Empire: How Colonial India Made Modern Britain

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The view that colonialism did not have a major impact on the modernisation process of the colonising countries of Europe has not been critiqued adequately. Focusing primarily on the relationship between Britain and India, this paper argues that the economic development in Europe both in terms of the rise in living standards in human development and in the sense of the structural breakthrough with the rise of capitalism was closely linked with Europe's relationship with the rest of the world from about the 15th century. The imperial connection between Britain and India contributed to British industrialisation and its emergence as a hegemonic power in the world, sustained Britain through her period of relative decline in global competition in the industrial sphere, enabled her financial supremacy in the world till the first world war to finally seeing her through the crisis years of the 20th century and up to the second world war.

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1 Introduction

The impact of colonialism on the world economy needs to be investigated both from the perspective of what it does to the colonies and what it does for the colonisers. A debate on both these issues has emerged over a long period. Among the early positions taken on these issues were two journalistic pieces written by Karl Marx in 1853 for the *New York Daily Tribune* on British rule in India and his subsequent writings on colonialism.[1] In these articles he wrote about the "destructive" and the "regenerative" role of colonialism. He saw in the very process of destruction by colonialism of the pre-colonial Indian society, the regenerative role of colonialism, as it opened up the *possibility* of growth of capitalism and industrialisation in the colony.[2]

The hope was that colonialism would lead to the "mirror image" of capitalism being produced in the colony and in that sense would play a historically progressive role. (This position of Marx led to much controversy and misuse[3] subsequently.) The early Indian modern intelligentsia shared a similar view of British rule. However, as I have argued at some length elsewhere, Marx moved away from this position very early, as did the early Indian nationalists who, from about the 1860s, forcefully began to argue the opposite position that the route to capitalist development was not through colonialism but required its overthrow.[4] In fact, the Indian early nationalists like Dadabhai Naoroji, R C Dutt and justice M G Ranade were among the first in the world, decades before Hobson, Lenin or Rosa Luxemburg, to evolve a multi-pronged, detailed and comprehensive critique of colonialism.[5] Since then, over more than a century, a sophisticated critique of colonialism and its impact on the colony was evolved. Yet, till today, the colonial argument continues to be made, for example, where it is argued that colonialism led to "positive economic growth", "rapid growth of real income in industry and services", setting up of "modern infrastructure", etc, thus creating conditions for an economic take off after independence.[6] I have attempted a detailed critique of this resurgent colonial position elsewhere.[7]

On the second issue, that of what colonialism did to the coloniser, again Marx saw the unrequited transfer of capital from the colony to the metropolis in various forms (what the early Indian nationalists called the "drain" or "tribute") as a "bleeding process" ruinous to the colony but critical to the process of primitive accumulation and therefore to the transition to and growth of industrial capitalism in the metropolitan countries. However, this process of surplus appropriation continued even after the phase of primitive accumulation and early industrialisation in the metropolitan countries but now with the additional transfer of surplus that occurred through the process of "unequal exchange" between capitalist countries with higher organic composition of capital and hence higher labour productivity and other countries (not necessarily pre-capitalist) with lower levels of productivity.[8] The process of surplus appropriation was therefore a continuous process not limited only to the phase of initial industrialisation. This understanding was there in Marx's writings and the works of the early Indian nationalists and was later developed extensively by the dependency theorists and the neo-Marxist world system analysts.

While the colonial viewpoint that colonialism benefited the colony and set it on the path of modern development still persists in some quarters, it is by no means the dominant view and has been effectively critiqued. However, the view that colonialism did not have any major impact on the modernisation process of the colonising countries of Europe (or of the US and Japan) has many adherents and has not been critiqued adequately. In fact, there has been a tendency, surprisingly including among radical, Marxist scholars, to underplay the role of "colonial plunder" in primitive accumulation leading to the rise of capitalism in Europe.[9]

Europe is supposed to have had some intrinsic advantage or capabilities that put it ahead of the rest of the world.[10] Attempts are made to argue that Europe was ahead of the rest of the world centuries before the industrial revolution, an assertion which when looked at from the vantage point of ancient civilisations such as China and India, (which stood tall over even the global economy till as late as way into the 18th century) looks very questionable indeed. After all, Europe was still buying textiles from India (the world's largest exporter of cloth) till the end of the 18th century and had nothing to offer in return except gold and silver "looted" from Latin America. There is also the view that modern values such as that of the "Enlightenment" all originated in Europe and then spread to the rest of the world. A gentle reminder may help shake such firm convictions: the 16th century Indian emperor, Akbar, was talking of reason, tolerance, rights of women, and trying to promote a universal religion *sulah kul,* etc, while his exact contemporary, Prince Philip II of Spain was engaging in the Spanish inquests![11]

This essay is based on the basic premise that at the heart of colonialism lay surplus appropriation from the colony to the metropolis or the colonisers. (It was neither a "fit of absent-mindedness" nor the desire to take on "the White Man's Burden" to "civilise" and "modernise" the "child" people of the colonial countries which led to or sustained colonialism.) The precise form that the process of surplus appropriation took and what constituted the surplus differed widely over time, the level of development of capitalism in the colonising country and the nature of the colony in terms of its natural endowments. To fix the colonial process in only one image – for example, that of the colony being a market for the manufactured goods of the metropolis and the supplier of raw materials to the metropolis – is to miss the enormous range of ways in which colonial surplus appropriation actually evolved historically. As we shall see, surplus could be transferred in the form of labour, commodities (not necessarily only primary goods but could also be manufactured goods) or even knowledge in the, so-called, post-industrial "knowledge society" depending on which was the key factor of production at a point of time. In the early pre-industrialisation era, when labour was the key factor of production, forced appropriation of labour, either at its point of origin or by moving the labour forcibly to other work destinations, was a critical form of surplus appropriation. With industrialisation and capital becoming the key factor of production, the use of labour from the un-industrialised part of the world for capital accumulation was combined with huge transfers of capital from the colonies to the metropolis in the form of the colonies' export surplus of unremitted commodities (the process of drain or tribute collection). In today's world, a major form of surplus appropriation is in the form of "brain drain" to the advanced countries from the backward ones.

Again, the process by which the transfer of surplus occurred could vary from forced transportation of slaves and indentured labour or forced appropriation of output of labour in the colony itself, drain or tribute as direct seizure of the colony's surplus in the form of commodities, process of "unequal exchange" in so-called "free trade" (as distinct from forcible seizure) where surplus was transferred from the low productivity colonial country to the high productivity advanced country or brain drain through "voluntary" migration. India, the classical "colony" has suffered all these forms, including the last one. (After a few decades of a very costly and painful effort since independence, when India had created a sizeable supply of technical and scientific manpower, the process of brain drain started. For nearly half a century since the mid-1960s the cream of the scientific and technical and even managerial community in India has continuously migrated to the advanced countries in massive numbers.)[12]

I will argue in this essay, focusing primarily on the relationship between Britain and India, that the economic development in Europe both in terms of the rise in living standards in human development terms and in the sense of the structural breakthrough with the rise of capitalism was closely linked with Europe's relationship with the rest of the world from about the 15th and certainly from the 16th century.

