CHAPTER II

INDIAN ECONOMY DURING THE BRITISH EMPIRE
AN OVERVIEW

Introduction

In this chapter an overview of the way the British restructured the indigenous economic system of India to suit their objective of maximum exploitation is attempted. It could be seen that it was a mindless wreckage of a sound and flourishing system that ensured the prosperity of all the people particularly the large masses of the population living in the rural areas- villages-of India. This overview is given based on the researches that had already been carried out in this area by various scholars, particularly such veterans as Dadabhai Navaroji, Romesh Chandra Dutt et al. The views of more recent researchers are also incorporated. A closer examination of the strategies used by the British colonialists in the 18th and 19th centuries would enable one to discern the striking parallels between those strategies and the ones employed by the present transnational and multinational corporations operating in India under the aegis of globalization. It is, in fact, to suggest these parallels- though these similarities are not explained in detail as a
brief narration of the modus operandi of British exploitation of Indian economy is attempted.

Britain (and all the rest of Europe) had reached the limits to growth imposed by the resources of its own territory before the colonial era. The only way it could expand and grow economically was, as Adam Smith said, by altering ‘its situation with respect to other countries’.

Adam Smith, while referring to China, Egypt and India acknowledged that they were “the wealthiest in the world, chiefly renowned for their superiority in agriculture and manufactures”. He also mentioned that they were much richer than Europe. The process by which these great civilisations were reduced to penury, and then, to dependency upon Western wealth, is known in commercial circles today as “asset stripping”: the extraction of all valuable assets after the take-over of the victims.

‘Like the parasitic wasps’ victims, India’s people and resources were to be processed and digested—but kept barely alive— for the benefit of England alone. Another analogy was used by John Stuart Mill: India was England’s “cattle farm”.

The East India Company (EIC) was the pioneering transitional company par excellence. In 1727, the EIC Governor declared that every “Company servant” was permitted to improve his fortune in any way that he
chose. The British monopoly in rice trade gave them a clear 900 per cent profit.

Robert Clive, a subaltern in the Madras Infantry Regiment, began his distinguished career with the forcible extraction of a mere £15,000 from the ruler of a minor state just south of Bombay. Clive’s defeat of the Nawab of Bengal in 1757 was the result of a conspiracy with a Persian traitor, Mir Jafar. With the Nawab killed in a battle, Clive installed Mir Jafar in his place and, for this favour, claimed from his £30,000 a year. Although he did not collect the first amount in full, the Encyclopedia Britannica states: “In the context of contemporary values these grants (!) equalled...about one-seventeenth of the then annual revenue of Great Britain”. However, it was not so much the proportion of input capital to the revenue that was important to Britain, as was its proportion to capital available for investment.

The devastation and improvement which the British accomplished in Bengal, legalised by the British Parliament’s licence to loot, was rapidly expanded to the rest of India, and continued till 1947. Within the next half century after Clive, it was estimated that between £500 and 1,000 million was transferred to Britain by thousands of men who came out as paupers and turned into multimillionaire within a few years.
Numerous Indian rulers were deposed and puppets installed in their place, with each of the latter paying "compensation" to the British. The British demanded such wealth which they claimed they would have otherwise had from the plunder of each particular territory. Many of India's rulers preserved their people and territories from British rule by agreeing to pay this tribute. Others, yet to be disposed, were made to pay for the British armed forces used to keep them in bondage. When they had impoverished themselves due to these extractions, the rulers were loaned money by British officers and others, with interest of around 50% per annum. Such payments forced the rulers to raise tax rates or to surrender portions of their land to the lenders.²

A whole series of measures were employed to legalise trickery. The British set up a mint in Calcutta and, as Adam Smith revealed, the gold coins it produced were "rated too high for the value which it bears in the market of Bengal. In 1835, the EIC introduced its silver rupees as the standard coin in British-occupied India, there in by demonetizing all Indian currencies. The constant manipulations of the currency of India in the interests of Britain, once more, foreshadows the machinations of the WB and IMF today, when they insist upon the devaluation of our currencies.

