BOOK II
ECONOMIC HISTORY
(1818 to 1905)
CHAPTER XXXIV

TRADE AND COMMERCE

The Charter of 1813 is a landmark in the history of Indian economy. It abolished the East India Company's monopoly of India trade which had controlled the extent and moulded the character of Indo-British commerce for two hundred years. It opened India to the British free traders and exposed her to the full blasts of the Industrial Revolution. It precipitated the destruction of her age-old cotton industry, clinched her dependence on raw material production, and subjected her primary producers to the vagaries of international economic forces. As commercial capitalism, represented by the Company, succumbed to the inexorable force of industrial capitalism, represented by Lancashire and Sheffield, the agrarian economy of India was geared to the industrial economy of Great Britain.

The defeat of the Company was brought about by a concatenation of tendencies implicit in its evolution and forces which grew outside it and inimical to it. The East India Company was not merely a trading body but an imperial power, and had hopelessly run into debt in pursuing the will-o-the-wisp of augmenting its trading capital with the revenues of a growing empire. The empire grew apace, but more rapidly the debt. In order to secure capital for expansion which the Court seldom sent and never in time, the governments in India had incurred remittable debt, i.e. allowed their creditors to demand principal and interest in London. Since remittance through ordinary trading channels was difficult due to the Napoleonic Wars and general commercial stagnation, the creditors pressed for remittance by means of bills on debt account. From 1806 onwards the Court of Directors had been deluged under such bills and had to petition Parliament for loans every year to keep up its credit. In 1813 the Company possessed no bargaining power to counteract the pressure of the agency houses, which demanded free movement of capital between England and India, the manufacturers, who urged import of cheap raw materials and export of surplus produce, and the outports like Liverpool, which needed employment of shipping, rendered idle by the stoppage of the American and the continental trade.

The possibilities of unfettered India trade had already been seen during the operation of Wellesley's liberal trade policy in 1798 and 1800-02. In spite of continuous war and constant frictions with
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monopoly in the first decade of the 19th century, the percentage of Bengal’s private trade with London had surpassed that of her private trade with other quarters. 2

The foreigners like the French, the Dutch, the Portuguese and the Americans had been ousted from the field, following vicissitudes of war. Success, as yet limited, fed hopes, and hopes, though wild, proved more potent than the Company’s Charter rights which had worn thin through half a century of financial and commercial bungling. Even considered as a trade of remittance, the Company’s trade had been facing great hardship for some time. The cotton manufacture of India, the foundation of its commercial prosperity for centuries, was tottering on its last legs. In 1812 No. 40 yarn cost 2s. 6d. per lb. in England and 3s. 7d. in India, while No. 60 yarn cost 3s. 6d. per lb. in England and 6s. in India. 3 Secondly, the productive capacity of the British mills had been greatly enhanced by frequent improvements and wider use of steam power. Thirdly, the home manufacture had been insulated by a prohibitive tariff against Indian piece-goods which ran up to £3 16s. 8d. % on warehousing plus £7 8s. 8d. % on home consumption. Fourthly, besides duties in England, Indian piece-goods had to pay a ruinous transit duty of 15% in India (5% of which was drawn back on export). 4 Fifthly, the continental market had been closed to Indian goods by Napoleon’s Berlin and Milan decrees, and the American market sealed by Jefferson’s embargo of 1808 and the Anglo-American War of 1812. This deplorable situation was reflected in the decline of the Company’s indent for Bengal piece-goods from S.R. 4 a 66 lakhs in 1803 to S.R. 20 lakhs in 1813. The muslins were the hardest hit. In the former year 163,220 pieces had been ordered, in the latter only 11,385. The indent for calicoes was just halved and that for other qualities fell to one-third. 5 Silk was the only article which returned a profitable remittance, but its supply was not elastic. Cotton was out of the question after restoration of peace with the United States. Indian sugar paid a duty of £5% ad valorem on warehousing and £37 16s. 3d.% plus 3s. 2d. per cwt. on home consumption—all to the profit of the West Indies sugar interest, then influential in Parliament. On the eve of the Charter of 1813 the Company was sending bullion to England in default of commodities which India could not procure or Britain would not take on fair terms. These facts, however, neither damped the ardour nor deterred the efforts of the private traders. They even used these as final arguments against monopoly, as apt illustrations to the text of Adam Smith.

6 The majority of agency houses and country traders in India had eagerly supported the cause of free trade, but the top men had
not overlooked the snag. The Palmers feared that a wild scramble would ensue in banking, insurance and indigo business. The Fairlies were not prepared to share the cream of country trade with a host of fortune-hunters likely to be let loose with free trade. They were principally interested in the untrammelled movement of capital between India and England, which would enable them to shape their investment policy with greater smoothness and to switch over from one field of enterprise to another with greater alacrity. More rivals without a substantial increase of trading capital or a speculative glut without any actual relation to demand were not their view of the blessings of free trade for which they had been fighting the Company since the last decade of the eighteenth century. Here, too, the well-grounded apprehensions of a few were submerged under the illusions of the many, who, besides nursing the mundane hope of windfall profits, liked to strike a blow for Christ and civilization by carrying the Manchester cotton goods into the remotest Indian village.

They ignored several fundamental factors in their impetuous rush for free trade. First, the Company still possessed the right to ply a remittance trade which, in view of its sovereign character and its access to Indian revenues, it might wield to the detriment of the freetraders. Secondly, the Company still possessed the China monopoly. The Indo-British trade was really a three-cornered trade. Indian remittances, not procurable at all or not profitable to procure in Indian goods, had always been sent through China. Similarly, British manufactures, unsaleable in India, were pushed in the Indies or China through the channel of China trade. Again, the China trade could be easily financed by illicit opium sales at Canton. Without the China end the Indian end would not tie and the China end was in the hands of the Company. Thirdly, Indian resources, now chiefly consisting of raw materials, were insufficient to meet various demands of public and private remittance. For a harmonious working of Indo-British trade immediate development of Indian raw materials was called for, which involved large scale investment of British capital in their production, and, secondly, abolition of transit duties in India and import duties in London, i.e. free trade in the true sense of the term and not its pale shade, the mere abolition of the Company's India monopoly. These conditions might not be forthcoming without the annihilation of the Company and, perhaps, without the industrialization of India.

Industrialization of India was, however, unthinkable in the colonial context and, if at all proposed, would have been scotched by the manufacturing interest (not always for fear of rivalry—they
should have learnt better from the American experience). Moreover, the financial structure of the agency houses on the one hand, and the administrative structure of the Company's Government on the other, would have brought any such experiment to nought. The debris of these obsolete systems had first to be removed to allow the beginnings of industrialization in India to be securely laid. For the present the common interest of the parties concerned, viz., the British manufacturers, the British capitalists, the agency houses, the shipowners, the Indian Government and the Indian Zamindars, was a commercial, not an industrial, revolution in India. The story of Indian commerce between 1814 and 1914 is the story of this commercial revolution, guided by the paramount needs and directed to the increasing profits of the Metropolis, but, in the process, inevitably leading to the economic transformation of India.