2 Europe and Asia: Broad Comparative Data

It may be useful to begin with some very broad macro-level comparative data before one looks at the specific historical unfolding of the process of interaction between India and the rest of the world under British colonial hegemony. Using Angus Maddison's monumental work,[13] if one looks at how the Global gross domestic product (GDP) was shared/produced during the period 1500 to 2001 between western Europe and Asia, one notices how these regions grew more or less inversely during the period of colonial contact and Asia began to show definite positive growth only after the breaking of the colonial stranglehold (Table 1). Asia (excluding Japan)

Table 1: Share of World GDP (% of world total)

Year	1500	1700	1820	1870	1913	1950	1973	2001
United Kingdom	1.1	2.9	5.2	9.0	8.2	6.5	4.2	3.2
Western Europe*	17.8	21.9	23.0	33.0	33.0	26.2	25.6	20.3
United States	0.3	0.1	1.8	8.8	18.9	27.3	22.1	21.4
China	24.9	22.3	32.9	17.1	8.8	4.5	4.6	12.3
India	24.4	24.4	16.0	12.1	7.5	4.2	3.1	5.4
Asia (excluding Japan)	61.9	57.7	56.4	36.1	22.3	15.4	16.4	30.9

* Western Europe here includes Austria, Belgium, Denmark, Finland, France, Germany, Italy, Netherlands, Norway, Sweden, Switzerland, United Kingdom, Portugal, Spain and a small general category "other" which generally remained way below 1%.
Source: Extracted from Angus Maddison, *The World Economy: Vol I, A Millennial Perspective, Vol II, Historical Statistics*, OECD, 2006, Indian Edition, New Delhi, 2007, Table 8b, p 641.

produced in 1,500 more than three times what west Europe did of world GDP.[14] Subsequently, with Europe's colonial engagement with other societies its share begins to rise and that of Asia begins to fall. The process speeds up sharply as more and more parts of Asia are colonised, leading to a total inversion, so that by 1913 Asia's share of the global GDP was a mere two-thirds that of west Europe.

It is significant that, till as late as the early 19th century, China and India combined produced more than double the GDP of entire western Europe, thus bringing into question the notion of Europe's superiority since antiquity. However, from the 19th century, the share of India and China begins to shrink (India's share begins to shrink from the 18th century and China's since the 19th century, as they got colonised in those centuries, respectively) and becomes less than half that of western Europe by 1913 and only a third of that of western Europe in 1950, around the time the two countries gain independence (1947 and 1949 respectively). It was only by the last quarter of the 20th century after spending several decades "un-structuring colonialism" that independent China and India began to claw their way back into increasing their share of the global economy (Table 1). Evidently, the colonial contact did not develop the colonised countries while it clearly led to rapid development in the colonising ones. The former colonies experienced growth only when the colonial contact was broken.

If we focus specifically on India and the United Kingdom (UK), the same pattern emerges. India was the largest economy of the world for the entire thousand years of the first millennium, accounting for close to 30% of the world's GDP.[15] Till as late as the beginning of the 18th century, India was still the largest economy with about 25% of the world's GDP, greater than that of entire western Europe put together and more than *eight times* that of the UK. The decline started soon after and, by 1950, at the end of nearly 200 years of colonial rule (during which apologists of colonialism like Tirthankar Roy claim "colonial India experienced positive economic growth").[16] India's share had been reduced to a mere 4.2%, less than two-thirds that of Britain. It took a few decades before India could sufficiently shrug off the colonial legacy and began to gradually improve her share of the global pie (Table 1).

The contrast between the colonial and the post-colonial period in terms of a structural change can be easily demonstrated through certain growth indicators and has a lot of theoretical merit regarding the impact of the colonial link on the colony and the metropolis. The growth of per capita income in India in the colonial period, between 1820 and 1913 was either zero or very low, while the independent countries of Europe, the United States (US) and Japan grew substantially faster (Table 2). In the last decades of colonial rule, after colonialism had had its full impact, the per capita income in India actually declined at an annual rate of –0.22% between 1913 and 1950.[17]

Table 2: Rate of Growth of Per Capita GDP (annual average compound growth rates)

	1820-70 (1)	1870-1913 (2)	1913-50 (3)	1950-73 (4)	1973-2001 (5)	2001-07 (6)
France	1.01	1.45	1.12	4.04	1.71	
UK	1.26	1.01	0.93	2.42	1.86	
US	1.34	1.82	1.61	2.45	1.86	
Japan	0.19	1.48	0.88	8.06	2.14	
India	0.00	0.54	–0.22	1.40	3.01	5.65*

* Per capita net national product.
Source: Columns 1 to 5 from Angus Maddison, op cit, Table 8b, p 643 column 6 is based on *Economic Survey*, 2006-07, Government of India, New Delhi, 2007, and Aditya Mukherjee, "Indian Economy in the New Millennium", in Bipan Chandra, Mridula Mukherjee and Aditya Mukherjee, *India since Independence*, Penguin, Delhi, 2008.

After independence, on the other hand, per capita income in India grew annually at 1.4% in the first couple of decades (about three times faster than the best phase, 1870-1913, under colonialism) and much faster, at 3.01% in the next 30 years, 1973-2001 (a rate considerably higher than that achieved by west Europe,[18] the US or Japan) and in the last four years (2003-04 to 2006-07) at an astounding 7% (it was over 8% in 2006-07), comparable to the explosive rates achieved by Japan (though in very special circumstances) between 1950 and 1973.[19] Similar structural breaks were witnessed in the growth of agriculture, industry and the rate of capital formation between the colonial period and in independent India. The growth that India witnessed *after* independence was thus not all about carrying on the "good" work started during colonialism. It was a product of a *structural* break from colonialism, painstakingly crafted through a multi-pronged planned effort – a unique effort of trying to industrialise and build capitalism with democracy and civil liberties.[20]

3 British Conquest of India

To return now to the question of the link between India and Britain in terms of flows of commodities, labour and capital, and how it historically evolved, and with what consequences.

Britain was able to subjugate and colonise India by about the middle of the 18th century. Britain, however, had trading contacts with India for a long period before that, though her trade with India increased rapidly during the first half of the 18th century. The "trade" during the first half of 18th century consisted primarily (about three-fourths) of imports of textiles and silk from India, which was the largest grower of raw cotton and the largest producer and exporter of cotton textiles in the world till the end of the 18th century.[21] While Indian textiles were much in demand in earlier centuries in European markets, as well as, to exchange for spices from east Asia, one major impetus for the spurt in demand for Indian textiles was the facilitation of the "golden age" of the Atlantic slave trade. Indian textiles constituted the single largest item with which the slaves were paid for, accounting for about 27% of all goods shipped from England to Africa during the 18th century.[22] Since Britain had nothing to sell to India which she needed therefore the imports from India were financed by export of treasure or bullion,[23] i e, silver and gold got cheap from the rape of Latin America leading to the virtual extinction of the Amerindian people in many areas.

At this stage, India was fully compensated for the growing export of its commodities even though the compensation may have come relatively cheap to Britain. Thus, even though till the middle of the 18th century India's contact with Britain had not yet acquired colonial characteristics nevertheless India fitted neatly into the structure of global domination by Europe that had commenced a few centuries ago, beginning with the cheap mining of gold and silver in the Americas and extending to the slave trade from Africa to the spice trade in east Asia.

