of the capital and the resources from India, and observed that it amounted to more than one third of the national income of the country.<sup>②</sup> In 1892, in his address on the "Indian Political Economy" he remarked that to the "...old legacies and inherited weaknesses... must be added the economic drain of wealth and talents which Foreign subjection has entailed on the country."<sup>③</sup>

Bholanath Chandra, another Indian writer, discussed this problem at length in 1873. According to him the drain began at a time when "... the East India Company kept aside a portion of the Indian Revenue" for their commercial investments, but since then the situation changed. He remarked that money at that time poured out through a single channel, but now it ~~was~~ poured away through a thousand channels and hence the drain was widening every year.<sup>④</sup>

R. C. Dutt was another prominent Indian leader and economic historian, who stressed on the drain theory and propagated it through his writings and other public activities. He accepted the Drain Theory late. In 1901, at the Conference of the Committee of the National Liberal Federation in England, he said that the drain from India was 'unexampled in any country on earth at the present day.'<sup>⑤</sup> He asserted that 'if England herself had to send out one half of

---

1. Ibid., pp. 79-80.

2. Bipan Chandra, op. cit., pp. 640-41. ~~pp. 640-41.~~

3. Ranade, Essays, p. 23.

4. Bipan Chandra, op. cit., p. 641. Cited.

5. Dutt, Speeches, Vol. II, p. 21.

her annual revenues to be spent annually in Germany or France or Russia, there would be famines in England before long.<sup>①</sup>

In the Preface to the first volume of his 'The Economic History of India,' R.C.Dutt observed that the home charges which amounted to three millions when Queen Victoria ascended the throne, had risen more than seventeen millions sterling when the Great Empress died.<sup>②</sup> He felt that "So Great an Economic Drain out of the resources of a land would impoverish the most prosperous countries on earth; it has reduced India to a land of famines more frequent, more widespread, and more fatal, than any known before in the history of India, or of the world."<sup>③</sup>

On the problem of drain many other Indian leaders like G.V.Joshi,<sup>④</sup> Madan Malaviya,<sup>⑤</sup> G.K.Gokhale,<sup>⑥</sup> G.Subramaniya Aiyer<sup>⑦</sup> and S.N.Banerjea<sup>⑧</sup> added their voice and joined in the agitation. The nationalist newspapers like the Amrit Bazar Patika also championed the cause of the poverty of India and put forward the drain theory. It was only in 1896 that the Indian National Congress at its Calcutta Session adopted a resolution on the drain theory.

The nationalist definition of the drain was the idea of transfer of wealth or commodities from India to England. In their return no economic, commercial or material equivalent gain was

---

1. Ibid., p. 27.

2. p. XXVIII.

3. Ibid., p. 300.

4. Joshi, op. cit., pp. 636-41, 683, 793-4. Cited by Bipan Chandra, op. cit., p.642.

5. M.M.Mala<sup>via</sup>, Speeches (Madras, undated), pp.232-33, 248-51.

6. G.K.Gokhale, Speeches (Madras, 2nd Edition, 1916), pp.15, 87-88, 908-10.

7. G.S.Aiyer, Welby Commission, Vol.III, Q.18963 and Economic Aspects, pp.59, 125, 128-29, 336-37, 357-58.

8. Benerjea, Congress Presidential Addresses, pp.253-54, 269-70, 637, 708-11.



was derived for India. So the Indian conception of the drain 'inevitably took the form of an excess of exports over imports or of unrequitted exports.'<sup>①</sup> Attempts were made by many of the Indian leaders to determine the exact ~~of the~~ drain. Their estimates differed from year to year because they used different modes of calculation and of the gap between exports and imports of India was increasing greatly. Anyhow, the concrete figures of the drain had great impact on the mind of the people and consequently on the nationalist agitation.