The immediate consequence of free trade was glut. There was a speculative boom following the break-up of the Continental System and Napoleon's unsuccessful Russian campaign. The free-traders hoped to effect their purchases more cheaply with Manchester piecegoods and carry them more profitably in their own ships to the less expensive outports. To pay for heavy surplus exports from India between 1814 and 1817 they imported more and more of metals, woollens and cottons. Compared to 1814, merchandise import from U.K. quadrupled in 1818. A reduction of Bengal customs (followed up in Bombay and Madras), which heavily discriminated in favour of British imports, helped this process. But in the field of exports the free-traders could not score a similar success. Unable to compete with the Company's remittance trade in silk or to purchase indigo at prohibitive prices, they took to raw cotton, where, too, they found in the Company a rival. The latter's silk indent rose to 73 lakhs in 1820 and cotton indent to 9,000 bales. When the cotton market in China collapsed in 1822 and in London a year later, the Company was forced to compete for indigo. The decline of Indian cotton manufacture had accentuated this rivalry over remittance. The limited resources of India, now mainly consisting of raw materials, could not resolve it. These had not only to provide for the excessive import of merchandise from U.K. and of treasure from America and Europe, but also for remittance of various kinds on the public and private accounts. As procurement of goods on such a large scale became more and more difficult, the terms of trade began to swing against India. The exchange value of rupee fell from 2s. 6d. to 2s. in 1822, and still lower afterwards. Since remittable capital could not be sent home on favourable terms, it sought speculative investment in indigo or opium. A trade depression in
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England\textsuperscript{11} put further pressure on import of British goods which worsened the crisis. A desperate attempt was made to send remittance via China which explains the Malwa opium boom and the increase of exports to China from S.R. 34,98,188 in 1819 to S.R. 1,09,61,651 in 1822.\textsuperscript{12} Trade with Lisbon was considerable up to 1816-7, but it declined from the next year with partial attempts at recovery in 1818, 1820 and 1822. It depended on bullion, and as it became less profitable to send bullion, the trade shrunk. The constant struggle between Portugal and her American possessions disturbed trade with Brazil. Trade with United States went on well up to 1818-9 and fell off for causes similar to those that operated in the case of Britain. Denmark and Holland had an insignificant share in the Bengal trade and trade with France did not fare well after 1818. Trade with Gibraltar and Malta flourished for a while after the passage of the Malta Trade Act, and trade with South America was more or less stable up to the last but one year in the series. Imports from China fell greatly after 1819 as Bengal opium came into competition with Malwa and Turkish opium, and as the cotton speculation of 1819 and 1820 came to grief. Trade with Penang and Sumatra showed a similar stress, though the former began to recover in 1820. Though Java had been in the Dutch hands since 1816, Bengal’s trade with her prospered with one or two breaks. But, feeling oppressed by the illiberal regulations of the Dutch, the British private merchants sought a vantage point in the China Sea which would protect their trade route to the Eastern Islands as well as serve as a free emporium for British and Chinese articles. Manila’s trade declined as direct connection of Great Britain with Spanish America (now independent) was established. The exigencies of the Maratha War increased private trade between Calcutta and Malabar from 1817 to 1819, but the end of war heralded a fall. There was some attempt to compensate for its decline through an increased trade with the Gulf’s till their direct trade with Britain affected it in 1822. Though imports from Coromandel were more or less constant, exports suffered. The speculative trade with Mauritius spent itself by 1817.

Between 1823 and 1833 the grievances of the free-traders piled up and converged on the destruction of the Company’s remittance trade and China monopoly. As the same conditions prevailed, the exchange rate continued to fall and the agency houses, pestered with abundant capital, recklessly invested all in indigo. It caused an indigo boom which inevitably led to a demand by the European planters for ownership of land i.e. introduction of the plantation system.
The bottom of this speculation was knocked out by flight of capital caused, first, by the Burma War (1824), secondly, by Amherst's policy of debt conversion (1825), and thirdly, by better terms offered by the London money market. The agency houses, which worked on private deposits, acutely felt the shortage of capital. A continuous trade depression in England and a fall of prices of Indian goods in the London market increased their distress. Failure of some indigo planters at this awkward moment made their cup of misery full. During the boom years the six principal agency houses had invested as much as 160 lakhs in indigo concerns. They now faced total ruin.

Though the utilitarian Government of Lord William Bentinck helped them with huge loans, the boom brought its inevitable nemesis. The free-traders were not much to blame; the Company's remittance trade had left no alternative other than indigo. Piece-goods had no prospects. Indian sugar had no chance against the produce of West Indies in favour of which a discriminating duty had been devised in 1825. But who would supply the circulating capital to the extensive enterprise in indigo? The agency houses looked forward to import of capital from U.K., but it was not forthcoming without the guarantee of a plantation system. Bentinck espoused their cause with great ardour. Six agency houses, he found, financed the greater part of indigo production, controlled the lac and rum trade, owned 59 out of 91 vessels at Calcutta, several steamers, all the docks, the only textile mill in India, and collieries at Burdwan. But they were not owners of the capital stock, only managers, and since the owners transferred their funds to London at the slightest turn in the money market, commerce or enterprise in India did not rest on real capital. Introduction of British capital was imperative for saving, let alone for developing, Indian economy, and should be allured with the guarantee of landownership.

The Court, however, turned down Bentinck's proposal as tantamount to colonization. Its refusal brought immediate disaster to the agency houses. The Palmer & Co. failed first. In spite of cash loans and enforcement of a semi-plantation system, the continued depression in England, increasing export of bullion to meet adverse trade balance, now unpayable in commodities, and further drop of indigo prices led to the fall of other agency houses. Asian trade could not save them. Its decline had been patent for some time past and reflected in the decline of ship-building at Calcutta.

The Charter of 1833 rung down the curtain on the Company's trade. On the eve of the Charter, Britain sent 56-8/16% of Bengal's total imports and received 52-8/16% of her total exports (including
those on the Company's account which amounted to about 21%. Foreigners had been nearly ousted from the country trade. Free trade had wrought far-reaching changes in the economy of Northern India. Imports by land into Calcutta, the principal port of Indo-British commerce before 1833, had gone up by 440%, compared to that of 1795. As most of it was for export, we may say that free trade, though hampered by the Company, had led to increase of production by at least three times. Unfortunately, the increase had been mainly in indigo and raw materials, liable to fluctuate with slight shifts in world prices. Indian export economy, no longer dependent on manufacture, had become extremely vulnerable to the vagaries of the international market.

Till 1833 the greater portion of Indo-British commerce was confined to Calcutta. Trade at Bombay was mainly country trade in cotton, and Málwa opium with China, and in sundry articles with the Red Sea and the Gulf region.

Annual statistical report on trade at Madras port appears from 1813-14. Private trade of Madras with London was meagre in the early years of the nineteenth century. Merchandise worth Arcot Rupees 10,42,742 and treasure worth Arcot Rupees 5,92,789 were imported from London in 1807 while exports to London amounted to merchandise worth Arcot Rupees 84,126 only. China, America and the Eastern Islands had a larger share of her export trade. With free trade London's share increased. In 1817-18 merchandise worth Arcot Rupees 29,11,041 was imported from London and exports to that region rose to Arcot Rupees 10,35,677. The foreign commerce of Madras suffered a depression for several years after 1818. In 1824 private imports from London had declined to Madras Rupees 20,35,130, though exports reached Madras Rupees 30,74,618. This pattern continued to prevail till the indigo and piecegoods markets at London were seriously affected in the third decade. In 1832 the total private imports by sea were Madras Rupees 92,16,328 in merchandise, of which London sent Madras Rupees 28,39,693, while of total private exports of Madras Rupees 1,39,36,741 in merchandise London's share was Madras Rupees 49,40,999. Britain was now sending cotton piecegoods to Madras in ever increasing quantities.

From 1833 these ports, especially Bombay, began to come into their own. Calcutta predominated, however, for a long period. Certain changes in trade policy were effected after 1833. Duties on internal trade of Bengal were abolished in 1836, and the two other provinces followed suit. Secondly, a new scale of duties was adopted for external trade in 1836, viz. 3% on British metals and 3½% on
British cotton, twist, yarn and silk piece-goods. Thirdly, a new currency was introduced in 1835, called the Company's Rupee, with an official exchange rate of 2s. 6d.

The abolition of China monopoly was at first a great incentive to the importers. Merchandise imports at Calcutta rose from S R. 1,95,81,986 in 1833 to Company's Rupees 6,39,49,283 in 1844, after recessions in 1837 and 1842. There was a set back, however, between 1845 and 1848 when the merchandise imports fell to Comp. Rs. 4,73,19,143. An increasing import of bullion compensated to some extent the fall in merchandise. But this failed to happen in 1847.