Tribute is a transference of a portion of the annual revenue of a subject country to the ruling country, without any material equivalent being
given in exchange. Britain claimed that it did not extract any tribute from India. The word “tribute”, too harsh for sensitive British ears, was replaced by the less aurally offensive but equally pauperizing “Home Charges” in either case, it was India’s payment of the privilege of being ruled and exploited by Britain. Further capital was siphoned off by manipulating the Indian trading deficit with Britain and by the increasingly large interest payments on the Indian Public Debt.

In reporting a meeting of the Anti-Opium Society in 1888, a London paper stated:

So far are we from taxing ourselves for India’s benefit that we are regularly taxing India for our own benefit. The proceeds of the opium monopoly and of the salt tax together only amount to ten millions, while the home charges of the Indian Government are fourteen millions sterling. But while we as a nation are thus pocketing one-fourth of the Indian revenue, we still have the effrontery to talk of the sin of the opium trade and the barbarity of the salt tax.

Before the 1914-18 War, India financed more than two-fifths of Britain’s total deficits, in ensuring Britain’s balance of payments surplus. By the end of the 1939-45 War, Malaysia’s rubber and tin, African’s gold
and other minerals, and particularly the Middle East's oil, became added means by which Britain maintained her balance of payments.

No doubt, as Clive himself said, India was "a country of inexhaustible riches and one which cannot fail to make its masters the richest corporation in the world". But the continuous transfer of so much wealth involved a constant drain of huge quantities of gold, silver, precious stones and other goods. The consequent shortage of capital, particularly silver currency contributed enormously to the destruction of internal trade and industry.

**Taxation**

In 1758, a tax of 10% on the produce of the landed estates in Bombay was imposed by the EIC to meet its extravagant expenses, to build fortifications and other works for maintaining its war with the French in India, and for extending its occupation here. In 1765, the EIC forcibly obtained the "right" to collect land revenue in Bengal. The profits from this enabled them to further increase their armed strength and to monopolise the production and marketing of commodities.

The EIC levied a tax on all salt produced in India, obtaining a revenue of more than £1 million per year, during the last years of its rule. This excessive tax compelled impoverished millions to reduce the quantity
of salt consumed to less than one-half the amount declared by the medical authorities to be absolutely necessary for health, if not for life itself.

The British imposed or enhanced taxes on land, trades, occupations and commodities. In South India, the taxes were raised from 12 to 16% of the gross agricultural produce to 50%. The tax was calculated on what the farmer obtained in a good agricultural year. If, for any reason, he had a bad crop he would almost surely make a loss because the amount of tax remained fixed.

Such oppressive taxes led to the decay of the excellent traditional agricultural, industrial and trading systems.

The taxation policies of the British served to enrich the rich and impoverish the poor—as most such policies still do today.

In 1929, the people of India were taxed more than twice as heavily as the people of England. The percentage of the taxes in India, as related to the gross product, was more than doubled that of any other country.3

While most of the taxes extracted by the British went out of the country, much of the revenues extracted by Indian rulers went back to the people, with only about 5% being retained by the ruler in 1750. The actual producers got 70% back. 10% went to religious, cultural and educational
projects, 7.5% to economic services and the police, another 7.5% to the army and the political aristocracy.¹

**Other Exchanges**

There were several other processes by which Britain enriched itself and impoverished India: the destruction of artisans industries so that Britain could sell her industrial products, purchases made in Britain that could have been made in India, making India bear the burden of supporting a huge army to keep itself under subjugation, employing its own countrymen in all the well-paid jobs.

When the EIC was “nationalized” by the British Parliament in 1858, plunder by the hundreds of EIC servants was replaced by the burden of high salaried and pensioned bureaucrats, probably making it the most expensive administration in the world. Nearly all high officials were British, living in palatial buildings, surrounded by dozens of servants to do everything from keeping them cool with punkhas (hand operated ceiling fans) to looking after their children while they attended innumerable parties. The British in India imported their clothes and their horses, and even the houses they lived in were constructed with wood and iron brought from Europe.²
Indians paid for the maintenance of the army that oppressed them. In 1918, an Excess Profits Tax was imposed to pay in part only in part for the “defence of India. This army was much larger than anything required for the defence of the country, the only possibility of attack coming from other European armies.