#### Anti-Drain Theory School of Thought

Among the Indian nationalists, there also existed a school of Anti-Drain Theory thought. This was led by Ranade who was not prepared to "lay the blame for India's poverty upon what has come to be called "the drain!"<sup>②</sup> In his inaugural address at the <sup>F</sup>irst Industrial Conference at Poona in 1890, he pointed out that a portion of drain represented an interest on foreign capital invested or loaned to India and therefore England should be regarded as "... a Creditor who supplies our needs at such a low rate of interest." Another portion of drain represented the value of stores supplied to India, "which we cannot produce here."<sup>③</sup> Ranade pointed out that the remaining portion of drain consisted of expenditure on administration, defence and payment of pensions. Nevertheless, he agreed that "...there is good cause for complaint that is not all necessary." He advised the people that they should not divert and waste their energies "... in the fruitless discussion of this tribute, which had better be left to our politicians."<sup>③</sup> G.V.Joshi and G.K.Gokhale favoured the idea that the drain hindered industrial development and impoverished the people.<sup>④</sup>

---

1. Bipan Chandra, op. cit., p.645.

2. James Kellock, op. cit., p. 127.

3. Ranade, Essays on Indian Economics, pp. 187-87.

4. G.V.Joshi, op. cit., pp. 640, 683, 793-4. G. K. Gokhale, Speeches, pp. 15, 87-8, 908-10.

It seems that the Indian leaders like Ranade, Joshi, Gokhale, who believed in anti-drain theory, were not in favour of making the drain theory as "...Central question of Indian politics or of nationalist propaganda and agitation."

During 1880-1905, the Drain Theory also came to be vigorously attacked by the official and non-official spokesmen, advisers and defenders of the British regime in India. One of the earliest refutations of the Drain Theory, was found in the Financial Statement for 1878 by John Strachy. In para fifty-two of the Statement Strachy said that India's "...connection with England and the financial results of that connection, compel her to send to Europe every year about twenty millions sterling worth of her products without receiving in return any direct commercial equivalent. It is this excess of exports over imports which, in the language of economics, is described as tribute."<sup>①</sup> Another refutation was contained in The Report of the Indian Famine Commission, 1880 (in Section VIII, Para 4). However a detailed refutation came only in 1911, when Theodore Morison published his book "The Economic Transition in India (London, reprint in 1916, Chapters, VIII and IX).<sup>②</sup> The Economic Development of the British Overseas Empire (London, 1928) by L.C.A. Knowles and The Economic Development of India (London, 1939) by Vera Anstey also contained the broad outlines of the criticism of the Drain Theory.

It is interesting to note that between the ~~s~~upporters and opponents of the Drain Theory, there was one point upon which they agreed. All held that for the part of exports from India to England, India received no economic equivalent.<sup>③</sup> However, the basic difference between the critics and advocates of the Drain Theory, was contained in their understanding of the exact meaning, origin and consequences of the "unrequited export surplus". At the time, when Indian national leaders talked of non-economic injuries and spiritual degradation, the British rulers tried to

---

1. Quoted by Bipan Chandra, op. cit., p. 677.

2. Bipan Chandra, op. cit., p. 676. Cited.

3. Ibid., p. 677.

impress upon them the economic benefits of foreign rule. Though these leaders accepted the material benefits and complained of economic losses produced by foreign rule, they were asked by the protagonists of the Drain Theory to turn their attention to the non-economic and spiritual benefits. The Indian leadership was not prepared to accept the point that in return for the drain India received an administration that was favourable to the economic development. All the Indian leaders including justice Ranade and others who were otherwise not in favour of over-emphasising the drain, agreed that "... the British administration in India was inimical to economic growth of the country."<sup>①</sup>

The criticism and defence of the Drain Theory by the respective advocates also revealed their assessment of the official policies towards industry, railways, foreign trade, foreign capital, currency and exchange, land revenue, labour, taxation and expenditure.

The Drain Theory was revolutionary in its political implications. It highlighted the question of political domination by England over India. It helped to "...politicalise the public life of India by raising economic issues to a political level"<sup>②</sup> and replaced "...political passivity by political action."<sup>③</sup> The drain problem assumed such great political merits that it became a talk among the masses. It was emphasised on the fact that India was a land of gold that had been slowly drained off all its wealth, till it was reduced to the present condition of poverty and destitution. Undoubtedly, the Drain Theory became "...the most powerful and popular of nationalist grievances during the years when Indian nationalism was at its zenith."<sup>④</sup>

With this economic thinking of the nationalists of India as a background, the economic ideas of Maharaja Sayaji Rao may now be taken up for study.

- 
1. Ibid, p. 688.
  2. Ibid., p.706.
  3. Ibid., p.707.
  4. Ibid. ~~707-708~~