Imports from U.K. formed a high percentage of this—increasing from Sicca Rupees 1,38,92,944 in 1833 to Company's Rupees 3,73,40,108 in 1840. With recessions between 1841 and 1843 it rose once again to 4.84 crores in 1844, which was 75% of Bengal's total imports! For years British manufacturers were flooding India with cotton yarn and textiles. The import of the former rose from S.R. 22,59,185 in 1833 to Comp. Rs. 1,06,98,646 in 1846 and that of the latter, from S.R. 40,64,920 to Comp. Rs. 2,01,72,704! Together they formed 72% of total British imports into Bengal.

The export of merchandise was steadily rising up to 1845 (except in 1841-42), from S.R. 4,04,62,516 in 1833 to Comp. Rs. 10,08,38,207 in 1845, i.e. it had trebled in a decade. It was more and more impossible for Bengal to pay for the rising crescendo of piece-goods import from U.K., though she sent as much as Comp. Rs. 5,60,46,414 to that country in 1843 and more than 4 crores in 1847, i.e. 48% of her total exports. The Company had been sending its remittances by means of financial rather than commercial transactions i.e. making advances to Calcutta merchants on the security of Indian produce at a favourable exchange rate. The British merchants had to pay higher rates than their Indian rivals and, in 1847, trying to compete with the Company's merchants in the granting of long credits over-reached themselves and failed. This caused the crisis of 1847-48 with adverse effect on the commercial and financial life of Calcutta. Many agency houses crashed in 1848, including the pioneer Indian enterprise of Carr, Tagore and Company.21

The export of the Bengal piece-goods had fallen to 1.3 lakhs only in 1843, of cotton to about 2 lakhs in 1849, and, after a hectic rise (3.19 crores in 1843 out of which 2.32 crores went to U.K.), indigo declined continuously up to 1847. There were increased exports of grain, hides and sugar, but not enough to keep the trade in equilibrium. Opium was the lynch pin of South Asian trade and Far Eastern foreign policy of Britain. In 1837 China took 1.8 crores
worth of opium, i.e. 86% of the total export in that article. With the China War impending, its export fell to 39 lakhs in 1840. Then began its spectacular rise on the crest of the British victory—to 3.13 crores in 1846, of which China ‘took’ 2.6 crores.

When we analyse Madras and Bombay figures we find the former lagging far behind those of the latter and, of course, of Bengal. The Madras imports rose from £656,405 in 1834 to £1,108,617 in 1847, while Bombay showed a rise from £2,852,369 in 1834 to £6,618,122 in 1843, the highest in the series. Even when it fell, it stood at £4,043,606 or about 3.2 crores of Company’s Rupees in 1847. So far as exports were concerned, Bombay sent £3,037,079 in 1834, which rose to £6,692,393 in 1843 but fell to £4,379,947 in 1847, still half of Bengal’s exports. Madras exports rose only from £992,485 to £1,491,558 between 1834 and 1847. Bengal exports were more than six times those of Madras.

The shock of 1847-48 did not last long. Imports once again began to increase from 1849 till they reached £31,093,065 for British India in 1857—merchandise and bullion almost in equal share. Imports of Bengal and Bombay were about the same—the former in the region of £15 millions, the latter in that of £13.6 millions. Madras imported only £2.9 millions. The U.K., as before, sent the main share and maintained the tempo up to 1869. The other remarkable change was in the realm of exports. Indian exports had risen from £14,738,435 in 1847 to £28,278,474 in 1857, i.e. doubled in the decade preceding transfer of India to the Crown, and yet lagged behind the prodigious imports since 1855. Bullion was pouring into the country, especially from U.K., which trebled its exports to India between 1854 and 1859. This was partly to pay for the exports from India, but mainly to be invested in India in railways, tea gardens and jute manufacture. The railway age in India had begun.

The boom continued up to 1866. Imports of merchandise doubled between 1856 and 1865 and that of bullion rose by 85%. The growth of exports was more marked. Between 1855 and 1864 India’s exports were about trebled and most of it was in merchandise,22 Bombay alone sending £40½ millions worth of goods in 1864.23 U.K. received the major share of exports—£46.8 millions in that year.

The cause of this boom was the American Civil War which whipped up an abnormal demand for Indian raw cotton in U.K. Indigo kept varying between £1.6 millions and £2 millions—there being great trouble over indigo riots in Bengal bordering on rebellion. Grain exports were in the region of £6 millions in 1864. Ano-
ther Opium War had increased exports of opium to £12.4 millions in 1862. But in the sixties cotton was king.

A series of experiments to improve the culture of cotton were ordered by the Court as early as 1829. These were started in the Bombay Deccan and Karnatak. To encourage cotton production the government of Bombay freed land sown with cotton from land tax for 5 years, but the concession was withdrawn at the behest of the Court after 2 years. Besides a heavy land-tax, lack of adequate irrigation and good communication had always been obstacles to cotton production. In 1848 a Select Committee was appointed by Parliament under the chairmanship of John Bright to inquire into the possibilities of Indian raw cotton. The Manchester Chamber of Commerce was behind this move and its President, Thomas Bazley, was an important witness. In that year India exported only £1,775,309 worth of cotton. Due to mercantile incentive, which led to experiments in New Orleans cotton in Bombay, cotton export rose to £5.6 millions in 1859. Then the Civil War broke out in America, nearly stopping cotton trade of the Slave States with U.K. A phenomenal speculation in Indian cotton ensued which raised its exports to £37,573,637 or about seven times in five years.

The end of the Civil War in 1864 took the bottom out of this abnormal boom. The ensuing depression affected Western India between 1866 and 1871, causing failures of many enterprises at Bombay, financed by the speculative profits of cotton trade. But during these years a commercial revolution had been taking place, accompanied by the first phase of industrial evolution in India. It was in the sixties that the railways expanded rapidly and the beginnings of jute and cotton industries were laid. For the first time in India's history British capital had begun to flow into India on a grand scale.

As Jenks says, "from 1857 to 1865 the major movement of British capital was towards India, to transform the land with public works". So long the wars in India had been fought with savings and spoils of the Company's servants and the savings of the Indians. Independent mercantile establishments like banking, insurance, shipping, etc., and indigo manufacture, as well as tea and coffee plantations were mainly financed in a similar way. They did not constitute an export of British capital to India. In the thirty years between 1845 and 1875, however, about £95 millions were invested by British companies in Indian guaranteed railways, most of it between 1857 and 1865.

Besides railways, British capital was being increasingly invested in jute manufacture, tea gardens, banks, shipping and, of course,
as before, in India debt. About £20 millions had been invested in jute and tea.\textsuperscript{30} All this explains the increase of bullion import between 1854 and 1869.

Indo-British trade returned to normalcy after 1870. Import of merchandise rose from £32,927, 520 to £41,166,003 between 1869 and 1879. Of treasure there was a decline, the peak period of railway investment having passed before 1870. After a fall during the depression years import from U.K. once more began to rise, though the increase between 1869 and 1879 was by £2 millions only. The trade in cotton goods kept stationary in the '70s round £16 millions—one of the reasons being the famine of 1876-78. The export position was better after the set-back between 1866 and 1875. Merchandise exported in 1879 amounted to £67,212,363, almost on the scale of 1864. Exports to U.K. still remained low—at an average of £27 millions. These were the first years of the "Great Depression" in Britain.

Cotton had not recovered. In 1879 only about £11 millions in raw cotton were exported i.e. less than one-third of the figures for 1865. But indigo was coming out of the doldrums of the last thirty years, and jute, jute manufactures, tea, coffee, grains and hides were showing distinct improvements.

We have seen how the greater part of private British capital was sunk in indigo during the second decade of the nineteenth century, and how its collapse in 1826 and 1828-30 brought down the principal agency houses in Calcutta. Between 1833 and 1861 indigo plantations went along the same evil system of advance and hereditary debt. But troubles with unwilling ryots multiplied\textsuperscript{30a} and there was keen competition with other forms of investment. Its exports had declined to £2 millions before the Indigo Rebellion in Bengal forced the planters to transfer their investments to Bihar, Banaras and the Doab. In 1881-82 about £3.6 millions worth of indigo was exported, and in 1885-86, about £3 millions.