**Total Cash Transfers**

Charles Forbes, who stayed 22 years in India and returned to England to become a member of Parliament, spoke in the House of Commons in 1836, of “plundering the people of India day after day and year after year to an extent horrible to be contemplated”. He stated that could “total annual drain from India could be little short of five million sterling”. This included £ 630,000 paid in dividends to the proprietors of the EIC. He added that “In fifty years they had extracted from India more than would be sufficient to pay off the national debt”. And this was after the Napoleonic Wars, when England’s national debt shot up astronomically. As a member of the Court of Directors of the EIC, Forbes was unlikely to be significantly biased against England.

In the last decade of the 19th century, the average annual remittance to England was £ 20 million. The military and civil charges and pensions alone rose from £7 million per annum in the 1870’s, to over £20 million per year in the 1890s and much more after that. The British, in effect,
created an elaborate apparatus whereby they compelled India to pay for the privilege of being oppressed and exploited. Similar machinery for the extraction of wealth now exists in the instruments of the WB and the IMF.

From 1895 to 1898 the total amount transferred is estimated to be more than £1,000 million. From 1898 to 1939, the transfers more than doubled. Further wealth was extracted in the form of priceless manuscripts, antiques, jewellery, and so on. The British Museum is probably the largest depository of stolen goods in the world today, with the Louvre and similar museums not far behind. Most of the items in them were supposed to be gifts, though they would be called bribes now. If an Indian took a present he was said to be corrupt; but if a Company’s servant took a “gift”, he was collecting a legitimate perquisite.  

This gives just a brief glimpse of some of the processes of continuous impoverishment, which transformed India from one of the richest regions in the world to a state of utter destitution by the time the British departed.

**Economic Consequences of the British Conquest**

India had been conquered by other foreign powers before the British, but the invaders settled in India. The difference of the British conquest lies in the fact that it led to the emergence of a new political and economic system whose interest were rooted in a foreign soil and whose
policies were guided solely by those interests. Whereas the early invaders
Indianized themselves, the British tried to keep a distance between them
and the Indian people and thus created the distinction erstwhile unknown to
Indian history—the concept of foreign rulers and the Indian subjects.

The British rule has been generally divided into two epochs, first the
rule of the East India Company ranging from 1757 to 1858, and second, the
rule of the British Government in India from 1858 to 1947. The
establishment of the British rule itself was a slow and lengthy process,
extending over more than a hundred years. The British conquest which
started in 1757 with the Battle of Plassey was completed only by 1858.
During this period England was passing through the period of changes in
the techniques of production which revolutionized manufacturing. The
coming of the Industrial Revolution which synchronised with period of
British conquest helped by the British to sell machine-made goods in India
in competition with Indian handicrafts. The British conquest led to the
disintegration of the village community partly by the introduction of the
new land revenue system and partly by the process of commercialisation of
agriculture. The new land system and the commercial agriculture meant
untold exploitation of the Indian peasantry and the country was
consequently plagued by frequent famines. The British were not interested
in developing India as such. The growth of railways or the spread of
irrigation or the expansion of education or the creation of revenue settlements were all initiated with one supreme goal, i.e. to accelerate the process of economic drain from India. To understand the economic consequences of the British conquest, it would be convenient to study them under the following heads: (1) Decline of Indian Handicrafts and progressive ruralization of the Indian economy; (2) growth of the new land system and the commercialisation of Indian agriculture.

**Decline of Indian Handicrafts and Progressive Ruralisation of the Indian Economy**

Before the beginning of Industrial Revolution in England, the East India Company concentrated on export of Indian manufactured goods, textiles, spices, etc., to Europe where these articles were in great demand. The Industrial Revolution reversed the character of India’s foreign trade. Tremendous expansion of productive capacity of manufacturers resulted in increased demand of raw materials for British industry and the need to capture foreign markets for finished products. As a first step, attempts were made to restrict and crush Indian manufacturers. On the other hand, efforts were made to commercialise agriculture so as to step up the export of those raw materials required by British industry. The Indian textile handicrafts were the first to be hit. The decline of this industry started a chain reaction leading to the speedy decline of other handicrafts. The process of decline of
handicrafts was accelerated by the development of the means of transport.
The principal causes that led to the decay of handicrafts were as follows:-
(a) Disappearance of Princely Courts. The growth of quite a number of
industries and towns was possible owing to the patronage of Nawabs,
Princes, Rajas and Emperors who ruled in India. The British rule meant the
disappearance of this patronage enjoyed by the handicrafts. Cotton and silk
manufacturers suffered especially. Besides, the artisans who manufactured
specially designed articles for display and decoration of courts also suffered
because of a decline in the demand for works of art.

