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The Impact of the British Economic policy

We have already seen how over the years in the late eighteenth and the early twentieth centuries the colonial state had been perfecting its system of surplus extraction from the agricultural economy of India. Now another question remains to be discussed-a question that has been so intensely debated by historians: did India under British rule experience any economic development at all? As an entry point to this discussion, we may first look at India's economic obligations to the empire and how did it fulfill them. It has been argued that it was after the pacification of the revolt of 1857, that the "classical colonial economic relationship" between Britain and India gradually emerged.142 The Indian empire was supposed to pay for itself and at the same time the country's resources were meant to be available in the imperial cause. India had to provide a market for Britain's manufactured goods, and serve as a source of agricultural raw materials. Till the end of the nineteenth and the beginning of the twentieth century, India fulfilled many of her imperial obligationssuccessfully. It served as a major market for British industries, like cotton, iron and steel, railways, machinery etc. At the time of World War One, Indians consumed 85 per cent of cotton piece goods produced at Lancashire and 17 per cent of British iron and steel production was absorbed by the Indian railways.143

Until World War One, there was no import duty, which could possibly offer any sort of protection to any of the Indian industries, and this was, as A. K. Bagchi has noted, "quite contrary to the trend in the rest of the world, including the British Dominions" .144 Even after 1919, when policies were meant to change under the 'Fiscal Autonomy Convention', successive recommendations of the Indian Tariff Boards to raise cotton duties, were successfully thwarted by the Lancashire lobby, which fought for "our rights" in India, which wasconsidered to be "an important imperial asset" .145 Apart from that, India was also a field for British capital investments in railways and agency houses; the Government of India had to ensure the payment of interests on guaranteed railway stock and debt bonds and meet its annual home charges. This invariably increased India's public debt

On the other hand, India's export trade with other countries helped Britain to overcome its own problems of balance of payment deficit with them, particularly with Europe and North America. Finally, Britain could use the Indian army to maintain its far-flung empire across the world, the entire expenses being borne by the Indian tax payers. Military expenditure had been the greatest single burden on Indian revenues, accounting for almost one-third of the budget.146 No wonder, India was considered to be the most precious "jewel" in the imperial crown of the British monarch.

In the process of fulfilling these imperial obligations, India was being drained out of her wealth, so complained the early nationalistsThere were several pipelines through which this drainage allegedly occurred, and these were interest on foreign debt incurred by the East India Company, military expenditure, guaranteed interest on foreign investments in railways, irrigation, road transport and various other infrastructural facilities, the government purchase policy of importing all its stationery from England and finally, "home charges" or paying for the secretary of state and his establishment at the India Office in London, as well as pay, pension and training costs for the civilian and military personnel-or "the men who ruled India". The actual transfer of money took place through the sale of "Council Bills", which were sold in London in sterling to purchasers of Indian goods who received Indian rupees in exchange. It was often pointed out by the votaries of empire that the phenomenon of drainage was exaggerated; a modem historian would put the amount of d rainage at £ I 7 million per annum in the late nineteenth and early twentieth centuries, and point out that this "represented lessthan 2 per cent of the value oflndia's exports of commodities in that period" .147 But though a small amount, as the Indian nationalist Dadabhai Naoroji argued, what was being drained out was "potential surplus" that could generate more economic development if invested in lndia.148 The other imperial argument was that some of this expenditure was to encourage economic development in India in the way it had happened in the West. India was brought into the larger capitalist world market and that was in itself a progress towards modernisation. Much of the foreign loans and investments were for the development of infrastructure, for integrating internalmarkets and, therefore, for the modernisation of the Indian economy itself. Some of the recent historical writings point out that the fact still remains that India was not transformed into a full-fledged capitalist economy. As in the case of agrarian economy, so also in other sectors, British policies failed to foster growth. And this was due to the colonial nature of those policies, i.e., the policy of gearing up the colonial economy to the needs of the economy of the mother country. To what extent British policies can be held responsible for macro-economic changes in India remains, however, a contentious issue, as a revisionist view claims that on the whole "colonial India experienced positive economic growth". But this growth, it is admitted, varied widely in both time and space. In other words, there were periods o f growth (for example, 1860-1920) and regions of prosperity (such as Punjab, coastal Madras and western Uttar Pradesh), and a generalised view of colonial policies cannot explain these regional and periodic variations. But where stagnation prevailed, it was to a large extent because the government did not do asmuch as it should have by investing in resource generation, such as irrigation, education and healthcare. The revisionist view acknowledges that it was the presence or absence of these critical resources, which determined regional development or lack of it 149