But tea bade fair to replace indigo in the last decades of the century. The Charter of 1833 had been a Charter for the planters, who were allowed to lease and own property in their own names. Discovery of the tea plant in the foothills of Assam was simultaneous. The combination of these two factors produced the Assam Company in 1839 with a capital of £200,000, to whom the government sold its experimental garden next year. The Assam Company was the only one in the field up to 1850, fighting an uphill task. But with continued Government help the tide turned after 1852. The years between 1856 and 1871 saw remarkable growth of tea cultivation in Assam. Production went up from 216,000 lb. in 1850 to
6,251,143 lb. in 1871, and the area under cultivation, from 1876 acres to 31,303 acres. Another 70,000 acres were under tea in Darjeeling. Due to speculation, most ripe between 1859-65, exports of tea rose from £35,525 (1848) to £1,050,515 (1869) in twenty years! It went on increasing by £1 million every five years till the average production reached 90 million lb. in 1890. The first coffee plantation had been established at Fort Gloster in 1823. Since Bengal produced poor crops, coffee cultivation migrated to the highlands of South India. After a steady growth between 1830 and 1860, there was a coffee boom in the sixties. While £188,532 worth of coffee was exported in 1859, £801,908 worth was exported in 1864 and £1,633,032 in 1879. The outbreak of the 'borer' disease and competition of Brazilian coffee, acutest between 1877-87, caused a set-back to coffee production, which fell from 34 million lb. in 1885 to about 30 million lb. in 1895.

It was in jute and jute manufacture, however, that the future of the Indo-British trade lay. The possibility of hand-woven jute goods, like gunnies, had been seen even before 1833. About 9 million pieces were exported in 1829. Handloom jute industry prospered between 1833 and 1856—exports in this line rose from S.R. 2,15,340 in 1833 to Company's Rs. 41,20,881 in 1856. Raw jute exports increased also from about a lakh or two to Company's Rs. 27,49,754. Most of it went to Dundee to feed its spinning and weaving mills, established since 1832. Entrepreneurs wanted to set up jute mills in India to avoid cost of transport of raw material. The Crimean War was a godsend to them. It cut off the supply of Russian hemp and made U.K. turn to India. A jute boom ensued in the seventies. In 1874 export in raw jute amounted to £3,246,882 and in jute manufacture to £238,640. Five years later, the former rose to £4,370,032 and the latter to £1,195,481. Another boom occurred between 1882 and 1885, when five new mills started and the number of looms doubled that of 1875. In 1884 the Indian Jute Mills Association was founded to regulate output. After a few bad years before the nineties jute manufacture looked up again, and its exports amounted to £4,747,797 in 1895,—a 400% rise compared to the figure for 1879. Export in raw jute amounted to £9,992,861—a 230% rise. Jute and jute manufacture together had become the most valuable articles of export at the end of the nineteenth century. About 5.47 crores of rupees had been invested in jute manufacture by 1892.

Such an outburst of manufacturing and business enterprise led to further expansion of Indian trade. Export trade was specially helped by the fall of the international value of silver from 50 cts
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an oz. in 1850 to only 31 cents in 1893. The rupee began to fluctuate in terms of sterling. It was worth about 1.6 shillings between 1878 and 1885, about 1.4 shillings between 1885 and 1890, and about 1.2 shillings between 1890 and 1897. The imports were affected adversely, however, since the falling value of silver led to constantly rising prices for the imported goods.

Since the trade statistics of this period were kept in tens of rupees and the rupee fluctuated in terms of sterling, the rise of merchandise imports from £41,166,003 in 1879 to 71,975,370 tens of rupees in 1890 and of treasure from £11.6 million to 21 million tens of rupees do not represent a proportionate real increase. Imported cotton goods worth 27,241,987 tens of rupees really represented £17,069,386. Compared to the figure for 1879 it shows very little actual increase. Increases in other goods should be considered with similar caution. About two-thirds of imports came from U.K.

Exports in merchandise rose to 100,227,348 tens of rupees of which U.K. took about 33.6 millions, which is not very impressive. On the other hand, exports to China and Germany were rising fast. Several causes may be assigned to the growth of exports—(1) fall in the sterling value of rupee, (2) free trade, (3) rapid railway development in the eighties when as many miles were laid as in the previous twenty seven years, and (4) rise of world demand for jute goods resulting from exploitation of grain lands in America and Australia. This was reflected in the further rise of merchandise exports to 114,334,738 tens of rupees in 1895, while merchandise imports rose only by a million. Imports from U.K. fell by more than seven million tens of rupees, though exports to that country rose by three million tens of rupees. Since India had begun to produce her own yarn, twist and cloth, imports in that branch suffered, almost accounting for the decline in total imports from U.K.

Though indigo exports were more or less steady, those in raw cotton—about 14 million tens of rupees—reached the low level of 1880. Grain exports were on a larger scale. Egypt, Mauritius, Brazil and Malay were now dependent on rice supplies from India. A brisk trade had developed in tanned hides with U.K. and in raw hides with U.S.A. and Germany. Exports in oil seeds increased from 6 million tens of rupees in 1881 to 16 million in 1893, though these fell to 9.7 million in 1895. But the most significant new feature in India's trade was the development of exports in cotton yarn and cloth, manufactured in Indian mills with Indian capital.

The high price of raw cotton during 1861-65 retarded, but the spread of railways helped, the growth of Indian cotton manufacture. After a temporary slump in the early '70s, the second cotton boom
occurred between 1875 and 1877, by which time India had 51 cotton mills. A third boom between 1885 and 1890 took the number of mills to 137. In the beginning the Indian mills concentrated on production of yarn for export, mainly to China. The value of yarn exported rose from 1.4 million tens of rupees in 1881 to 6.8 million tens of rupees in 1895. Very little of cloth manufactured in India was consumed within the country, which explains the rise of its exports to 3.4 million tens of rupees. The staple exports of India were still jute, jute goods, tea, grains, oil seeds and indigo, most of which were run by the British managing agents with British capital.

Statistical Abstracts give the value of trade since 1899 in pound sterling as the value of rupee had, meanwhile, been fixed at Is. 4d. For the sake of comparison with the previous decade we have reduced the figures for 1905 into tens of rupees. Imports in merchandise went up to £ 68,722,713 (103 million tens of rupees) and in treasure to £ 13,947,526 (20 million tens of rupees). Merchandise alone registered an increase of more than 30 million tens of rupees in ten years. Of this U.K. supplied £ 45,825,871 (68 million tens of rupees) in merchandise—66% of India's total imports in goods—of which more than £ 24 million was in cotton manufactures. Metals showed a large increase and sugar had more than doubled.

The first years of this century saw a boom in the export trade. Merchandise exports rose from 114 million tens of rupees in 1895 to 161 million tens of rupees (£ 107,812,022), of which U.K. took about 39.9 million tens of rupees (£ 26,665,055). Though this was an improvement, the flow of India's export trade was more and more oriented towards Western Europe, U.S.A. and the Far East. In 1905 Germany took about £ 9.7 millions worth of Indian goods, U.S.A.—£ 8.6 millions, France—£ 6.3 millions, and Belgium £ 4.3 millions, while China took £ 14 millions and Japan £ 6.6 millions. The European countries were buying raw cotton and half of raw jute, besides rice, hides and seeds. Japan was the biggest consumer of raw cotton, and China, of twist and yarn. Production and export of raw materials once again responded to demand. Thirty-five lakhs of bales of raw jute (double that of 1890),40 worth more than £ 11 millions, were now exported. The export of cotton twist and yarn amounted to £ 8 millions, double that of 1895. Indian cotton manufacturer, however, was badly hit by the unjust countervailing duty of 3½% levied in 1896.41 Plague in Bombay, followed by famines, added to his difficulties. American speculation in raw cotton raised its price sky high. Depression in the China market disturbed the spinning industry.
Among articles produced with European capital, jute manufacture easily held the first place. Its exports rose to 12 million tons of rupees (more than 8 millions), i.e., three times that of 1895. Its exports remained near 8.8 mil-
lion tens of rupees, as in 1895. Over-production between 1890 and 1900 may be a cause of this stalemated. Not only had acreage under tea doubled in the last fifteen years of the 19th century, but production per acre had increased. India was exporting rice and wheat on a very large scale, amounting to £18,114,178 in 1905. Export of hides almost doubled. The largest fall was registered in indigo. One of the major channels of remittance in the nineteenth century, indigo had been dealt a fatal blow by the synthetic dye, discovered in Germany in 1897. Its export had fallen to £390,918 in 1905. Opium had been stationary for a long time. The spacious days of the East India Company, when indigo and opium were kings, were irretrievably gone. But the day of manufacture had not yet arrived. Barring jute manufacture, India’s export trade still chiefly consisted of raw materials—cotton, jute, tea, rice, wheat, seeds and hides.