From about the middle of the 18th century, with the victory in the battle of Plassey in 1757, once Britain began to seize and rapidly expand its control of Indian territories, India's role in Britain's development changed fundamentally. Britain now began to use the "revenues" raised by taxing the people of the conquered territories to pay for her imports from India. A bizarre form of international trade was thus imposed by Britain, the leading European economy at that time, whereby India was made to pay for her own exports! The East India Company's imports of treasure into India which amounted to Rs 3.1 million in 1757-88 absolutely ceased thereafter.[24] The entire Indian exports that were paid for by Indian revenues (and hence remained unrequited) thus constituted the "drain" or the "tribute" paid by India to Britain as the cost of being "civilised". This was the beginning of a nearly 200-year journey where India relentlessly maintained a flow of unrequited exports (of changing commodities), an "export surplus" which had no positive impact on the balance of payments as it was siphoned off as tribute. It is to be noted that quite contrary to the usual stereotype of what constitutes colonialism and what was actually to happen later, India, in its initial phase of being colonised, which lasted more than half a century, was neither a lucrative market for British manufactures nor was it a supplier of raw materials or labour but was an exporter of manufactured textiles, albeit unrequited. Indian manufactures constituted the tribute.

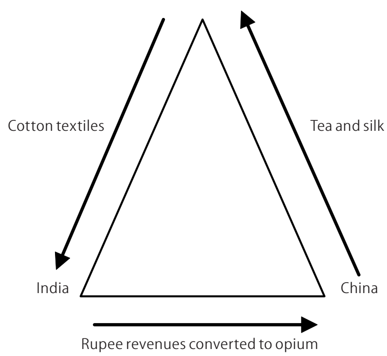
The drain that the Indian economy faced through this continuous process of unrequited exports was enormous in size and critical to Britain. It has been calculated by Irfan Habib that in 1801, at a crucial stage of Britain's industrial revolution, drain or unrequited transfers to Britain from India represented about 9% of the GNP of the British territories in India which was equal to about 30% of British domestic savings available for capital formation in Britain.[25] The unrequited transfer from Asia and the West Indies put together was calculated by Utsa Patnaik to be 84.06% of British capital formation out of domestic savings in the same year.[26] These figures show how critical transfers from the colony were to the process of capital accumulation for Britain and how debilitating it was for the colony. Also, Javier Cuenca-Esteban has convincingly shown the net inflows from India to Britain, through 1765-1812, were very large and "arguably the least dispensable", playing a critical role in maintaining British balance of payments which were under major stress in this period.[27]

The process of primitive accumulation in capitalism or the initial phase of industrialisation is a painful one as the initial capital for investment has to be raised on the backs of the working class or the peasantry. To the extent that Britain and other metropolitan countries were able to draw surplus from the colonial people, to that extent they did not have to draw it from their own working class and peasantry. That is one reason why colonialism is supra-class, it is not only the metropolitan bourgeoisie exploiting the colonial proletariat but the metropolitan society as a whole benefiting at the cost of the entire colonial people.

The tribute or drain or the direct seizure of the colonial surplus in what is often referred to as the first stage or merchant capital stage of colonialism was not restricted to this stage. As I will show this form of surplus appropriation continued and even *increased* in the subsequent "free trade" or industrial capital stage of colonialism and the third or finance capital stage of colonialism. In fact, I shall argue that it perhaps peaked during the last phase of colonialism in India which paradoxically apologists have called the phase of "decolonisation". This form of direct seizure of surplus therefore continued to sustain the development of capitalism in Britain and the standard of living of its people. However, the subsequent stages evolved other methods of surplus appropriation as well and met metropolitan interests in different ways.

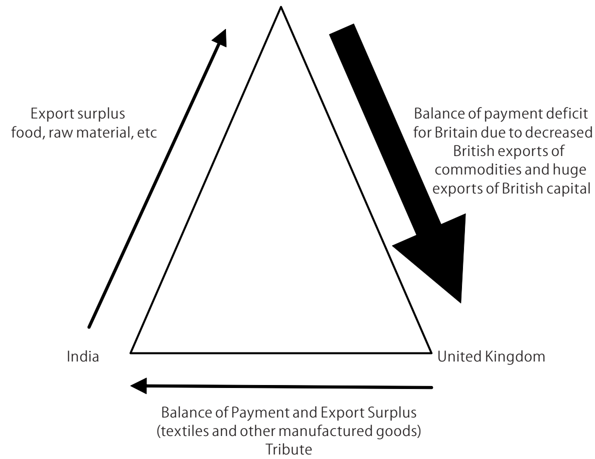
The form that this direct seizure took however did not remain the same as Britain moved to different stages of capitalist development. In fact, as Britain began to industrialise at the turn of the 18th century, she was no longer interested in exporting Indian textiles, she was seeking to expand the markets for her own textile manufactures including in India. But if Indian export of textiles had to be stopped, which it was unceremoniously, then an alternative exportable commodity had to be found to realise the tribute from India, which had swollen. (Just the land revenue raised from the various British territories in India was estimated to have increased by 70% to 88% in the first half of the 19th century.)[28] Indian raw cotton was short stapled and did not suit British industry. The solution was found in the early 19th century in opium. A triangular trade with China was now to lead to the realisation of Indian tribute in an enlarged form (Figure 1). British ships would now come loaded with textiles for the Indian market and pick up opium from India which would constitute the tribute from India as well as the payment for the export of textiles to India and then this opium would be traded in China for tea and silk which then would be carried back to the western markets. Indian tribute thus would be realised via China with the additional advantage that Britain would not have to pay China with bullion for its tea and silk as it had to earlier. The tribute representing the tax appropriated from the Indian people thus got converted to opium and then to tea and silk and ultimately realised as the market value of the tea and silk sold globally. Exports of opium from India shot up by more than six times between 1816 and 1830. Indian export of opium to China in 1855 was worth £6.23 million paying for most of the tea and silk worth about £8.5 million that Britain took from China. This neatly fitted British interests and when China resisted, she too had to be forcibly "opened up" and "civilised" as the gun boat diplomacy and the opium wars of the 1840s and 1850s tried to do.[29]

Figure 1: Britain



By the second half of the 19th century with many other countries apart from Britain industrialising rapidly the global demand for food and raw materials had expanded enormously and transport of bulky goods had become easier with development of the railways, opening of Suez, etc. India's tribute in this period till first world war began to be realised though a multilateral trading pattern (Figure 2) whereby India generated an export surplus with countries in the European continent, Japan, the US and other countries by exporting large quantities of food and raw materials like raw cotton, indigo, pig iron. Britain had a huge export surplus with India exporting textiles and other manufactured goods including railway stock to India. Britain, however had developed a massive balance of payment deficit with the rest of the world largely because of the massive investments it was making globally including in the US and the white colonies. British net foreign investments as a percentage of her net domestic capital formation in fixed assets was as high as 86 between 1880 and 1889 and had peaked at 114 between 1905 and 1914.[30] Her balance of payments was under stress also because British exports to the newly industrialising countries of Europe and the US were beginning to decline. In this situation, Britain used its export surplus with India and India's tribute to adjust her balance of payment deficit with the rest of the world. British claims on India or the tribute was now realised by appropriating India's export surplus with a number of other countries to the extent of the tribute claims. India's tribute alone was estimated to have financed more than two-fifths or 40% of Britain's balance of payment deficit in this period.[31]

Figure 2: Rest of the World (Continental Europe, Japan, US, White colonies, etc)



This was not surprising because the size of the tribute from India during this period was massive. It has been calculated that between 1871 and 1916 the surpluses transferred from India, calculated after applying a compound rate of interest of 4%, amounted to a conservative estimate of about £3.2 billion.[32] If one compares this figure with an estimate of about £4 billion as what constituted total British foreign investments abroad in 1913 (including reinvestment of interests and dividends) it becomes clear what a preponderant role India played in British capital transfers abroad which made it the "economic hub of the world between 1870 and 1913".[33]

India thus fitted into the so-called third stage of colonialism during which massive transfers of capital occurred from Britain. However, contrary to expectations, she did so not as a receiver of capital from Britain but as a supplier of capital to Britain. A capital which then Britain used to invest all over the world – Asia, Africa, the "white" colonies and the "west" – to great advantage to itself. Referring to the investments in the "white" settlement colonies and the US it has been argued that it was the surplus extracted from the east which opened up the "land of opportunity for British finance and British migrants in the west". European exploitation of Asian colonies and semi-colonies enabled the European countries to channel a strong flow of investment to the colonies of European settlement overseas. Apart from the returns earned from that flow of investments, "That flow… supported the largest flow of migrants (from Europe) in recent human history as recorded between the 1870s and 1920s… (it) not only led to the peopling of the United States and its rise as the most economically advanced country in the world but also helped improve the living conditions of the Europeans left behind."[34]

The flow of capital from India to Britain as "tribute" was to continue after the first world war though it took a different form and performed a different role. I shall return to that aspect a little later.