So what was the track record of the colonial state in matters o f generating resources in India? There was, first of all, limited colonial initiative to develop agricultural production, except the construction of some irrigation canals in parts of northern, north-eastern and south-western India, i.e., in non-Permanent Settlement areas where there was scope for enhancing land-revenue rates. It is possible to argue that between 1900 and 1939, the area under irrigation almost doubled; but that was only in absolute terms. In relative terms, in 1947 when the British empire ended its long career in India, only a quarter of the total cropped area was under public irrigation system. While we may try to put the blame on technological bottlenecks, social issues and local power rivalries for this lack of progress in extending irrigation facilities, the real reason was that public investment in this sector was guided only by the profitability factor and extreme contingencies, such as prevention of famines. 150 So public irrigation facilities remained hopelessly inadequate, creating only a few pockets of relative prosperity; and even in those areas, irrigation favoured only the more prosperous among the peasantry, as canal rates were very high. As lmran Ali has shown for Punjab, the canal colonies became the model of commercial agriculture in Asia, but the new prosperity that accrued even after paying high water rates, was shared only by limited social groups, such as a few agricultural castes and some medium and large-sized landlords, while the poor continued to labour as tenants-at-will.'! ' So in general, although the development of irrigation resulted in some improvement in productivity and some other technological innovations, these profited only the privileged peasants and helped the production of cash crops in certain pockets. It is difficult to dispute the fact that "in the aggregate agricultural yields were largely static i n colonial India", and between 1920 and 194 7, especially the production of food crops lagged far behind the rate of population growth.F' Near-famine conditions were therefore not rarities in India during the British period and in 1943 two to three million people perished in a major famine in BengalCommercialisation of agriculture, which favours differentiation within the peasantry, capital accumulation and production for the market, is considered to be a sign of progress towards capitalist agriculture. In the Indian case, however, the initiative often did not come from within the peasant society and the benefits did not accrue to them either. In the case of indigo in eastern India, it w<is directly fostered by the Company's government when in 1788 it offered advances to ten pioneer planters trying to grow indigo in Lower Bengal by using West Indian methods. Since then indigo industry never functioned as a proper plantation economy, as with no right to buy land until 1829, the planters had to persuade, and later force, the local peasants to accept advances to produce indigo in their lands. This created enough scope for friction, because demand remained uncertain, and it was with an eye on the needs of the remittance trade, rather than the requirements of English textile manufacturers, that the amount of production was monitored. The system became more exploitative and coercive day by day, leading to the indigorebellion in 1859-60.153 As for other crops, there is a persistent view that the peasants were "forced" to cultivate cash crops because of high revenue demand, the necessity to pay revenue and rent in cash and above all for debt servicing. This view is refuted by the fact that there was always a positive correlation between the price of a crop and the cropped acreage, indicating profit motive behind the peasants' decision for preferring a particular cropping parrern. ! " But at the same time it was only the rich peasants who could go for cash crops and they too remained immensely vulnerable to the fluctuations in the market. In western India, for example, cotton cultivation grew in response to the cotton boom in the 1860s caused by the American Civil War. It created a pocket of prosperity in the Deccancotton belt, which disappeared very soon after the end of the war and was followed by a famine and agrarian riots in the 1870s. Jute cultivation in eastern India developed as the peasants failed to meet the subsistence necessities and hoped to earn more by cultivating the "golden crop". So an economic motive was certainly there in peasants' decision to shift to jute cultivation. But as Sugata Bose has shown, the primary producers could hardly reap the benefit of the boom in jute market between 1906 and 1913, as "jute manufacturers and exporters [majority of whom were British] were able to exercise their monopsony power as purchasers of raw jute", leaving the jute growers no space to bargain for prices. us