<table>
<thead>
<tr>
<th>Year</th>
<th>Annual average of merchandise imports from U.K.</th>
<th>Annual average of merchandise exports to U.K.</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>S.R. — Sicca Rupee</td>
<td>S.R.</td>
</tr>
<tr>
<td>1796-98</td>
<td>12,50,351</td>
<td>58,90,224</td>
</tr>
<tr>
<td>1799-1801</td>
<td>36,44,203</td>
<td>94,88,602</td>
</tr>
<tr>
<td>Bengal Commercial Reports, 1796-97 to 1801-02.</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Year</th>
<th>Percentage of imports from U.K. to total imports</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Bengal</td>
</tr>
<tr>
<td>1812</td>
<td>28.1%</td>
</tr>
</tbody>
</table>

Bengal Commercial Reports, 1812-13.

3. Kennedy’s evidence before the House of Commons, 1831.
4a. S.R. stands for Sicca Rupee = 2s. 6d.

Actual excess of exports (on the account).

<table>
<thead>
<tr>
<th>Year</th>
<th>Company’s as well as private</th>
<th>S. R.</th>
</tr>
</thead>
<tbody>
<tr>
<td>1814</td>
<td>2,99,66,777</td>
<td></td>
</tr>
<tr>
<td>1815</td>
<td>3,22,18,506</td>
<td></td>
</tr>
<tr>
<td>1816</td>
<td>1,15,61,745</td>
<td></td>
</tr>
<tr>
<td>1817</td>
<td>1,06,19,918</td>
<td></td>
</tr>
</tbody>
</table>


Private import of merchandise from U.K.

<table>
<thead>
<tr>
<th>Year</th>
<th>1,59,44,405</th>
</tr>
</thead>
<tbody>
<tr>
<td>1814</td>
<td></td>
</tr>
<tr>
<td>1818</td>
<td>1,59,44,405</td>
</tr>
</tbody>
</table>

Ibid. p. 187.

The Company’s exports to U.K. in remittance trade

<table>
<thead>
<tr>
<th>Year</th>
<th>S. R.</th>
</tr>
</thead>
<tbody>
<tr>
<td>1814</td>
<td>59,81,783</td>
</tr>
<tr>
<td>1817</td>
<td>55,48,604</td>
</tr>
<tr>
<td>1818</td>
<td>56,45,974</td>
</tr>
<tr>
<td>1817</td>
<td>93,28,488</td>
</tr>
<tr>
<td>1818</td>
<td>69,99,443</td>
</tr>
</tbody>
</table>

See tables, ibid., pp. 158, 167.
### TRADE AND COMMERCE

9. Private import of treasure into Calcutta
   
   **Year** | **S. R.**
   --- | ---
   1814 | 1,11,84,285
   1816 | 3,25,62,140
   1818 | 4,75,14,948

   Bengal Commercial Reports, 1814-15 to 1818-91.

10. Private remittable capital of Bengal, alone, amounted to 156 lakhs per year.
   See A. Tripathi, op. cit., fn. 3, p. 169.


13. Private trade with U.K.          Company's trade with U.K.
   
   **Yr.** | **Import** | **Export** | **Import** | **Export**
   --- | --- | --- | --- | ---
   | S.R. | S.R. | S.R. | S.R. |
   1825-26 | 1,24,98,958 | 1,56,978 | 1,71,91,915 | 48 | 3,74,948 | 1,92,78,980 |
   1826-27 | 1,28,26,147 | 20,160 | 99,61,581 | ... | 2,82,301 | 1,47,95,340 |
   1827-28 | 1,86,43,444 | 73,920 | 1,28,83,130 | 7,06,970 | 3,45,832 | 1,73,87,150 |
   1828-29 | 2,17,82,977 | 2,48,101 | 1,14,40,299 | 12,41,443 | 3,98,880 | 1,41,26,165 |

   (+54,58,703 in treasure)

   Bengal Commercial Reports, 1825-28 to 1828-29.


15. Total merchandise |  | Indigo |
   **Yr.** | **Import** | **Export** | **S.R.** | **S.R.**
   --- | --- | --- | --- | ---
   1827-28 | 5,95,27,104 | 1,91,71,606 |
   1828-29 | 5,02,61,959 | 1,21,92,642 |

   Bengal Commercial Reports, op. cit.

16. Minutes of 30 May, 1829 and 8 December, 1829.

17. Trade with U.K.
   
   **Private trade** | **Company's trade**
   --- | --- | --- | --- | --- | --- | --- | ---
   | **Imports** | **Exports** | **Imports** | **Exports** |
   | **merch.** | **treasure** | **merch.** | **treasure** | **merch.** | **treasure** | **merch.** | **treasure** |
   1831-32 | 1,72,27,917 | X | 1,18,40,418 | 36,42,784 | ... | 97,20,971 | 79,89,815 |
   1832-33 | 1,41,37,378 | X | 1,27,55,288 | 51,68,684 | 35,210 | 96,88,155 | 19,48,972 |

   Bengal Commercial Reports, 1831-32 and 1832-33


19. Comparative share of Bengal Trade (1832-33).
   
   **British** | **Foreign**
   --- | ---
   | **S.R.** | **S.R.**
   Imports | ... | 2,27,18,672 | 10,70,264 |
   Exports | ... | 3,52,05,784 | 76,65,300 |

   Bengal Commercial Reports, 1832-33

19a. Fort St. George Public Consult., 19 April, 1806, pp. 239-20.
19c. Fort St. George Revenue Consult. (Sea Customs), 27 February, 1826.
19d. Ibid, 30 June, 1834, pp. 290 ff.

20. See Memorial to Lord John Russell, Proceedings, Manchester Chamber of Commerce, 24 September, 1846; Ibid., 14 February and 28 September, 1848.


22. Imports | Exports
   --- | --- | --- | ---
   **Yr.** | **merch.** | **treasure** | **Yr.** | **merch.** | **treasure**
   --- | --- | --- | --- | --- | ---
   1855-56 | 14,194,587 | 14,413,697 | 1855-56 | 23,088,259 | 601,176 |
   1856-66 | 29,590,228 | 26,557,901 | 1864-65 | 68,027,106 | 1,444,775 |

   Statistical Abstracts

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BRITISH PARAMOUNTCY AND INDIAN RENAISSANCE

23. Taking 1854-56 as the base, Bombay's import trade increased by 158% and export trade by 198% during 1861-63. In the next three years the former rose by 218% and the latter by 308%. Evidence of W. Cassels, 20 November, 1868, before Bombay Bank Commission, 1868.
24. R. D. Choksey, Economic History of the Bombay, Deccan and Karnataka 1818-68,
25. Year | Exports, Raw Cotton | Percentage to total export to U.K.
|-------|-----------------|-----------------
| 1860  | 5,637,624       | 34              |
| 1861  | 7,342,168       | 38              |
| 1862  | 10,203,470      | 51              |
| 1863  | 18,779,040      | 64              |
| 1864  | 35,864,795      | 73              |
| 1865  | 37,573,837      | 75              |

Statistical Abstracts.
28. See Moral and Material Progress (submitted before the House of Commons), 1872-73, p. 75.
29. Up to 30 April, 1865, the amount of capital raised actually for railways was £60,860,000 of which only £754,331 was Indian. See Cambridge thesis by W. J. Macpherson, entitled British Investment in Indian Guaranteed Railways, 1845-75 (not yet published).
30. Sterling and Rupee debt held in London in 1875 = £654 millions; nominal capital invested in companies registered in U.K. between 1856-65 = £49 millions. Ibid.
30a. See pp. 928 ff.
31. See Memorandum by Mr. Campbell, Tea in Assam, East India Products, part I, and Reports on Tea and Tobacco Industries in India, 1874.
34. Buchanan, Development of Capitalist Enterprise in India.
37. In 1892 the number of jute mills in Bengal, falling under the Factories Act, were 37, that of jute presses, 34. Compared to approximately 4000 looms in 1877, there were 10,048 looms in 1895.
39. Statistical Abstracts,
CHAPTER XXXV.