First let us turn our attention to another critical role played by India in sustaining the process of British industrialisation. As Britain industrialised it was soon faced with the challenge of finding markets for its industrial products. As we saw earlier, by the early 19th century it would no longer do for Britain to allow India to be the chief exporter of textiles globally. British political control over India was now used to so manipulate the instruments of state policy that British cotton manufactures rapidly began to displace Indian production not only from the global markets but over time even from the Indian home market. First, Indian produce was forcibly kept out of British and other global markets and then the classical/Ricardian theory of comparative advantage in international trade was used to deny modern Indian industry any protection in the domestic market and a policy of "free-trade" was cynically imposed on India right up to the 1920s.

This resulted in India, which was the largest grower of raw cotton and the largest producer and exporter of cotton textiles in the world till the end of the 18th century, and which had a share of world manufacturing output estimated to be as high as 19.7% in 1800, rapidly losing that position and her share falling sharply to 8.6 in 1860 and a mere 1.4% in 1913.[35] British exports of cotton goods to India on the other hand increased dramatically, by over a hundred times, in less than 25 years, from 0.8 million yards in 1815 to 100 million yards in 1839. The total cloth imported into India increased by another ten times crossing a 1,000 million yards in 1872 and doubled again to 2,000 million yards by 1887. By 1887 Britain had captured over 66% of the Indian domestic market.[36] The ousting of Indian textiles from its global and domestic market which was critical for British industrialisation set in motion a process of deindustrialisation in India causing untold misery to millions dependent on this industry.

It must be emphasised that the dependence of the British textile industry on the colonial, non-industrialised (in the Indian case deindustrialised) part of the world increased in tandem with the development of modern industry in Europe, the US and other countries of the "free" world. As Table 3 shows, Europe and the US, took a majority, more than 60%, of the British cotton goods in 1820 but as this part of the world itself industrialised, this market virtually disappeared, and by 1900 absorbed only about 7% of British exports. This shift was more than compensated by the increase in British dependence on the markets of the underdeveloped world, which by 1900 were absorbing more than 86% of British textiles. While Latin America, particularly Brazil, was the chief importer of British textiles in the first half of the 19th century, Asia, primarily India, became the chief market in the second half of the 19th century.[37]

Table 3: Exports of British Cotton Piece Goods
(% of total)

Year	Europe and US	Underdeveloped World	Other Countries
1820	60.4	31.8	7.8
1840	29.5	66.7	3.8
1860	19.0	73.3	7.7
1880	9.8	82.0	8.2
1900	7.1	86.3	6.6

Source: E J Hobsbawm, *Industry and Empire*, Penguin, Harmondsworth, 1968, p 146.

Given the fact that India was increasingly a critical market for Britain as well as the supplier of huge amounts of capital through tribute it was not surprising that the liberal imperialist claim that the objective of British rule was to train Indians for self-government never found any takers among the British ruling elite. On the contrary, Britain had to keep India, its "jewel in the crown" at any cost. As Curzon, the British viceroy at the turn of the 19th century was to emphatically state that India was the "pivot" of the British empire and if the empire lost any other part of its dominions it could survive, but if it lost India the sun would set on the empire.

Apart from the direct seizure of the Indian surplus through "tribute" being collected by appropriating a large part of India's export surplus, there was another form of surplus appropriation in favour of Britain which began to occur in the "free trade" that grew between Britain and India after Britain industrialised and India was deindustrialised. This was the surplus appropriated through the process of "unequal exchange" (discussed above) between an industrialised country with higher labour productivity and a non-industrialised (or less industrialised) low productivity country. The commodities exchanged may have had an equal exchange value in the international market in terms of gold or any convertible currency, but in terms of the amount of "socially necessary labour time" required to produce those commodities, the exchange would be very unequal, the low productivity country in the net giving up far more labour time. To the extent the theory of comparative advantage was used to prevent industrialisation and consequently prevent the rise in productivity in India, to that extent the productivity difference between India and Britain, a growing one in the colonial period, ensured that a transfer of surplus to Britain continued to occur through unequal exchange. The two processes were thus complementary.

Finally, India was not to be left behind in contributing to Britain's growing need for labour to work the labour-intensive plantations and build roads, railways and other infrastructure in the Caribbean, Mauritius, Fiji, South Africa, Malaya, Sri Lanka, Burma, etc. With the abolition of slavery in 1834 there was an acute shortage of labour. India again came to the rescue. Millions of rural poor, their ranks swelling with the destruction of Indian industries were now transported to various parts of the world as "indentured" labour in virtual slave like conditions.[38] By one estimate more than two million indentured labourers were exported from India between 1831 and 1920,[39] other estimates put the total number of Indian emigrants during this period much higher. In any case by the late 1830s nearly 65% of population in Mauritius was Indian, 42% in British Guyana, 34% in Trinidad and 43% in Fiji.[40]

4 British Colonialism and India: The Last Phase

The Indian economy underwent some changes in the 20th century, especially after the first world war which led to the reassertion of the colonial perspective.[41] The Indian economy underwent some industrial growth between 1914 and 1947 leading to considerable import substitution especially in consumer goods industries. The most dramatic change was that the Indian cotton textile industry essentially regained the domestic market which it had lost to Britain. These changes spawned the colonial argument that what India had undergone in this period was a process of "decolonisation" in which Britain pulled out, "surrendering its own interests" (under nationalist pressure, if not as part of the grand imperial design to modernise the colony) in favour of Indian industrial interests.[42]

I have argued a completely different explanation for the developments in the 20th century, particularly between first world war and 1947. Instead of decolonisation, what this period witnessed was not only the continuation of colonial exploitation (though in an altered form) but its blatant intensification in many respects at great cost to the Indian economy and its people.

Britain did not, after the first world war, abandon its most important market for textiles in India, so ruthlessly captured in the 19th century, as a result of their now giving in to Indian industrial interests or merely due to Indian nationalist pressure. Britain was forced to concede substantially her imperial *industrial* interest in the colonial market in favour of imperial *financial* interest, i e, using the colony as a source of capital through unrequited remittance or "drain". It was a switch from one imperial interest to another, not a switch from imperial to Indian national interest.