Hostile Policy of the East India Company and the British Parliament

The British were always guided by their own interests, and never
bother effects of their policies on the people of India in terms of
unemployment, human suffering, famines, etc. They formulated certain
policies, and propagated them but when conditions changed in England
they were quick to reverse them. The British used tariff with the object of
protecting their woollen and silk manufactures on the one hand and of
raising additional revenues to finance continental wars, on the other. The
period 1882 to 1894 was one of complete free trade. By the time, England
had developed industrially to such an extent that unrestricted competition
of British manufactures with Indian handicrafts led to their decline. It was
only when England rose to the position of industrial supremacy that free
trade was advocated by the British economists and administrators. Thus, the British manufacturers employed the arm of political injustice in order to exploit the Indian market. The selfish policy of the British imperialists crippled Indian industries and helped the process of industrialisation in Britain.

**Competition of Machine-Made Goods**

The large-scale production that grew as a result of Industrial Revolution meant a heavy reduction in costs. It also created a gigantic industrial organisation and, consequently, the machine-made goods began to compete with the products of Indian industries and handicrafts. This led to the decline of textile handicrafts – the largest industry of India. Whereas the British emphasized the free import of machine-made manufactured goods, they did not allow the import of machinery as such. The decline of Indian handicrafts created a vacuum which could be filled by the import of British manufactures only. Thus, India became a classic example of a colonial country supplying her imperialist rules raw materials and foodstuffs and providing markets for the manufactures. The opening of the Suez Canal in 1869 reduced transport costs and thus made the exploitation of the Indian market easier:
The Development of New Forms and Patterns of Demand

With the spread of education a new class grew in India which was keen to imitate Western dress, manners, fashions and customs so as to identify itself with the British officials. This led to a change in the pattern of demand. Indigenous goods went out of fashion and the demand for European commodities, got a fillip. Besides, there was a loss of demand resulting from the disappearance of princely courts and nobility. Thus, the British rule, silently but surely, alienated the Indians not only from Indian culture but also diverted in its favour their form and pattern of demand for goods.

The destruction of Indian handicrafts had far-reaching economic consequences. It led to unemployment on a vast scale. Since textile industry was the worst sufferer in this process, the weavers were hit the most. Lord William Bentinck reported in 1834: "the misery hardly finds a parallel in the history of commerce. The bones of cotton weavers are bleaching the plains of India."

Another consequence of the decline of handicrafts was the compulsory back to the land movement. The British destroyed the institution of Indian handicrafts but did not care to provide an alternative source of employment. The unemployed craftsmen and artisans shifted to
agriculture and increased the proportion of population dependent on land. This trend of the growing proportion of the working force on agriculture is described as 'progressive ruralization' or 'deindustrialization of India'. In the middle of the nineteenth century, about 55 per cent of the population was dependent on agriculture, in 1901 it was about 68 per cent, the proportion went up to about 72 per cent in 1931. Thus, the increased pressure of population on land was responsible for progressive sub-division and fragmentation of holdings. It led to an increase in land-rents charged from tenants. It meant an increase in the number of landless labourers. Thus the crisis in handicrafts and industries seriously crippled Indian agriculture.

