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MODERN INDIA
&
FREEDOM STRUGGLE

(UPSC PRELIMS)

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MODERN INDIA & FREEDOM STRUGGLE

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CHAPTER

ECONOMIC AND ADMINISTRATIVE POLICIES

After the Battle of Plassey, the British presence in the inland trade of Bengal increased significantly and later it extended to other parts of the country too. Britishers transformed the Indian Economy into a British colonial economy so as to establish it as a source of regular and quality supply of raw materials for its own Industries in Britain as well as to create a market for its finished products in India.

Stages of British Colonialism in India

The British came to India as mercantilists and indulged primarily in trading activities. In the initial stages, they tried to compete against other European powers viz. the French, the Portuguese, the Dutch etc., to create a share for themselves in the Indian markets. Over the period of time they realized that they can use their military prowess to dominate other European powers and local Indian rulers to not only increase their share in the profitable Indian markets, but also to get a disproportionately larger share in the overall trade originating from the subcontinent by means of free trade agreements, etc.

All these seemed more plausible if they could strengthen their grip over the politics of this country, which was not a difficult task, given the weaknesses of the Indian rulers due to internal infighting and a weak administrative structure. Incidentally, the British were successful in their efforts and they went on to establish their political hegemony over the entire subcontinent.

Once the British Empire was established over India, the systematic process of her colonial exploitation and drain of wealth, raw materials and resources for the enrichment of the colonial power started so much that till the close of the 18^{th} and early 19^{th} century, India was the largest producer and exporter of the industrially produced goods which were exported to all parts of the world by the European companies but during the close of the 19^{th} century, India was transformed from a self sufficient economy to a dependent colonial economy.

The British colonialism in India passed through different phases as the economic and commercial policies of the Britishers unfolded over the years. R. P. Dutt in his book 'India Today' has drawn a picture of the Indian colonial economy. It passed through different phases such as:

- **Mercantile Phase (1757-1813):** This phase was marked by direct plunder and the monopoly trade of the East India Company. Surplus revenues were used to purchase Indian finished goods cheaply for export to England and Europe.
- **Free Trade Phase (1813-1860):** During this phase, Britishers made India not only the exporter of raw material but also the consumer of British industrial goods. The monopoly of the company was ended and trade with India was opened for other British merchants. But Indian goods entered Britain with huge tariffs while British goods entered India duty free leading to the disintegration of traditional Indian handicrafts and cottage industries.

- **Financial Capitalism (Post 1860):** During this period, Britishers searched for avenues to invest their accumulated capital and found India as the safest place to invest. They soon established industries and infrastructure such as railways, plantation, etc., to earn profit.

Land Revenue Systems During British Rule

Land revenue was one of the major sources of income for Britishers in India. There were different types of land revenue policies in existence during the British rule in India.

Izaredari System

This system was introduced by Warren Hastings in 1772.

Features of Izaredari System

- Under this system, the highest bidder would get the right for revenue collection. Initially it was for 5 years, but in 1777 it was made annually.
- Zamindars were considered as revenue collectors and not as landlords for which they got a commission.

Result

This system was a complete failure because of the following reasons:

- Bidders were mainly contractors who had no interest in the welfare of peasants and they tried to maximize their profit.
- In an auction, bidding for a particular land was assumed higher than the actual capacity of land, and revenue was fixed at its maximum.
- Officers from the company also participated indirectly in auction through their servants.

Permanent Settlement

It was introduced by Lord Cornwallis in 1793. It was prevalent in 19% of British India, which included the regions of Bengal, Bihar, Odisha, Banaras region of Uttar Pradesh, and areas of North Karnataka. Under this system, zamindars were recognized as the owners of the land. $1/11^{th}$ of the revenue could be retained by zamindars while $10/11^{th}$ was to be submitted to the Company. The estate of the landlord was to be treated as his property and was divisible among his dependents upon his death.