The British economy was in crisis in the 20th century. Having lost its industrial supremacy in the world (first in consumer goods and later in capital goods) by the second half of the 19th century, she became (as we saw above, e g, Table 3, p 78) critically dependent on colonial markets controlled by her to avoid a deep crisis for her industries. Britain, however, still retained its preeminence in the world in the financial sphere, with its huge investments abroad making London the "economic hub of the world" between 1870 and 1913, with "the pound sterling its foundation".[43] The first world war changed the situation dramatically. "Britain ceased to be the world's creditor nation" and in fact became heavily indebted to the US.[44] Since first world war, Britain's need for foreign funds to shore up its own financial status and for the maintenance of the pound sterling became critical. Also, the Great Depression of the 1930s and the second world war, coming in quick succession greatly exacerbated the crisis in the British economy.

As in the past, Britain once again turned to her colonies, principally India. British financial demands on India increased manifold since first world war. For example, Home Charges,[45] constituting a substantial part of the tribute, increased from approximately £2 million in 1913-14 to £32 million in 1924-25. Military expenditure doubled from £5 million to £10 million and interest charges on external public debt increased from about £6 million to £14.3 million between 1913-14 and 1934-35.[46] In 1917, India supplied goods worth £100 million without any payment and in 1918 decided to make another gift of £45 million to the British war effort.[47] During second world war defence expenditure increased by over nine times, from about Rs 50 crore in 1939-40 to Rs 458 crore in 1944. The proportion of the total expenditure of the Indian central government accounted for by the defence services was about 55% in 1920-21 rising to 75% by the end of second world war.[48] Far from decolonising, retaining India had become even more critical for Britain.

The huge rise in India's sterling "obligations" or "commitments" or the "external drain" required large increases in the revenues raised by Government of India or the "internal drain" in order to pay for the external drain.[49] Again, the only possible area where revenue could be increased substantially was customs revenue, which primarily meant import duties. (Land revenue, the principal item in the revenue since the mid 18th century could not be raised any further as it had already reached the maximum economic and political limit.) Thus between 1901-05 and 1936-37 while the total revenue raised by Government of India more than doubled, customs revenue alone met about 72% of the increase in total revenue. Customs which had overtaken land revenue as the principal source of revenue by 1921-25 was thus critical in the maintenance of the rapidly increasing remittances of the Government of India on account of home charges, military expenditure, etc.[50]

The import duties on cotton goods went up from 3.5% in the 1890s to 25% for British cotton goods in 1931. Duties on non-British, mainly Japanese goods were raised to 75% by 1933. This opportunity of protection, provided inadvertently to Indian industry, was seized by it and Indian industry made rapid progress.[51] This situation arose out of the internal contradiction within colonialism. Meeting of the imperial financial interest compromised imperial industrial interest. Significantly, this change in scenario was not seen by the British government at that time as the surrender of imperial interest, even if that may have been the view of some later imperialist scholars. Samuel Hoare, the secretary of state for India, quite conscious of the crucial role played by import duties in maintaining imperial interests, argued against the Lancashire agitation for removal of cotton duties. Apart from the "disastrous" political consequences such a course of action would produce, he urged that it must be recognised that "the present level of tariff on British cotton goods" was necessary for revenue purposes for "without this revenue India would be unable to discharge its financial obligations in this country and provide for military expenditure".[52]

Maintenance of remittance from India to Britain at any cost became the centrepiece of British economic policy in this period. This required a vice like stranglehold over Indian finance, its fiscal and monetary policy. Even when the colonial government set up the Reserve Bank of India in 1935, it was barely given any autonomy, with the British government insisting on "the last word" on financial matters. The bank, seen as an instrument for safeguarding imperial financial interests, was not to be allowed to be misused by Indians who "like a spoilt, wilful, naughty child" would instantly want to use it to demand financial responsibility.[53]

An India Office document of December 1930, marked "secret" and called "The Position of the Secretary of State in Relation to Indian Finance",[54] brings out clearly some of the reasons for the crucial importance attached to the issue of finance by the British.

It was stated that about 60% of the Indian government's budget, i e, about £60 million out of £100 million, was absorbed by military expenditure, sterling debt charges and liabilities in respect of salaries and pensions for officials for which the secretary of state was responsible. Of this, defence expenditure alone absorbed 45% of the central revenues.[55] When such a large proportion of the revenue was earmarked for charges for which the secretary of state was responsible, it was pointed out that "it is hardly open to doubt that Parliament should retain the power to secure that its obligations are duly honoured".[56] Since the "revenues from which these commitments must be met are collected in rupees", and the "commitments" were in sterling, it was "incumbent" upon the secretary of state to see "that currency and exchange are being so managed" as to "permit of the remittances of the requisite funds from India to London". Also, he had to ensure that the revenue and expenditure of the Government of India were balanced.[57] In other words, the secretary of state needed the "power to impose on the Indian Executive such measures as are needed to provide the funds and to facilitate their transfer… from India to London."[58] Some decolonisation!

Before I go on to outline other aspects of the fiscal and monetary policy followed by Britain in this period to meet its growing imperial financial interests, it must be noted that the rising tariffs did not mean that Britain was ready to withdraw from trying to maintain its industrial interest in the colonial market, i e, decolonise even in this limited sense. While it is true that British exports to India were shrinking rapidly since first world war (except in chemicals, where they increased) India still remained, as late as 1938, the largest single market for British exports of cotton piece-goods, as it did for general machinery and other items.[59] The Indian market, though shrinking, was thus, far from redundant; on the contrary, its importance increased as the British share in world trade kept declining. Basudev Chatterjee has ably demonstrated how Lancashire was desperate to hang on to the Indian market and Britain tried to ensure that it did, as much as the new circumstances would permit.[60] By introducing the principle of Imperial Preference at Ottawa and through the various trade agreements of the 1930s, Britain was making a last ditch effort to retain as much of the Indian market as was possible at a time when Britain was no longer able to compete effectively with other countries in various commodities, such as with Japan in cotton textiles. There were, however limits to how much imperial preference could be given to British goods as it could lead to retaliation by other countries, which, in turn, would affect Indian exports. This could not be permitted as India had to generate an export surplus at any cost so that the smooth flow of remittance to Britain could be sustained, as imperial financial interests would not countenance any interruption in that process.[61]

It is to ensure that India remained a constant source of capital to Britain through remittances, during a period when Britain just flitted from one crisis to the other (especially the two world wars and the Depression), that the most gross use of imperial authority was made to turn the instruments of economic policy in her favour and against Indian interest.

With the onset of the Great Depression, the situation in India changed drastically. World prices, especially those of primary produce, plummeted and India's export earnings collapsed. With agricultural prices being so low, the government was unable to collect full revenue.[62] Also, with the fall in export earnings, there was great difficulty in securing remittance to meet India's sterling obligations or the home charges.[63] With both revenue and remittance in jeopardy, the colonial government was in the throes of a major financial crisis. Under continuous pressure from London,[64] the Government of India sought to ease remittance by resorting to severe deflation, contracting currency repeatedly, causing havoc in the Indian economy, severely aggravating the negative consequences of the Depression.[65]

A total breakdown of the remittance mechanism was averted by the massive export of gold from India that the government encouraged in this period. The gold exports were crucial in compensating for the drastic drop in India's export surplus on commodity transactions.[66] Between 1931-32 and 1938-39, on an average, more than half (about 55%) of the total visible (positive) balance of trade (i e, balance of transactions in merchandise and treasure) was met through the net exports of treasure, with the exports of gold increasing sharply in years when the commodity balance of trade was particularly low. For example, in 1932-33, gold exports constituted about 95% of the total visible positive balance of trade.[67] Clearly, remittance had to be maintained at all costs, if the export surplus in commodities (necessary to convert the rupee revenues into remittance) fell short it was made up through export of gold.