**Commercialisation of Indian Agriculture**

Another noteworthy change in Indian agriculture was its commercialisation that spread between 1850-1947. Commercialisation of agriculture implies production of crops for sale rather than for family consumption. At every stage of the economic history of the nation, a part of the agricultural output has been is produced for the market. Then, what distinguished commercial agriculture from normal sales of marketable surplus? It was as deliberate policy worked up under pressure from British manufacturer-industrialist and merchant to acquire more and more of raw materials for the British Industries. By offering a higher bait of market
price, the peasants were induced to substitute commercial crops for food crops as the former were more paying than the latter. Consequently, the peasants shifted to industrial crops and in some districts, the movement for commercial agriculture became so strong that the peasants started buying foodstuffs from the mandis for their domestic needs. This led to fall in the production of food and consequently this period is marked by the occurrence of most terrible famines and this happened for the first time in the economic history of India. Commercial agriculture was also, to some extend, the result of the mounting demands of land revenue by the state and excessive rent by the landlords from the peasantry.

The process of commercial agriculture necessitated by the Industrial Revolution was intensified by the development of an elaborate network of railways in India, after 1850. Railways linked the interior of the country with ports and harbours. Urban marketing centers and thus Indian agriculture began to produce for world markets. Large quantities of wheat from Punjab, jute from Bengal and cotton from Bombay poured in for export to England. The same railways which carried commercial crops from the various parts of the country, brought back the foreign machine made manufactures to India. Thus, railways, and link-roads connecting the hinter-land of the country with commercial and trading centres were instrumental in intensifying commercial agriculture on the one had and
sharpening competition of machine-made goods with Indian handicrafts, on the other. These factors led to the ruin of Indian industries.  

The Nature of Famines in India

Before the advent of modern means of transport, especially railways, the famines in India were localised scarcities of food in those regions where the crops had shrunk on account of bad rains etc. Both the construction of railways and the growth of trade after 1860 brought about a radical change in the nature of famines. Previously, a famine meant extreme hunger and the population had to undergo suffering on account of lack of food because there were no means of transporting the surplus food grain even if it was available in other parts of the country. The position after 1860 was that the rapid means of transport made it possible to carry food from one region to the other without much loss of time. But periods of famine were invariably periods of high food prices and extensive agricultural unemployment. Therefore, the mass of the poor people found it impossible to purchase food. Consequently, the earlier famines were described as food shortages but later ones are more appropriately described as purchasing power famines. The Famine Commission (1889) made it abundantly clear when it emphasized that food was “always purchasable in the market though at high prices and in some remote places at excessively high prices”. Two factors were responsible for pushing up food prices,
despite the favourable effect of railways in moving foodgrains rapidly. First, an impending storage of food meant hoard and speculation which helped to push up the price level very fast. Secondly, government did not allow any decrease in the export of food grains even in the lean years. Consequently, speculator and the Government both accentuated the gravity of the problem.

**Causes of Famines**

There is no doubt that the immediate cause of famines was the failure or the unreasonableness of rains. It is common knowledge that the means of irrigation were undeveloped and rainfall played a crucial role in agricultural production. Famines were a common occurrence in the dry regions and areas with a rainfall varying between 15 and 60 inches. The areas affected most by famines were Bihar, West Bengal, Orissa, Rajasthan, Tamil Nadu, Maharashtra, Andhra Pradesh and Karnataka. Failure of rains caused an absolute deficiency which resulted in great famines, but unreasonableness of rainfall also proved destructive to crops and, therefore, created food scarcity. In a country wholly or mainly depending on rainfall, rain can be considered as the most dominant factor determining agricultural production.

To understand the real factors which led to the occurrence of famines again and again in India-while they were banished after 1850 from
Europe—it is quite desirable to understand the economic and sociological transformation that took place during the British rule.

**The New Land System**

The British created a class of landlords so as to affix responsibility for land revenue, but the British left the process of rent fixation to the free market mechanism. The increasing demand for land for a growing agricultural population led to an exorbitant increase in rents. Land was transformed in this process to an attractive capital asset. Thus there was a great desire among the money lending classes to acquire land. The rise in prices of land enhanced the value of the security in the form of land against which peasants could borrow. This led to increase in agricultural debt of the Indian peasantry, repeatedly exposed to uncertainties. The high rates of interest charged by the moneyed classes made it impossible for the peasants to repay their debts. Gradually lands passed on to the money lending classes. The dispossession of the peasantry by the moneylenders added to the process of pauperisation of the cultivating classes.