INDUSTRY

1. Introduction.

Large scale industry, based on factory system, came to India as the by-product of the British rule. Attempts were made from time to time to introduce new manufactures and modern methods into a scene of traditional handicrafts and domestic production. Since, till 1860's, they had been made either by the East India Company or the private British merchants, both primarily traders, they had produced nothing but a commercial revolution in India. An Industrial Revolution might have been expected to follow in the next fifty or seventy years, but we find instead machines and machine-made goods being imported from Great Britain in ever increasing quantities, a handful of specialised industries being built, and indigenous manufactures being destroyed in that process.

The school of Indian historians, like R. C. Dutt, influenced by Friedrich List (who badly wanted an Industrial Revolution in Germany), blamed the British government for stifling the possibilities of an Indian Industrial Revolution. It had favoured laissez faire when the going was good, turned to preference at the first breath of competition, and always sacrificed Indian industries at the altar of her own. The Marxist (like Baran) accounts for the slow and uneven tempo of growth by referring to the classic picture of a colonial economy under an alien capitalism. Others try to explain it by social and psychological drawbacks, which retard progress as much as adverse economic conditions, and lack of technological skill. Inertia of the village system, self-sufficient only in terms of the poorest standard of living,¹ specialised and static production for the dandy and the sophisticated, a rigid caste structure, which was reflected in an unadaptive mental process, preventing the merchant from turning to manufacture and the money-lender from becoming a capitalist, and the timid fatalism, which preferred short term speculation to long term enterprise, have been considered as responsible as fiscal discrimination against India or an unfair revenue policy which sapped the peasants' capacity to consume and ability to save but encouraged the idle rich to waste capital on unproductive ostentation.

Now the economic historian and the theoretical economist have raised their voices by those of the Protectionist, the Marxist and the Sociologist. A study of the Industrial Revolution in England, the
pioneer country, and an analysis of the conditions of growth in the under-developed countries throw much light on the problem. D.C. Coleman points out that the Industrial Revolution involves other changes besides the merely technical: "population growth, large scale and extensive industrial investment and the remarkably pervasive effects of the application of science to industry".\(^2\) S. Pollard finds a single family likeness among all industrial revolutions: "\ldots they are marked by the emergence of an engineering industry, to create and maintain the new equipment and the motors or engines needed by the first industries to be mechanised; this in turn depends on an iron (or steel) industry, a second typical feature; and together, they demand new sources of power, coal, oil or hydro-electric installations."\(^3\) A universal need for heavy investment in improved means of transport like roads, canals, ships, docks and railways; housing, town development and public utilities; technical training and social adjustment; irrigation, drainage and mechanization of agriculture are also included in the Revolution. In the parlance of recent literature on economic growth, it is a "primary growth sector" calling into being "derived growth sectors".\(^4\) "No major advance in any of these sectors is possible without parallel advances in the others", which involves a great pressure "to accumulate in real terms, the large resources required for simultaneous investment in different sectors".\(^5\)

The lesser the previous accumulation of capital and the more backward and colonial the economic structure, the greater the need of capital over a wider front. A growing population creates a further difficulty by absorbing any increased investment.\(^5^a\) A broader gap of technology or unprotected competition with the products of advanced countries worsen the situation and call for more exertions. Expropriation of the rich was unthinkable in the nineteenth century, and even if Professor Lewis' minimum investment for Industrial Revolution—12\% of savings—\(^6\) was any solution, it would have been unavailing, if invested in industries other than the basic ones. The few Indian industries, which were fortunate in gaining foreign capital, were all export-orientated, and even railways were built with commercial profit as the ultimate desideratum. Let alone other causes, backward agriculture, absence of government help and retarded emergence of an elite, dedicated to modernisation, would have ruled out the 'take off' stage of Professor Rostow.\(^7\) As Indian enterprises were fitfully financed by British capital, which was busy developing Canada and U.S.A., and no technological discoveries could possibly be made to overcome its scarcity, they look so uneven and secondary.\(^8\) The German solution of protection, or the French solution of mobilising the smallest savings through vast public
works, or the Russian solution of preferring capital to consumption, goods was not available to a subject country which formed the largest market for her rulers. The only solution was import and balanced investment of British capital. Unfortunately, it was not forthcoming in quantities or on conditions desired, it was not amenable to control in the Indian interests, and when it came at all, it was invested in industries other than the basic ones.

2. Indigo

Manufacture of indigo comes first in the chronology of modern industries. The East India Company's search for a substitute for Indian calicoes, whose import was vehemently opposed by British manufacturers since 1782, and application of private British capital (raised by the agency houses from savings of the Company's servants or profits of Asiatic trade) combined soon to place this article on a firm footing. Minden Wilson states that a Frenchman, Louis Bonnard, started the first indigo factory in Bengal, and another, François Grand, the first in Bihar, between 1782 and 1785, but the Company's records put one Prinsep as the pioneer. Financed by the Calcutta agents like Ferguson, Fairlie, David Scott, and Joseph Barretto, and helped by European demand, which turned to India when revolution broke out in the West Indies, the export of Bengal indigo rose by 1795 to nearly 3 million lb., worth about 62 lakhs of Sicca Rupees.

Over-speculation and adulteration brought about a crisis and private exports fell to 38 lakhs in 1801-02. The industry would have fared much worse if the private trade interest in the Court of Directors, led by David Scott, did not prevail upon Wellesley to lend a hand. But the decline of Indian piece-goods trade, consequent on Manchester competition and the Continental System, left no other alternative to the Company. The indigo manufacturers heaved a sigh of relief. Plantations spread quickly over Bengal and Bihar, and the cry of the oppressed peasantry began to be heard. In 1815, Henry Lee, an American trader, was once more warning against the danger of over-production.

Due to exigencies of trade between 1814 and 1820, private capital got stuck up in Bengal. With a widespread depression following the Napoleonic Wars, remittance through trade became hazardous. To make matters worse, more bullion was now being imported from England and still more of Lancashire cloth. This caused a blind rush for investment in opium in the time of the Marquess of Hastings, and when that failed, indigo remained the sole source of private remittance (as silk had been monopolised by the Company). The debt policy of the Government made capital still cheaper. The inevitable
result was a thoughtless spree of indigo cultivation in 1824 and 1825, which brought its own nemesis in 1826.

About two crores of rupees were being now annually invested in indigo, principally by the agency houses. In all 899 factories had been established in the Bengal Presidency, covering 30 to 40 lakh bighas of land. To secure this capital from continuing crisis and constant litigation with the ryots and their own rivals in trade (some of them were native Zamindars), the Europeans demanded rights to own plantations and enforce contracts. Lord William Bentinck vigorously supported their claims, and though the Court of Directors opposed them on humanitarian grounds and feared that colonization would result, he allowed the planters to have their way. Regulation V of 1830 protected them from wilful evasion of cultivation which indirectly sanctioned the use of force. The Court had these clauses rescinded but the Charter Act of 1833 gave the Europeans ownership of land and full freedom of contract.