Features of Permanent Settlement

- Land revenue was fixed for zamindars and their heirs which would not change in future.
- Due to fixed income from revenue, the government would be able to decide their expenditure.
- Politically, Cornwallis was assured that this system would produce zamindars who will be loyal to the British government, which was true as we know that in 1857 revolt many zamindars or land owners kept themselves away from the revolt.

Drawbacks of Permanent Settlement

- This system strengthened feudalism in the upper sections and slavery in lower sections of society.

- Due to fixation of land revenue, the income of government through land revenue could not increase even if the cost of agricultural land and production increased.
- Most of the zamindars had their focus on collection of maximum revenue rather than focusing on the betterment of agricultural land which degraded the condition of farmers.
- Zamindars started shifting to the cities which gave rise to "Absentee Landlordism".
- 'Sunset Law' was introduced in 1794 according to which, if a Zamindar fails to submit the revenue from his land by the sunset on the fixed date, his estate would be confiscated and auctioned.

Ryotwari System

It was introduced in the territories of the Company by Thomas Munroe and Captain Reed in 1820. It was first employed by Captain Reed in 1792 in the Baramahal region of Tamil Nadu of Madras presidency. It was effective in 51% area of British India, which included regions of Madras, Bombay, Eastern Bengal, Assam, and Koorg. In Bombay presidency, it was applied by Elphinstone, Chaplin and Winget.

Ryots (or Raiyyats) were recognized as the owners of the land they cultivated and the revenue was to be collected directly from them. The farmers had to pay revenue between 45% and 55% to the Company. The system was revised and improved by Wingate and Goldsmith after 1836.

Features of Ryotwari System

- This system seemed to be more beneficial and so it was adopted in large extent.
- Ryots were comparatively more independent in this system.
- Revenue was not fixed so that government can increase revenue in case of more production.
- Barren land was under the British control, agricultural practices can be carried out on these lands and government had its share on the income generated.
- Land could be confiscated in case of non payment of revenue.
- In this system, lessees were allowed to leave any land or part of the land whose lease is available to them by providing prior notice and get themselves free from giving revenue for that land.

Drawbacks of Ryotwari System

- This system was very expensive in comparison to Zamindari system.
- Under this system, the government had to know the accurate condition of land and agriculture and had to fix the tax rate accordingly, which was an additional work for government and for this they had to expand their revenue department.
- Corruption increased rapidly among the officers employed in this system.
- Bribery was popular during the assessment of land by the officers.
- On the basis of one land, revenue for other lands was decided and in this situation land revenue was fixed which was often more than the capacity of the land.

Mahalwari System

This system was devised after Permanent Settlement and Ryotwari System. Mahalwari system was formally launched in 1822 based upon the regulation of East India Company secretary Holt Mackenzie. It was used in 30% area of British India (North-West provinces, parts of Central India, Punjab and Ganga Valley). Under this system, revenue was fixed on the basis of assessment of the production of the complete village (Mahal) and was fixed collectively for all the landowners. This revenue settlement was done with the landlords who collectively claim to be the landlords of the village. Mahalwari system was basically a dual system in which settlement was done collectively with the whole community and also with the individual landlords.

A major drawback of the system was that the survey was practically based on faulty assumptions which left a space for manipulations and corruption. At times, it made the Company spend more for the collection than the revenue collected. Consequently, the system was regarded a failure.

Taluqdari System

The term 'taluqdar' has different meanings in different parts of India. In Oudh, taluqdar is a great landholder. But in Bengal, a taluqdar is next to zamindar in the extent of land control and social status. The big zamindars themselves had created many taluqs under several denominations, such as, junglburi taluq, mazkuri taluq, shikimi taluq, and so on. These were created partly as a strategy of zamindari management and partly as a fiscal policy measure for raising zamindari funds for specific purposes. After the Permanent Settlement, new variety of taluqs were created by zamindars. Under the pressure of the Permanent Settlement, many zamindars were creating dependent taluqs denominated as pattani taluq, noabad taluq and osat taluq.