Thus, the new land relations which embodied the creation of a class of landowners and a class of cultivators (whether on a tenancy basis or a daily wage) separated ownership from cultivation. The landlords were interested in extracting high rents, leaving a pittance with the cultivators. The investment on land fell sharply because the cultivators had to part off
with a major portion of the produce in the form of rent of land to the landlords and interest to the moneylenders. This created in Indian agriculture a built-in depressor. Thus, the new agrarian relations were disincentive-ridden and helped only to effect agricultural production adversely and retarded the process of agricultural development.

**The Impact of Colonial Rule**

Colonialism also had a deep impact on the repeated occurrence of famines in India. The destruction of the Indian handicrafts increased unemployment in the rural areas. Whereas in England, surplus labour from rural areas was quickly absorbed in new industries created in the process of industrialisation, nothing of this kind happened in India. The industrialisation of the Indian economy would have deprived England of a ready market for its goods and so the colonial interests were opposed to the development of industries in India. Thus labour thrown out of employment in traditional industries could only burden a subsistence agriculture.

Let us again put into the witness-box, a few European observers. We can well begin with no less a person than the Premier of England, Mr. J. Ramsay MacDonald, who says, “For days one goes through the land, and sees nothing but thin bodies toiling, toiling, trudging, trudging, trudging. India is the home of the poverty-stricken, and this was borne in upon me all the more that its poverty was embodied in forms of the most
perfect human grace.” And later he declares: “The poverty of India is not an opinion, it is a fact.”

**Poverty of the Masses and the Economic Exploitation**

Dadabhai Naoroji, a distinguished Indian economist, in his classic paper on the ‘Poverty of India’ (1876), emphasized that the drain of wealth and capital from the country which started after 1757 was responsible for absence of development of India. According to Dadabhai Naoroji “The drain consists of two elements – first, that arising from the remittances by European officials of their savings, and for their expenditure in England for their various wants both there and in India: from pensions and salaries paid in England: and second that arising from remittances by non-official Europeans’. This implies that India had to export much more than she imported inorder to meet the requirements of the economic drain. During the period of the East India Company, an outright plunder in the form of gift exactions and tributes was carried out. Dadabhai Naoroji, Y.S. Pandit and S.B. Saul have estimated the annual drain for various periods. Taking the estimates based on the balance of payments alone, Saul’s figure for 1880 amounts to 4.1% of the Indian national income. Irfan Habib, therefore, writes: “The fact that India had to have a rate of savings of 4% of its national income just to pay the Tribute must be borne in mind when economists speak of the lack of internal capacities for development, or the
low per capital income base, from which the British could not lift the Indian’s however, much they tried”.

The economic drain of wealth prevented the process of capital creation in India but the British brought back the drained out capital and set up industrial concerns in India owned by British nationals. The government protected their interests and thus the British could secure almost a monopoly of all trade and principal industries. The British component of industries established in India further drained off Indian wealth in the form of remittances of profits and interests. Moreover, the British firm dominated the Indian industrial scene and stifled the growth of Indian enterprise in industry. Thus, the economic drain which commenced right from the inception of the British rule acted as a drag on economic development till 1947.

Leaving the bird’s-eye-view of affairs obtained from these snapshots, let us examine the situation at closer range. We find the old-time skilled handicraftsman and artisans have lost their trade, and no industry has replaced them, but these men have been driven back to the land to eke out a precarious living with a slightly increased population. Part of the year they work, but when the dry season sets in, they are left idle.

The relative increase in population during the last century is very much lower in India than it has been in Europe. According to the Statesman’s Year
the percentage increase during the last three decades, as revealed by the census, compares with that in Great Britain as follows:

<table>
<thead>
<tr>
<th></th>
<th>1891-1901</th>
<th>1901-1911</th>
<th>1911-1921</th>
</tr>
</thead>
<tbody>
<tr>
<td>India</td>
<td>2.5</td>
<td>1.7</td>
<td>1.2</td>
</tr>
<tr>
<td>Great Britain</td>
<td>12.2</td>
<td>11.6</td>
<td>5.4</td>
</tr>
</tbody>
</table>

Source: J.C. Kumarappa, Public Finance and Our Property

So the increase in population does not cause a problem.