A few planters acquired, by a long lease or purchase, zamindari rights, but the old and pernicious ryoti system continued as before. Under the latter indigo was cultivated by the ryots on their own lands against a renewable contract with a planter based on an advance of usually two rupees a bigha. For wilful or forced inability to deliver the stipulated quantity of plant, the undelivered quantity formed the nucleus of a debt. In north Bihar no debt was incurred if the ryot failed to supply on the ground of crop-failure, but he would also have to be content with a minimum return, however fine the crop might be. In U.P. the plants were supplied at a fixed price and the planter furnished seeds in certain areas. But indigo consumed everywhere the best lands and was never a paying crop to the ryots. There being no economic inducement, the system could only be worked "by oppression and ill usage", a view in which Sir Charles Wood, the Secretary of State, fully concurred.

So troubles with the unwilling ryots multiplied after 1833, which flared up into wide-spread resistance in 1859 and open rebellion in 1860. Lord Canning was won over to the planters' cause and passed a regulation which gave criminal jurisdiction to magistrates in civil cases of breach of contract. Wood opposed it on principle and allowed the measures only because they were temporary. He opposed Canning's Contract Bill and condemned the partisanship of judges like Peacock and Wells in the Nil-darpan case. The planters knew that the auctions in Bengal were over and began to transfer their investments to Bihar, Banaras and the Doab. While production of Bengal indigo fell from 50,330 maunds in 1857 to 16,502 maunds in 1877, that of Bihar rose from 23,400 maunds to 34,857 maunds, and the Doab pro-

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duced 44,285 **maunds** in place of a meagre 6,000. In another decade the Bihar production rose by another 24,000 *maunds* and the Doab by 20,000.⁴¹

But by the end of the nineteenth century (1897) the invention of synthetic dye dealt a death blow to this industry. Its export, valued at £3.5 millions in 1895, fell to £390,918 in 1905. Between 1904-5 and 1914-5 the area under indigo shrank to one-tenth of the area in 1894-5. It was meeting the determined resistance of the Bihar peasants which rose to a climax in Gandhi's Champaran campaign. Indigo manufacture died out in Northern India and sought to prolong a precarious existence in Madras. There were only 65 plantations in Bihar and Orissa in 1921, 56 being owned by the Europeans, the last of the stragglers.⁴² Their baroque buildings stand today in ruins all over the country, the vanishing memory of the first British enterprise in India.⁴²a

3. *Tea and Coffee*

What indigo lost, tea gained. When the Company's China monopoly was abolished in 1833 it turned its attention seriously to the possibilities of growing tea in India. Though Sir Joseph Banks reported discovery of wild tea plants as early as 1788, the credit for the first knowledge of the existence of tea plants in Assam should go to Robert Bruce, who was there in 1823. He informed his brother, Alexander, who again reported to his senior officer, Captain Jenkins, verbally in 1826 and officially in 1833.⁴³ Meanwhile, Lt. Andrew Charlton had independently come across the tea plant in Assam and informed Dr. John Tytler of his discovery on 21 January, 1832, and Captain Jenkins on 17 May, 1834. He has been regarded as the pioneer in the official records, which honour really belongs to Robert Bruce.

Bentinck had the greatness to realize its importance at once, and proposed the formation of a Tea Committee in a minute of 24 January, 1834.⁴⁴ The Committee sent a scientific deputation under Dr. Wallich in 1835, of which Alexander Bruce became the guide. The first experiments were soon started with Chinese seeds, but the indigenous seeds did better.

The Company was willing to give up its project to a private organization for production on a commercial scale. For this the Assam Company was founded by London merchants on 12 February, 1839. Names of several East India agents were prominent in its Committee—William Crawford, G. G. de H. Larpent and Richard Twining. The original capital was £500,000, and Cockerill & Co. and Boyd & Co. were appointed joint agents of the Company in
Calcutta. It is interesting to note that Dwarkanath Tagore’s Carr, Tagore & Co. formed the Bengal Tea Association for the same purpose. The two companies amalgamated soon and the Assam Tea Company was incorporated as a rupee company in 1845 with a capital of 50 lakhs of Company’s Rupees divided into 10,000 shares. In 1840 the Government transferred to it two-thirds of its establishments and lands, free of rent, for ten years with permission to settle on other lands.

The Assam Company was the only one in the field till 1850, fighting an uphill task and proving true to its motto,—"Ingenio et Labore"—by ingenuity and hard work. To pay a dividend of 2½% it had to borrow in 1845, and it raised in that year a crop of 194,800 lb. The tide turned in 1847—but slowly. The period between 1856-60 saw some profitable trading. The crop rose to 872,431 lb. and dividends to 12%. Though the acreage under tea was fast spreading, acute labour shortage, competitive cultivation of poppy and lack of communication stood in the way of progress. Two of its directors had defected and formed the rival Jorehat Tea Company in 1859, and many of its officers had been raising private gardens.

Hectic speculation in tea was a feature of the years between 1859 and 1865 when twenty companies were registered in London and Calcutta, besides many more unregistered private gardens. Rules were relaxed by the Government under which grants of lands should have been made. By 1866-67 more than 6 million lb. of tea were being manufactured in India. This over-speculation was hit by the general depression of 1866-67 and stringency of the London and Calcutta money-markets. Inefficient and negligent administration added to the costs. Even the pioneer Assam Company incurred losses between 1865 and 1867 and could only declare a 6% dividend in 1869.

As the rate of exchange between India and Britain fell below its par value since the 1870’s, tea became more profitable. The Assam Company’s dividends once rose to 35% between 1871 and 1880, and retained an average of 12% in the next decade and 13% in the decade after.

Tea was once again being over-produced in the last few years of the nineteenth century. Not only had the acreage under tea doubled during 1885-1904 but production per acre had increased. For its market price dropped after 1900, the cost of production was to cut as still to yield on average a profit of 8½% in the first decade of the present century. The completion of the Assam Bengal Railway and the opening of the Chittagong port were a boon to
the industry. In 1918 the export of tea reached the figure of 324 million lb. worth Rs. 17.7 crores, 21% above the pre-war average in quantum. In 1920 the acreage was 704,059 and output more than 345 million lb. The dividends were rising.

Though there had been always a great variety in the size of plantations, tea tended to become a large scale industry. Under the increasing control of European companies consolidation of smaller gardens was stimulated: Much more British capital was invested here than in indigo, especially during 1890-1910, and the managing agency system had a near monopoly. There was a slight shift of control in Bengal from European to Indian hands. A similar trend, though less pronounced, was seen in the Assam plantations.

The first coffee plantation had been established at Fort Gloster in Bengal in 1823 and ownership was granted to the Europeans under certain conditions to facilitate its growth. Since Bengal produced poor crops, coffee cultivation migrated to the highlands of South India. A coffee boom ensued in the 1860’s. While £188,532 worth of coffee was exported in 1859, £801,908 worth was exported in 1864 and £1,633,032 worth in 1879. The outbreak of the ‘borer’ disease and competition with Brazilian coffee, acutest between 1877 and 1887, caused a set-back to production which fell from 34 million lb. in 1885 to an average of 20 million lb. during the last years of the century. The average acreage under coffee,—237,500 in 1885,—came down to 133,000 in 1895 and 88,000 in 1914.

4. Jute Industry

British capital, employed in indigo, was seldom imported. It was raised from the savings of the Company’s servants and the fruits of Asiatic trade. Some capital was imported to finance tea and coffee plantations. It was jute manufacture, however, which mainly fed on imported capital and still remains a near British monopoly.

Development of jute manufacture in India has often been called a romance. The first sample of Bengal jute was sent to London in 1791. Though the Company’s experiment in this trade between 1793 and 1797 failed for weakness of fibre, hand-woven jute goods, like gunnies, found a ready market in U.S.A., Penang and Singapore. The trade continued to prosper between 1833 and 1856 when jute goods worth Company’s Rupees 41,20,881 were exported. Demand for raw jute had also increased in this period.