So how can the impact of commercialisation of agriculture on

Indian peasant society be assessed? By way of commenting on this question, Tirthankar Roy has argued that: "It is possible that the capitalists captured most or all of the increase in value-added. The rich may have become richer. But that does not mean that the poorgot poorer. For, total income had increased. "1s6 One could argue however that if the rich got richer and the poor remained poor (though not poorer) or became just marginally better off, that was not a very happy state of development either. In other words, commercialisation of agriculture did not benefit the majority of the peasants, although it would be hasty to conclude that it signified a "transition" from pre-capitalist to capitalist mode of production marked by the rise of a powerful rural capitalist class and the proletarianisation of the peasantry. u1 The jute economy crashed in the 1930s and was followed by a devastating famine in Bengal in 1943. It is difficult to establish a direct connection between commercialisation and famines, even though cash crops in some areas might have driven out foodgrains from the better quality land, with consequent impact on output. us But even if this had happened, it was an extremely localised phenomenon, as on the whole food crops and cash crops were produced simultaneously. When colonial rule came to an end, food crops were still being grown in 80 per cent of the cropped acreage. U9 But on the whole, as noted earlier, the aggregate production of food crops lagged behind population growth. In view of this, the claim of some historians that growth of trade and integration of markets through development of infrastructure actually increased food security and contained the chances and severity of famines in colonial India160 remains at best a contentious issue, particularly in the context of the Bengal famine of 1943, which was preceded by a long period of consistently declining per capita entitlement of rice in the provinceRailways are considered to be another contribution ofBritish rule towards the development of modem economic infrastructure. "India became", writes a modem historian, "a nation with its local centres linked by rail to each other and to the world". l 62 Yet, the very way the railways were constructed makes it clear that its main purpose was to serve the interests of the empire, rather than the needs of the Indian economy. I n 1853 Lord Dalhousie took the decision to construct railways in India mainly to facilitate army movements. Gradually there arose another need to integrate the Indian market to open it to British imports, i.e., to connect the port cities to the internal markets and sources of raw materials. So British capital investments were invited with 5 per cent guaranteed interests to be paid, if necessary, from Indian revenues. The companies were given free land with ninety-nine years lease, after the expiry of which the line would become government property. But any time before thateven a few months before the expiry of the lease-the companies could return the lines to the government and claim full compensation for all capital expended. In other words, they could enjoy 5 per cent guaranteed profit for ninety-eight years and then get back all their capital. This made the railway projects, as Sabyasachi Bhattacharya describes them, "an instance of private enterprise at public risk". It was quite natural, therefore, that between 185 8 and 1869 Indian railways would attract capital investments to the tune of £70, 110,000. l '3 The main purpose of this railway construction was to tie up the Indian hinterland in the interest of foreign trade, rather than favour Indian economic development. The construction planning favoured this goal, as it connected the internal markets with the ports, but provided no interconnection between the internal market cities. The preferential freight charges also betrayed this motive: there were less freight charges for bulk manufactured goods travelling from the ports to the interior and raw materials from the interior to the ports, than vice versa. 164 Apart from this, the multiplier effect of the railway construction boom benefited British economy, as machinery, railway lines, and up to a stage even coal was imported from England. The transfer of technology remained confined to low technology areas, such as plate-laying, bridge-building or tunnelling, while in the 'hitech' area the expertise that was imported was never Indianised to develop "a truly national technology". l 6s And in certain cases the construction work disturbed ecology, subverted the natural sewagesystem, and in Bengal for example, created malaria epidemic in the nineteenth century.1"