We observe the foreign trade of the country has changed from an export of manufactured articles to an import of such merchandise, and an export of raw materials. The cotton textiles as a cottage industry have disappeared, leaving nothing to take their place.

There has been a large number of famines, and these more devastating ones in the last half a century than throughout the past of India’s long history.

Everywhere the administration appears to be practically in the hands of European officers who naturally work with their return passage in their pockets. Their interests are not identified with the interests of those whom they govern, nor are they responsible to them. Their feet indeed rest on Indian soil, but their faces are turned Homewards. The sons of the soil who were once the administrators have been reduced to an ill-paid community of clerks.
The following figures of net expenditure, prepared from the Statistical Abstract for the fiscal year 1925-26, including both Centre and Provincial Governments, are instructive as to the use the available resources are put to:

<table>
<thead>
<tr>
<th></th>
<th>Rs. Lakhs</th>
<th>Per Cent</th>
</tr>
</thead>
<tbody>
<tr>
<td>Debt services</td>
<td>21,62,09,009</td>
<td>15.2</td>
</tr>
<tr>
<td>Military</td>
<td>55,99,85,654</td>
<td>39.5</td>
</tr>
<tr>
<td>Civil Administration</td>
<td>55,44,33,587</td>
<td>39.2</td>
</tr>
<tr>
<td>Miscellaneous</td>
<td>8,70,60,535</td>
<td>6.1</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>141,76,88,785</strong></td>
<td><strong>100.0</strong></td>
</tr>
</tbody>
</table>

Source: *J.C. Kumarappa, Public Finance and Our property*

The details of ‘Civil Administration’ are as follows:

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<thead>
<tr>
<th></th>
<th>Rs. Lakhs</th>
<th>Per Cent</th>
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</thead>
<tbody>
<tr>
<td>General Administration</td>
<td>12,49</td>
<td>8.9</td>
</tr>
<tr>
<td>Audit</td>
<td>84</td>
<td>0.58</td>
</tr>
<tr>
<td>Justice</td>
<td>4,69</td>
<td>3.31</td>
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<tr>
<td>Jails</td>
<td>1,94</td>
<td>1.38</td>
</tr>
<tr>
<td>Police</td>
<td>11,69</td>
<td>8.2</td>
</tr>
<tr>
<td>Ports</td>
<td>31</td>
<td>0.21</td>
</tr>
<tr>
<td>Ecclesiastical</td>
<td>32</td>
<td>0.22</td>
</tr>
<tr>
<td>Political</td>
<td>3,37</td>
<td>2.4</td>
</tr>
<tr>
<td>Scientific</td>
<td>86</td>
<td>0.6</td>
</tr>
<tr>
<td>Education</td>
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<td>7.6</td>
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<tr>
<td>Medical</td>
<td>3,20</td>
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<tr>
<td>Public Health</td>
<td>1,81</td>
<td>1.25</td>
</tr>
<tr>
<td>Agriculture</td>
<td>1,79</td>
<td>1.24</td>
</tr>
<tr>
<td>Industries</td>
<td>1,30</td>
<td>0.92</td>
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<tr>
<td>Aviation &amp; Miscellaneous</td>
<td>17</td>
<td>0.11</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>55,44</strong></td>
<td><strong>39.20</strong></td>
</tr>
</tbody>
</table>

Source: *Public Finance and Poverty* - *J.C. Kumarappa*
Debt Services and Military Expenditure

Prof. K.T. Shah has worked out the following percentages of Total Expenditure that the various countries spend on ‘Defence’.

<table>
<thead>
<tr>
<th>Country</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>United Kingdom</td>
<td>53.7</td>
</tr>
<tr>
<td>Australia</td>
<td>48.3</td>
</tr>
<tr>
<td>Canada</td>
<td>24.2</td>
</tr>
<tr>
<td>South Africa</td>
<td>5.2</td>
</tr>
<tr>
<td>Spain</td>
<td>17.6</td>
</tr>
<tr>
<td>France</td>
<td>20.0</td>
</tr>
<tr>
<td>Italy</td>
<td>17.3</td>
</tr>
<tr>
<td>United States</td>
<td>38.2</td>
</tr>
<tr>
<td>Japan</td>
<td>49.0</td>
</tr>
</tbody>
</table>