Malguzari System

The land tenure prevailing in the erstwhile Central Provinces was known as Malguzari system in which the Malguzar who was merely a revenue farmer under the Marathas. When the Marathas came into power in this region, they farmed out the revenues of villages to persons of influence and wealth, who were called Malguzars. During the British Rule, they were given proprietary rights and were held responsible for payment of revenue. If the headman was weak or was for any other reason, unable to answer for the sum the authorities expected, or if a court favourite wanted the village, the headman was replaced without hesitation by a farmer. The farmer, or the manager was at first called Mukaddam (the Hindi or Marathi form of Arabic Mugaddam). But under the rule for summary settlement of 1855, the title of Malguzar was given. Under the Malguzari system, the Lambardar/Sadar Lambardar appointed from among the Malguzars, was the revenue engager. Other cultivators were either Absolute occupancy tenant, Occupancy tenant, subtenant, Raiyat-Malik or lessees, who could be ejected from their holdings on various grounds. Malguzar (proprietor, or co-sharer) held land under special description, namely, Sir land and Khudkast land.

Impact of Revenue Policy

The fixation of revenue demands at its optimum affected the village community in several ways. Some of the effects are as follows:

- There was a decline in the fertility of agricultural land as there was no concomitant betterment of agriculture by the state or zamindars or the farmers.
- The peasants were not left with any surplus to be used in case of crop failure and consequently, famines and starvation increased.
- Farmers lost their traditional rights over land.

- There was an increase in the number of landless labourers.
- Social fabric of the Indian villages was affected adversely.

Commercialization of Agriculture

The extension of commercial relations and monetary economy to the agriculture is termed as the commercialization of agriculture. Under British rule, several factors led to the commercialization of agriculture such as:

- The land revenue rates in India were very high and it was not possible for the peasants to pay the revenue without being forced to cultivate cash crops.
- The industrial revolution in England required a sound agricultural base that was not present in its own country. Thus, it exploited the Indian colony as an agricultural base and as a supplier of raw materials for its industries.
- The idea among the farmers that commercial farming yields higher profits also inspired them to shift to commercial agriculture.

Impact

- Crops promoted by British for commercial agriculture, mainly included those crops which were required as raw materials for its industries in England such as indigo, opium, mulberry silk, cotton, etc. It led to the decreased production of staple crops such as rice and wheat, hurting the food security of the masses and at times leading to famines.
- Commercialisation of agriculture harmed the self-sufficiency of the village economy.
- However, it also helped in the development of a pan-national economy.
- In a few regions, like the cotton cultivating region of the Deccan and Krishna, Godavari, and Kaveri delta areas, the commercialization emerged out to be beneficial to the peasants.

Deindustrialization

The gradual decline and destruction of industries of any country is called deindustrialization. The factors that caused deindustrialization in India during the British rule are:

- The interference of the British Company through 'gumastas' in the production of handicraft industry and their control over Bengali handicraft workers after the battle of Plassey and Buxar.
- The market of India was opened for import of British goods through the Charter Act of 1813. There was decline of Indian business in the British markets as Indian goods were heavily discouraged and a few were even prohibited.
- The imperial policies of the British government sidelined the kings and the royals who were the patrons of the craftsmen thus ending the local market for handicraft industries.
- British social and educational policy is also considered responsible in making the handicraft industry obsolete. It gave birth to a class of people with an alien outlook that favoured British goods more than Indian products.

Impact

Indian traditional industries and handicrafts were adversely affected by the deindustrialisation policies of the British.

- After agriculture, cotton textile industry was the biggest sector for providing employment in India. But its constant competition with British goods and the discriminatory policies of the British led to the decline of the cotton industry in India.
- Jute handicrafts also received set back after 1835 when it had to compete with the finely weaved machine products of the British.
- Kashmir was famous for its shawls and blankets all over the world, but in the 19^{th} century the Scottish products sidelined the Kashmiri handmade shawls resulting in the decline of this industry.
- Paper industry was very popular in India before the British arrival, but due to the dictum made by Charles Wood in the post mid 19^{th} century, the paper used in any kind of official task was to be purchased only from Britain. This gave a huge blow to the paper industry in India.
- Since ancient times, India was famous for the production of better quality iron and steel, but the import of iron machinery from Britain did not allow the Indian iron and steel industry to remain unaffected.