Apart from the role of gold exports in India's maintaining a smooth flow of remittance of the "sterling obligations" or the home charges as well as the other invisibles such as profits, dividends and interests earned on foreign investments, it played another critical role for British interests at home. At a time when Britain was facing a balance of payment crisis it played a major part in strengthening the value of sterling vis-à-vis gold and other currencies.[68]

Finally, the blatant and cynical manner in which Britain used Indian finances for its own benefit during the second world war was breathtaking in its audacity. It put paid to any notion of imperialism withdrawing or decolonisation having occurred till the bitter end of colonial rule. Britain took massive forced loans from India (popularly called the sterling balance) of about Rs 17,000 million (estimated at 17 times the annual revenue of the Government of India and one-fifth of Britain's gross national product in 1947)[69] at a time when over three million Indians died of famine!

The sterling balances got accumulated as a result of the "large purchases of goods and services…made by the British Government, in India", against sterling bills or securities placed in reserve in London. For these large exports of goods and services, India, thus, received no "tangible quid pro quo" other than "IOUs of His Majesty's Government".[70] The rapid expansion of currency that occurred as a result (the total notes issued increased by nearly four times between 1939 and 1944) combined with the fact that large quantities of goods and services were made available to England for which no goods or services came back to India in return, led to severe shortages and a runaway inflation.[71] What was shocking was that this policy could be pursued at a time when famine conditions prevailed in India. To cap it all, after the war was over, Britain made a serious bid towards defaulting on repayment of the loans raised at such tremendous cost to India.[72]

The imperial connection between Britain and India over nearly two centuries was thus of critical importance for Britain. From contributing to British industrialisation and its emergence as a hegemonic power in the world in the initial period, sustaining Britain through her period of relative decline in global competition in the industrial sphere, enabling her financial supremacy in the world till the first world war to finally seeing her through the crisis years of the 20th century right up to the second world war, India was of critical importance. This of course meant India being bled of anything between 5 to 10% of her GPD annually for close to two centuries![73] While the living conditions of the British people were catapulted to new and unprecedented levels that of the Indian people reached an intolerable nadir. Add to this what centuries of subjugation did to the colonised people socially, culturally, morally and psychologically and one understands what the great Indian poet Rabindranath Tagore meant when he wrote shortly before his death in 1941:[74]

> The wheels of fate will someday compel the English to give up their Indian Empire. What kind of India will they leave behind, what stark misery? When the stream of their centuries' administration runs dry at last, what a waste of mud and filth will they leave behind them.

NOTES

1 "The British Rule in India" and "The Future Results of the British Rule in India", *New York Daily Tribune*, 25 June and 8 August 1853. Marx's writings on India in this newspaper along with articles written by Frederick Engels as well as relevant extracts from Marx-Engels Correspondence 1853-62 have been compiled in an extremely useful volume edited by Iqbal Hussain, *Karl Marx on India*, Tulika, 2006. See also Bipan Chandra, "Karl Marx, His Theories of Asian Societies and Colonial Rule", Mimeo. CHS, JNU and in *Sociological Theories: Race and Colonialism,* UNESCO, 1980, an abbreviated version in *Review,* 1, Summer 1981.

2 This was because Marx, on the basis of information then available to him, erroneously characterised Indian society as a "changeless" "Asiatic society" which needed to be destroyed, even though the process was painful, before any social progress could occur.

3 Pro-imperialist scholars like Morris D Morris have sought a defence of colonialism through Marx's remarks. See for example his "Towards a Reinterpretation of Nineteenth Century Indian Economic History" in *Indian Economy in the Nineteenth Century: A Symposium*, Delhi, 1969, p 3. Even within the Left, works such as those of Bill Warren, *Imperialism: Pioneer of Capitalism*, New Left Books, 1980, have made a mockery of Marx's position. Writing decades after the role of Imperialism had been laid bare, Warren critiqued the anti-imperialist position, arguing that imperialism *actually* led to the growth of capitalism. (Marx in the 1853 articles had suggested this only as a possibility.) Warren is somewhat on stronger ground in his critique of some of the Dependency school's positions which tended to equate imperialism with the world market and which by definition excluded the possibility of any non-dependent *capitalist* third world progress, ibid*,* p 160.

4 See Aditya Mukherjee "The Return of the Colonial In Indian Economic History: The Last Phase of Colonialism in India", Presidential Address, Modern India, Proceedings of the Indian History Congress, New Delhi, 2007, reprinted in *Social Scientist*, Vol 36, No 3/4 (March-April 2008), pp 3-44.

5 The remarkable achievement of the Indian early nationalists in this respect is perhaps still not adequately appreciated among scholars in India and remains virtually ignored globally despite the definitive and monumental work on the early nationalists by Bipan Chandra, *Rise and Growth of Economic Nationalism in India,* New Delhi, 1966.

6 For example, see Dharma Kumar, ed., *Cambridge Economic History of India,* Vol II, Cambridge, 1982 and Tirthankar Roy, *The Economic History of India: 1857-1947,* Oxford University Press, New Delhi, 2000, second edition 2006.

7 See Aditya Mukherjee, *The Return of the Colonial…*, op cit.

8 Rosa Luxemburg was to later (1913) emphasise that capitalist development continuously required the realisation of surplus value through exchange with colonial economies but she argued that they *had* to be 'pre capitalist'. For a comprehensive survey of Marx's views on the contribution of colonial economies to capitalist development in the metropolis and an analysis of Rosa Luxemburg's position see Irfan Habib, "Capital Accumulation and the Exploitation of the 'Unequal' World: Insights from a Debate within Marxism", *Social Scientist,* Vol 31, No 3/4, March-April 2003; "Capitalism in History", *Social Scientist*, Vol 23, No 7/9, July-September 1995 and "Introduction: Marx's Perception of India" in Iqbal Hussain, ed., *Karl Marx on India*, op cit.

9 See Irfan Habib, "Capitalism in History", *Social Scientist*, Vol 23, No 7/9, July-September 1995, pp 19-23, where he shows this tendency in the historiography of the rise of capitalism including in the writings of Maurice Dobb.

10 See Amiya Kumar Bagchi, *Perilous Passage: Mankind and the Global Ascendancy of Capital,* Oxford University Press, New Delhi, 2006, for a scathing critique of this eurocentric view and for the exposition of the argument that capitalist modernisation based itself on colonial surplus appropriation.

11 For a brilliant comparison contrasting the two emperors see Dietmar Rothermund, *Akbar and Philip II of Spain: Contrasting Strategies of Imperial Consolidation.,* International Seminar on Reason and Tolerance in Indian History. The Akbar Fourth Centenary, October 2006, Indian Council of Historical Research, New Delhi. Rothermund notes, "The most striking contrast in (their state building) strategies was in their approach to religion. Akbar was known for his religious tolerance whereas Philip and the Spanish Inquisition became proverbial for the worst type of intolerance and persecution", Rothermund, p 1. See also Tadd Fernee, *Enlightenment, Modernity and Nation-making: India, Turkey, Iran and Western Europe,* Sage, New Delhi, forthcoming (PhD Dissertation submitted at Centre for Historical Studies, Jawaharlal Nehru University, New Delhi), for a questioning of the eurocentric view of the origins and development of enlightenment values.

12 This is an important aspect the implications of which need to be studied much more and I will not be discussing it in this paper.

13 Angus Maddison, *The World Economy*: *Vol I, A Millennial Perspective, Vol II, Historical Statistics,* OECD, 2006, Indian Edition, New Delhi, 2007.