These figures relate to the year 1922, but they give us an idea of how India is being burdened with unproductive expenditures. When the nation gets no return for its effort, will this not be sufficient in itself to reduce a country to poverty in the course of years? The unproductive expenditures. When the nation gets no return for its effort, will this not be sufficient in itself to reduce a country to poverty in the course of years? The unproductive debts were mainly incurred by the British in conquering India itself, and in financing wars of imperial interests in Asia and Africa, leaving India to pay the bill. In addition, India’s ‘trustees’ made a ‘gift’ to themselves of one hundred million pounds during the World War, while at that time India suffered losses, computed by Prof. Shah to be 180 crores. As these enormous debts were incurred in quarrels not her own, and in
pursuit of interests not identical with hers, it is hardly fair to saddle India with these charges.\textsuperscript{11}

Conclusion

The British economists have always held the view that the backwardness of the Indian economy and its failure to modernize itself was largely due to the value system, i.e., spiritualism, asceticism, the caste system, joint family, etc. Similarly, the British economists have always argued that Indian capital was proverbially shy, it always sought safe avenues of investment and thus lacked the basic quality of adventure, which is an essential condition for dynamic entrepreneurship. Dr. Bipin Chandra who has examined the impact of colonial rule in modernizing India rejected both these arguments for absence of modernization as mere shibboleths. He wrote,\textsuperscript{12} “It is a historical fallacy to assume that India these under British rule did not undergo a fundamental transformation, or that it remained basically traditional”. But the modernization of India was brought within the political parameters of a colonial economy. Thus, the colonial links between India and Britain resulted in the progress of the Industrial Revolution in Britain while it meant the modernization of those sectors of the Indian economy which strengthened the process of integration of the Indian economy with British capitalism. “It was, therefore, not an accident nor was it historically exceptional that India was integrated in to
world capitalism, without taking part in the industrial revolution. It was modernized and underdeveloped at the same time.¹³

A close look at the economic changes of India during the British period would reveal that whenever India’s colonial economic links in terms of foreign trade and inflow of foreign capital were disrupted, Indian economy made strides in industrial development. During the 20th century, the colonial economic links were interrupted thrice: first, during the First World War (1914-18), Second, at the time of the Great Depression (1929-34) and third during the Second, World War (1939-45). In other words, free flow of foreign trade and capital meant economic stagnation in India, while their absence (partial or total) provided an opportunity for Indian capital to open up avenues of industrial growth in areas choked off by imports.¹⁴

The British rule was a long story of the systematic exploitation by an imperialistic government of a people whom they had enslaved by their policy of divide and rule. The benefits of British rule were only accidental and incidental, if any. The main motive of all British policies was to serve the interests of England. Thus, in 1947 when the British transferred power to India, we inherited a crippled economy with a stagnant agriculture and a peasantry steeped in poverty. As Jawaharlal Nehru put it: “India was under an industrial capitalist regime, but her economy was largely that of the pre-capitalist period, minus many of the wealth-producing elements of that pre-
capitalist economy. She became a passive agent of modern industrial capitalism suffering all its ills and with hardly any of its advantages.\textsuperscript{15}

Notes and References

\begin{enumerate}
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\item Romesh Chandra Dutt. \textit{The Economic History of India}. Vol.1 p.180
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\item Famine Commission Report 1898. p.585
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\item Dadabhai Navaroji. \textit{Poverty and unBritish Rule in India}. p.34
\item Habib-Irfan. \textit{Process of Accumulation in Pre-colonial and Colonial India}, p.69
\item K.T. Shah’s \textit{Wealth and Taxable Capacity of India}, p-267
\item For a detailed and systematic analysis of how India was impoverished through trade buy the British, see R.C. Dutt. The Economic History of India, (2 vols) Publications Division. New Delhi.
\item Bipin Chandra. Colonialism and moderation, Presidential Address Section 2, Indian History Congress 1970, p.3
\item Bipin Chandra. Colonialism and moderation, Presidential Address Section 2, Indian History Congress 1970, p.3
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\end{enumerate}