Drain of wealth

- Drain of wealth refers to that situation in an economy when it continuously loses wealth, prosperity and a lot of bullion (precious metals like gold and silver) without economic or commercial or material gain due to unfavorable trade with another country.
- With the grant of Diwani rights of Bengal, the financial situation of the Company was redeemed of its dependence on its home country. A part of the accumulated wealth, including profits from the internal trade, the wealth accumulated by plundering and the revenue collected from Bengal could now be used to purchase Indian goods of trade thus ending the need of importing bullion from home country. In such scenario, the drain of wealth from India was an obvious result.
- It is assumed that by the end of the 18^{th} century, an amount of four million pounds Sterling had been transferred from India to Britain.
- Till 1813 the Company policy in context of India was guided by the Mercantile thought in which the Colony was seen as an important asset to be exploited for the benefit of the mother country.
- The drain of wealth continued even after 1857 in a bit modified way. In 1858, the English crown took over the Indian colony from the company. The proclamation of 1858 led to the creation of the post of Secretary of State aided by a Council of fifteen members. All the expenditure related to it was to be borne by the Indian money.
- Even the expenditure done to quell the revolt of 1857 was to be compensated from the Indian treasury.
- British Indian government sent an annual submission under the head of 'home charges' which included the interest on public debt, payment of interest on investment in railways, home charges for the service of British troops in India, transport charges of troops going to India or returning to England, charges of pension and annuities to army officers, etc. All this expenditure resulted in the drain of wealth. There were also the submissions sent to England by the British officers stationed in India as well as the profits made by the British merchants in Indian trade.
- The transfer of money also took place through the sale of 'Council bills' issued by the Secretary of State and used by British merchants as well as officers.

Estimation of the Drain

The estimate of the drain of wealth is different from person to person. Dadabhai Naoroji estimated the drain to be the $1/4^{th}$ of the total revenues of India, but MG Ranade estimated the drain to be $1/3^{rd}$ of the national income while Dr. R.C. Dutt's estimate was ½ of the national income.

Sources of Drain of Wealth

The sources of the drain of wealth are classified into direct sources and indirect sources.

- **Direct Sources:**
  - The remittances from India to Britain were under many heads. When India was under the company's rule, 10.5% of the revenues of India were remitted as dividends to the shareholders of the company.
  - When India was brought under the British Crown, the salary of the Secretary of State for India, and the maintenance of the India Office were paid from the Indian exchequer.
  - The single biggest source of direct drain of wealth were the so called "Home Charges" which included returns on the British capital investments made in India such as for the construction of the Railway system, purchase of the military equipments and the Railways equipment supplied to India, payment of pensions and gratuities, etc., to the British Civil, Military and Railway employees having served in India, the profits on the foreign capital invested in trade in the industry.
- **Indirect Sources:**
  - Trade was the single biggest source of indirect drain of wealth.
  - The expenses made from the British India exchequer to wage the British Imperial and Colonial wars such as the Indo Burmese war, Indo-Afghan war, the First and the Second World Wars.
  - The cost of expensive and extravagant British administration in India, which included high salaries to the British Civil and Military officials, development of Shimla as the summer capital, transfer of capital from Calcutta to Delhi, the building of the Imperial New Delhi, etc.

Consequences of Drain of Wealth

Several consequences have been described by the nationalist economic thinkers such as:

- Impoverishment of the Indian people as Naoroji said it was the root cause of India's growing poverty.
- It not only caused the loss of wealth, but also loss of capital because if the money had been spent in India and circulated amongst the people it would have created a sound capital base.
- Dadabhai argued that the lack of India's industrial growth was not unwillingness of the Indians to invest their capital, but the fact that the capital available to Indians was not enough.
- Naoroji further declared that the de-industrialization of India was also a consequence of the drain of wealth.