14 It must be noted however that per capita GDP was already somewhat higher in Europe compared to Asia since the beginning of the 16th century (the merciless exploitation of the Amerindian population in the Silver mines of America had already got underway) though the gap begins to rapidly increase from the 17th and especially the 18th century and becomes really significant as colonialism sets in and spreads (see Angus Maddison, op cit, Table 8c, p 642).

15 Angus Maddison, ibid, Table 8b, p 641.

16 Tirthankar Roy, op cit, p 14.

17 The figures are all from Table 2 which is based on Angus Maddison, op cit, p 643 except where indicated. Sivasubramonian and Heston's estimates show an annual growth rate of per capita income between 1914 and 1946 which is somewhat higher at 0.26 and 0.13 respectively but nevertheless prove our point reflecting the sharp contrast between before and after independence. M Mukherjee's estimates of income growth are much lower than even Maddison's. See Raymond W Goldsmith, *The Financial Development of India: 1860-1977,* Yale University Press, New Haven, 1983, Table 1.2, p 4.

18 West Europe as a whole grew at 1.88% between 1973 and 2001, Maddison, op cit, p 643.

19 Figures for 2001-07 are based on *Economic Survey, 2006-07,* Government of India, New Delhi, 2007, Table 1.2, S-4, and Aditya Mukherjee, "Indian Economy in the New Millennium" in Bipan Chandra, Mridula Mukherjee and Aditya Mukherjee, *India since Independence,* Penguin, Delhi, 2008. I have taken the per capita income growth rate for 2006-07 at a conservative 8%, S Sivasubramonian's comprehensive and detailed study confirms the sharp break in aggregate growth rates as well as in different sectors of the economy between 1900-1947 and 1947-2000. See, e g, S Sivasubramonian, *The National Income of India in the Twentieth Century,* OUP, New Delhi, 2000, Table 9.35, Figure 9.5, pp 622-28.

20 I have discussed at length the nature of this structural break and how it was crafted in *The Return of the Colonial…* op cit, and *India since Independence,* op cit*,* Chapters 25-33 and 39.

21 "The only pure cotton industry known to Europe in the early eighteenth century was that of India, whose products ('calicoes') the Eatern trading companies sold abroad and at home..." E J Hobsbawm, *Industry and Empire*, Penguin, Harmondsworth, 1968, p 57.

22 The data is from the contributions of Herbert S Klein and Niels Steensgard and Paul Butel in James D Tracy, ed., *The Rise of Merchant Empires,* Cambridge, 1990, quoted by Irfan Habib, "The Eighteenth Century in Indian Economic History" in Leonard Blusse and Femme Gaastra, ed., *On the Eighteenth Century as a Category of Asian History Van Leur in Retrospect,* Ashgate, Hampshire, 1998, pp 227-28.

23 The English East India Company exported in 1750 more than £1 million worth of treasure constituting about 78% of its total exports! See ibid, p 28.

24 See K N Chaudhuri, "Foreign Trade and Balance of Payments (1757-1947)", Table 10.2B, p 819, in Dharma Kumar, ed., *Cambridge Economic History of India*, Vol II, 1982.

25 See Irfan Habib, "Colonisation of the Indian Economy" in *Essays in Indian History: Towards a Marxist Perception,* Tulika, New Delhi, 1995, pp 304-46.

26 Utsa Patnaik, "New Estimates of Eighteenth-Century British Trade and Their Relation to

Transfers from Tropical Colonies", and Shireen Moosvi, "The Indian Economic Experience, 1600-1900: A Quantitative Study" in *The Making of History: Essays Presented to Irfan Habib,* Tulika, New Delhi, 2000, pp 386-90. See also, Sayera Habib, "Colonial Exploitation and Capital Formation in England in the Early Stages of Industrial Revolution", *Proceedings of the Indian History Congress,* Aligarh, 1975.

27 "India's contribution to the British balance of payments, 1757-1812", *Explorations in Economic History,* 44, 2007, see particularly Table 4, p 166.

28 Irfan Habib, "Colonisation of the Indian Economy 1757-1900", op cit, pp 310-11.

29 For the figures of opium export and a brief summary of how this triangular trade was fashioned see ibid, pp 323-26.

30 P Deane and W A Cole, *British Economic Growth, 1688-1959,* Cambridge, 1962, p 266 quoted in ibid, pp 326-27.

31 E J Hobsbawm, op cit, p 149.

32 A K Bagchi, *Perilous Passage*, op cit, Tables 17.1 and 17.2, pp 241-42 (figures include Burma).

33 E J Hobsbawm, op cit, p 152.

34 A K Bagchi, *Perilous Passage*, op cit, pp 232, 243.

35 Irfan Habib, *Indian Economy, 1858-1914*, Tulika, New Delhi, 2006, p 92.

36 Irfan Habib, "Colonisation of the Indian Economy 1757-1900", op cit, pp 319, 329.

37 E J Hobsbawm, op cit, pp 146-47.

38 See Amitav Ghosh's novel *Sea of Poppies,* Penguin, 2008, the first volume of a trilogy for a brilliant description of both opium cultivation under British rule in Eastern India and the process of migration of indentured labour from that region.

39 D Northrup, *Indentured Labour in the Age of Imperialism*, 1834-1922, CUP, London, 1995 cited in Bagchi, Perilous Passage…op cit, pp 202-03. See also, Eric Wolf, *Europe and the People without History,* Berkeley, 1982.

40 N Gangulee, *Indians in the Empire Overseas; A Survey,* London, 1947, p 238. See also Mishra, Amit Kumar, *Mauritius*, NBT, Delhi, 2008 and *Survivors of Servitude: Indian Labour Diaspora in Mauritius, 1834-1940s*, Sage, forthcoming and his PhD dissertation on the same subject, Centre for Historical Studies, JNU, New Delhi, 2006.

41 I have in *The Return of the Colonial*..., op cit, extensively discussed the issue. Here I will be drawing heavily from on some of the basic arguments made in section V of that paper.

42 See for example, I M Drummond, *British Economic Policy and the Empire, 1919-1939*, London, 1972, Clive Dewey, "The End of Imperialism of Free Trade: The Eclipse of the Lancashire Lobby and the Commission of Fiscal Autonomy to India", in Clive Dewey and A G Hopkins (ed.), *Imperial Impact: Studies in the Economic History of Africa and India*, London, 1978 and "The Government of India's New Industrial Policy 1900-25" in Clive Dewey and K N Chaudhuri (ed.), *Economy and Society, Essays in Indian Economic and Social History*, Delhi, 1979, A D D Gordon, *Businessmen and Politics: Rising Nationalism and a Modernising Economy in Bombay, 1918-1933*, Manohar, New Delhi.

43 E J Hobsbawm, op cit, pp 146-51.

44 Ibid, p 152.

45 The Home Charges were the sterling expenses of Government of India incurred in Britain including cost of maintaining the Secretary of State's office, civil and military charges, interest on public debt and the guaranteed interest on Railway investments, pension and furlough to British civil and military officers, etc. The Home Charges represented to a very large extent what the early nationalists in India correctly described as drain of resources or capital from India.

46 Rajat Ray, *Industrialisation in India*, OUP, Delhi, 1979, pp 11-13.

47 A I Levkovsky, *Capitalism in India,* PPH, Delhi, 1966, p 96.

48 Subramanian and Homfray, *Recent Social and Economic Trends in India,* 1946, pp 15, 72; B R Tomlinson, *The Political Economy of the Raj, 1914-47: The Economics of Decolonisation in India,* Macmillan, London, 1979, p 93.

