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HISTORY

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INDIAN ECONOMY UNDER BRITISH

R. C. DUTT

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INDIAN ECONOMY UNDER BRITISH

Notes

Before British Self sufficient,

Tribals were self sustaining (village republics),

Kan khanas (Royal work houses/ Guild system) villages that provided the needs of Chiefiens, Kings, Temples etc. Each village specialised in a trade.

External finished goods trade from Ancient times mainly Textiles, Ivory, gems etc

Agriculture share paid to rulers which was intern paid for other needs including to Kan khanas.

Economic drain involves how India's financial wealth was transferred to Britain by various means during British rule over India. The most important proponents of drain theory were R.C. Dutt and Dadabhai Naoroji.

R. C. DUTT

R. C. Dutt elaborated extensively about External Economic drain. Here, Indian economic benefits were transferred abroad without any apparent gain for India through various means.

According to RC Dutt, 3 periods of British control over Indian economy

* **Period of Merchant-capital/ Mercantilism 1757 to 1813**
* **Period of Industrial-capital 1813 to 1858**
* **Period of Financial-capital after 1860**

Mercantilism

With the end of Battle of Plassey in 1757, transfer of power completely took place to British. As EIC became Dewani of Bengal, the Company gathered huge revenue (by exorbitant taxation) which was used to buy goods for export.

In this phase, they acted as pure merchants involving in buying goods from India and selling it abroad making huge profit. This phase was exactly before the start of Industrial revolution in Britain during which time Indian textiles were highly in demand abroad

* Monopoly trade.
* Eliminated their entire rival.

Notes

- They purchased goods/raw materials at very low price and sold at higher cost abroad; achieved these by political control
- During this period they gained profit through oppressive land revenue
- Company officials were making extractions through corruption
- Illegal use of Dastaq (trade passes)

Industrial Capital – Laissez faire/ Free trade

This based on the needs of British Industry

Now they imported cheap industrial manufactured goods from abroad (especially Britain) and sold them here destroying Indian indigenous industries.

Exported raw materials to manufacturer in Britain (connect Indigo plantation here).

Forced trade barriers on Indian finished goods and heavy duties.

Finished cheap goods from Britain weeded out Indian manufacturing/ business class – Pauperization of India

Introduced Railways to connect to centre of Raw material and ports (Mother India was bleeding through ports –Dadabhai Naorji).

British considered Indian manufacturers as subsidiary and not Indian farmers.

Raw materials were paid by excessive land revenues and forced labour no money spent from pocket.

Financial Capitalism (Financial Imperialism)

Now instead of Raw materials being sent to Britain or its colonies for manufacturing to be sold in India,

Industries were setup here -> Raw materials bought here-> Goods Manufacture here using Indian Labour-> Goods sold here to Indian people-> Profit sent to Britain.

Export of Capital to colonies,

Initial financial capital and already available political power are investments.

Notes

DADABHAI NAOROJI

Drain of Wealth by Dadabhai Naoroji

The Grand old man of India, Dadabhai Naorji put forth the most detailed theory of Drain of Wealth in 1871 in his book, Poverty and un-British Rule in India; where he explained how India was plundered. Basic purpose of his study was to measure mass poverty which was a direct consequence of the economic drain. This theory eventually led to the start of proper political awakening and Independence movement in India. It was Naoroji's work R.C. Dutt elaborated as discussed above.

This theory dealt about Internal and External Economic drain, where Money from Rural was amassed to Urban (through Land tax etc) and which was in turn transferred Externally.

6 causes of Economic Drain

6 causes of Economic Drain that resulted in external drain.

* India is governed by a foreign government-> Home charges
* India does not attract immigrants which bring labour and capital for economic growth.
* India pays for Britain's civil administrations, army, war expenditures.
* India bears cost of British Empire building inside and outside India.
* Free trade policy exploited India by offering highly paid jobs to foreign personnel.
* Principal income-earners would buy outside of India or leave with the money as they were mostly foreign personnel

Constituents of Economic Drain

Constituents or Means or Techniques of British through which drain happened.

Home Charges

Home charges are the expenditure incurred in Britain by Secretary of State on behalf of India. Home charges were annually remitted to Britain and included

* Dividend to shareholders of East India Company.

Notes

* Interest paid on public debt to Britain investors for construction of railways, irrigation facilities and public works; here heavy interest were paid even on profit making development like guarantee system of Railways.
* Civil and Military charges like payments, pensions, expenses in India and in Britain for British officers, charges on war etc
* Store purchases of goods for civil and military needs from British markets with Indian money.

Council Bills

Council Bills were the actual means through which money was transferred.

* British purchasers of Indian exports bought Council Bills from Secretary of State for sterling. These were like passes.
* Sterling used for Home charges i.e, they went to treasury of British.
* Council Bills were exchanged for Rupees from Indian government. Now British trader has Indian Rupee.
* Rupees were used to buy Indian goods for export.
* At the same time British officials and businessmen used these bills as trading device selling it in Britain Exchanges.
* So now British business man had Indian money in his hand that was collected by company from India, while the payment made by British businessman stayed back in India.

Interest on Foreign Capital Investments

* Finance capital entered the Indian market in 20th century.
* But this benefited only British business and also heavy interest was paid to these capitals by Indian government for investment here. Thereby helping British businessmen gain heavily.

Foreign Banking

* Banking, Insurance and shipping services British had huge monopoly that was priced heavily.
* These destroyed any Indian business growth as internal trade was held in monopoly by British and cost of export, duties were huge.
* Naoroji's work on the drain theory was the main reason behind the creation of the Royal commission on Indian Expenditure in 1896 in which he was also a member.