49 The Government of India's sterling obligation or remittances were met by utilising an equivalent amount in Rupee out of the government's revenues to purchase the necessary hard currency earned by India through her export surplus. Smooth remittance therefore could occur only if the Government of India could generate a budgetary surplus equal to the remittance, and the export surplus was sufficient to convert the former into the latter. When these conditions did not prevail, the government was forced to adopt measures such as introducing revenue tariffs, borrowing at home and/or abroad, using up India's currency reserves, altering the Rs/Stg Exchange rate or resorting to a combination of fiscal and monetary manipulation

50 See P J Thomas, *The Growth of Federal Finance in India: Being a Survey of India's Public Finances from 1833 to 1939*, London, 1939, pp 500-01 and Aditya Mukherjee, *Imperialism, Nationalism and the Making of the Indian Capitalist Class,* Sage, New Delhi, 2002, pp 177-80, Tables 6.1 and 6.2.

51 See Aditya Mukherjee, *Imperialism, Nationalism...,* op cit.

52 Samuel Hoare to Kirpatrick, M P, 3 February 1933, *Secretary of State's Private Office Papers,* L/PO/270, India Office Records (IOR), London, emphasis mine. For a detailed discussion on the fiscal policy since first world war and maintenance of imperial interest, see Aditya Mukherjee, *Imperialism, Nationalism…,* op cit, Chapters 5-8 on Tariffs, Trade and Industry from 1916 to 1947, the figures in this para are from p 180.

53 Neville Chamberlain, Chancellor of Exchequer and Samuel Hoare, Secretary of State at a cabinet meeting, Minutes of Meeting of the Cabinet Committee regarding Financial Safeguards, 4 November 1932, *Financial Collection,* L/F/5/191, India Office Records, London. The "naughty child" statement is Chamberlain's. For a detailed discussion on the Reserve Bank, see Aditya Mukherjee, "Controversy over Formation of Reserve Bank of India, 1927-35", EPW*,* 27.5, 1 February 1992 and *Imperialism, Nationalism…,* op cit, Chapter 4, Section V.

54 8 December 1930, *Finance Department* (L/F)/5/191, IOR, London. See also another similar document dated 17 June 1931, signed by R A Mont, H Strakosch, L J Kershaw and C H Kisch, L/F/5/191, IOR, London.

55 Basudev Chatterjee citing the June 1931 document says that "the aggregate annual charges under the heads of defence, debt servicing and salaries and pension… 'would …absorb three quarters of the total revenues of the Federation'" *Trade, Tariffs and Empire: Lancashire and British Policy in India 1919-1939,* OUP, Delhi, 1992, p 21.

56 "The position of the Secretary of State…", 8 December 1930, L/F/5/191, op cit, pp 3, 8. Assurances that the Indian Federal Government would meet these obligations as a first charge on the government budget were clearly not considered enough. The note anticipated and rejected parallels with Australia in this regard that were repeatedly drawn by Indian capitalist and nationalist leaders with the argument, rarely made publicly, that "Australia, however, is a country where the government is of *our own kith and kin*", ibid, p 9, emphasis mine. Many colonial scholars like Drummond and more recently Niall Ferguson, fail to note the critical differences between British presence in US, Canada, Australia and in colonies like India or West Indies when talking of the British "empire".

57 Ibid, pp 2, 4.

58 Ibid, p 11, emphasis mine.

59 B R Tomlinson*, The Political Economy of the Raj, 1914-47,* London, 1979, p 46.

60 Basudev Chatterjee, *Trade, Tariffs and Empire: Lancashire and British Policy in India 1919-1939,* OUP, Delhi, 1992.

61 See Aditya Mukherjee, *Imperialism, Nationalism…,* op cit, Chapters 5-7 on Tariffs, Trade and Industry from 1916 to 1939 for a detailed discussion of the various trade agreements in the interwar period.

62 Schuster, Finance Member to Irwin, Viceroy, 1 June 1931, *Private Office Papers* (L/PO)/269, IOR, London.

63 Ibid.

64 George Schuster, the Finance Member, wrote to Irwin on 1 June 1931: "We have been getting the usual telegrams from London trying to force us to contract, contract, contract and put up the bank rate – in their own words 'to create a money famine', which will make it impossible for people here to get rupees to sell for sterling. They say if you only do that you will get remittance", L/PO/269, IOR, London.

65 See Aditya Mukherjee, "The Currency Question in Colonial India", *Yojana,* Vol 51, Special Issue, August 2007, Aditya Mukherjee, "The Depression Years: Indian Capitalists' Critique of British Monetary and Financial Policy in India, 1929-39" in Amiya Kumar Bagchi (ed.), *Money and Credit in Indian History: From Early Medieval Times, Tulika, 2002* and *Imperialism, Nationalism…,* op cit, Chapters 3-4 on Finance and Monetary Policy 1926-39, for a detailed discussion of British policy and Indian response on this question. Much of the advantage that Indian industry got due to the rise in tariffs in this period was smothered by the deflationary fiscal and monetary policy of the government. See, A K Bagchi, *Private Investment in India, 1900-39,*Cambridge, 1972, p 66.

66 See A K Bannerji, *India's Balance of Payments*, Bombay, 1963, pp 22, 27. Subramanian and Homfray, *Recent Social and Economic Trends in India*, 1946, pp 45-46 and G D Birla, *Indian Currency in Retrospect,* Allahabad, 1944, p 17.

67 The above figures have been computed from Subramanian and Homfray, op cit, Table XII, pp 45-46. C B Mehta of Bombay Bullion Exchange, cites similar figures for 1931 to 1938, Federation of Indian Chambers of Commerce and Industry, *Annual Report* (hereafter FICCI, AR) 1938, pp 46-50. See also Kasturbhai Lalbhai, President, FICCI, AR, 1935, p 6.

68 See G Balachandran, *John Bullion's Empire: Britain's Gold Problem and India Between the Wars,* Richmond, 1996, particularly pp 178 ff; D Rothermund, *India in the Great Depression, 1929-39,* Manohar, Delhi, 1992; Walchand Hirachand, President, FICCI, AR, 1933, p 5; C B Mehta and M R Parikh, FICCI, AR, 1933, p 423; N R Sarkar, 5 February 1932, *Purshotamdas Thakurdas Papers* (PT Papers), press clippings, fl 11, NMML and Purshotamdas, 5 May 1934, *PT Papers*, fl 76.

69 B R Tomlinson, *Political Economy…*, op cit, p 140.

70 G D Birla, *Indian Currency in Retrospect*, Allahabad, 1944, pp 18-21. See also, conclusions of War Cabinet meeting, 27 July 1943, L/PO/325, IOR, London.

71 See L S Amery, Note on Economic Situation in India, 11 August 1943, L/WS/1/581, IOR.

72 For a full discussion of this issue see Aditya Mukherjee, Indo-British Finance: The Controversy over India's Sterling Balances, 1939-47", *Studies in History,* 6.2, new series, 1990 and Aditya Mukherjee, *Imperialism, Nationalism…,* op cit, Chapter 5.

73 A K Bagchi, *Perilous Passag…*, op cit, p 229, Irfan Habib, *Colonisation…,* op cit. It has been pointed out that the burden that Germany had to bear with the reparations after first world war lasted only a small fraction of the period compared to India.

74 Quoted in Bipan Chandra, Mridula Mukherjee, Aditya Mukherjee, *India since Independence*, op cit, p 19.