Entrepreneurs naturally wanted to set up jute milling in India on the model of Dundee, where jute industry had been started in 1838, to avoid the cost of transport. The Crimean War, by stopping import of Russian hemp, encouraged their projects. The first jute
spinning mill was erected at Rishra (Bengal) in 1855 by one George Ackland, lately of the East India Marine Service, with the financial help of a Bengalee, Bisvambhur Sen. The first power-driven looms began to work at Baranagar in 1859. The former produced at first 8 tons per day and the latter produced only 152.\(^2\) The Calcutta Agency House of George Henderson & Co. financed the Borneo Jute Co., which had set up the Baranagar Weaving Mill. Three more—the Gouripore (1862), the Serajgunge (1862) and the India (1866)—came in the sixties.\(^3\) The Baranagar Mill doubled its capacity in five years and within thirteen cleared its capital twice over.\(^4\) All except Ackland's mill “simply coined money”.\(^5\)

A jute boom ensued in the seventies. Five new companies were floated between 1872-74 and eight more between 1874-78, swelling the total loomage to 3,500. The Bengal industry shut out Dundee to a great extent “from the Asiatic and Australian markets, and even from a part of the American market”.\(^6\) This feverish speculation, however, noted also in tea industry, brought about a depression, as a result of which control of most of the mills went to Bird & Co., Andrew Yule & Co., and Mackinon, Mackenzie & Co. Only one mill was added in 1876.

A second jute boom came along between 1882-85 when five new mills were started and the total number of looms doubled that of 1875.\(^7\) To regulate output, the Indian Jute Mills Association was founded in 1884. After a few lean years, when the mills had to work a shorter time and sell at fixed rates, a marked advance in hessian manufacture took place. About 10,000 looms were working in 1895, one-third of which produced hessian goods, and the number of spindles passed two hundred thousand.\(^8\) About 5.47 crores of Rupees had been invested (by 1895) by the Europeans in the jute industry; the export of jute products was valued at £4.7 millions, a 400% rise over that of 1870's.\(^9\) Dividends were good. The Budge Budge Mill paid in that year 19%, the Fort Gloster 20%, and the Gouripore 16%.\(^10\) This naturally provoked the wrath of Dundee\(^1\) and the Secretary of State had to institute an inquiry on the jute manufacture of Bengal, especially, the charge of labour sweating.

The expansion of jute industry differed from the equally phenomenal growth of cotton textiles industry in one important point. It took the form of extension of the existing concerns rather than a corresponding increase in the number of mills. This tendency became less noticeable between 1895 and 1913. After a temporary setback caused by famines in the late 90's, the industry prospered for several reasons—fall of the exchange value of the rupee, expansion of railways and rise of world demand resulting from exploitation of
American and Australian grain lands. Even German and American import duties could not affect the pace of growth. Bengal's monopoly of raw jute was fully exploited and British capital, if not abundant, was always adequate for this predominantly British industry. On the eve of the World War I the number of mills was 64, of looms, about 36,000 (21,000 for hessian), and of spindles, about 7½ lakhs.\(^6\)

5. **Cotton Manufacture**

Jute and cotton industries, organized on factory basis, were contemporary, but while the British have monopolised the former, the Indians have come to make the latter their own. From time immemorial India had developed cotton manufacture into a great art. It had once found ready vent in Egypt and Imperial Rome, and was no less avidly sought by the Arabs till the sixteenth and the Europeans till the eighteenth century. Spinning and weaving had become a national occupation, peculiarly suited to the tenor of Indian village life, and the products satisfied both the cottage and the court and served local as well as foreign needs. Dacca was famous for its muslins, Murshidabad for its *choppahs*, Lakhnau for its chintzes, Ahmedabad for its *dhoties* and *dopattas*, C.P. for its silk-bordered cloth, and Madras for its *palampore*. The Indian industry offered a feast of colours and a variety of textures, unequalled till the present day.

It lent itself easily to the domestic system of production and was organized under craft guilds,\(^6\) the individual craftsmen working at home on capital supplied by merchants. The relations between the *dadni* merchants (i.e. who advanced capital) and the weavers are not well known, but the former's increasing control may be assumed. The industry retained its domestic character when the East India Company took over, but the *dadni* merchants were replaced by the agency system (the process began in 1753) to the injury of the producers. The Resident, the factors and the native servants of the Company's *aurungs* now lorded it over the looms and defrauded the weavers of their deserts.\(^6\)

In spite of the sumptuary laws of the 18th century and the high tariffs protecting British woollens and linens from Indian printed and painted calicoes, the Company's Bengal piece-goods investment in 1793 was about 67½ lakhs of current Rupees\(^6\) and remained at that level for some years. But Lancashire was fast catching up. In 1787 it had surpassed Indian manufacture except in the finest muslins.\(^6\) Technical progress soon enabled it to produce superior yarns at a cheaper rate. The protective duties were further enhanced.\(^6\) Two other factors went against the finer textiles—the
disappearance of native courts, which had kept up a steady demand for them, and the elimination of the French and the Dutch competition during the Revolutionary and the Napoleonic Wars. American traders offered some fillip to this dying craft till 1813. By then machinery had beaten it completely. Muslins were the chief victim, but other sorts were seriously affected. The Company's indent in 1812 was less than a third of that in 1803-4. The ruin of the premier industry of India was announced in the speedy decline of exports from Dacca. The East India Company's order on its Dacca factory amounted to 3 lakhs of Sicca Rupees in 1801. It fell to a little over one lakh in 1812 and the factory was finally closed in 1818.

The change in the taste of the urban middle class and extreme cheapness of coarse Manchester cottons, which suited the poorer classes, contributed soon to the loss of the domestic market. From a paltry beginning worth £156 in 1796, the export of British piece-goods to countries east of the Cape (mainly India) had risen to £3.2 millions in 1818. Aided by a liberal tariff of only 2½%, they were now selling at a profit. Bishop Heber found them preferred by Dacca people to their own local manufacture. Elphinstone witnessed the same process in Bombay and the story of the Madras region was not much different. In the earliest statistics of trade obtainable for Madras we find her plying a brisk trade in piece-goods with London and U.S.A. In 1824-5 we find private export to U.K. still amounting to 25 lakhs of Madras Rupees. But competition with British manufacture had already become keen in Malacca and South-East Asian markets. The situation deteriorated further till her exports fell to about 13 lakhs in 1832, while import of British cottons rose to 4½ lakhs.

From 1824 machine-spun twist and yarn began to arrive. In four years the value of such imports into Calcutta rose from less than a lakh of Sicca Rupees to 33 lakhs. The British yarn was being spun at less than half the cost of the Indian yarn and the spinners fared inevitably the same fate as the weavers. The Manchester Chamber of Commerce was so eager to dump goods in India during the depression of 1830's that it broke down the Company's China monopoly and the Indian remittance trade in 1833. A sad note creeps into Bentinck's minute of 30 May, 1829, which may justly be called an elegy on Indian Cotton Industry: "Cotton piece-goods, for so many ages the staple manufacture of India, seem thus for ever lost...."

It has been made of the destruction of the hand-loom cotton manufacture of India, and people of all classes have joined in the requiem. But when we learn from the economic history of England
that a similar ruin was overtaking the British handloom industry, we
realize the causes of its inevitable ruin. Handloom industry might
have been, and actually was, preserved as a museum piece, but never
as a competing enterprise. The tariff policy of Britain was unjust, and
partly accounts for the ruin of cotton industry in India. More im-
portant factors involved were the technological and organiza-
tional superiority. Nothing short of mechanisation could have averted
the disaster, which, indeed, was understood by the Indian capitalists
who launched the modern cotton industry in the 1860's.

Bombay and Ahmedabad became its first homes. The Bombay
Spinning and Weaving Mill was established by Cowasjee Nanabhoy
in 1853. It started work in 1854 with 25,000 spindles. The Broach
Spinning and Weaving Mill with 10,000 spindles began to produce
in 1855. Proximity to the vast cotton tracts of the Deccan, availabil-
ity of capital, the Parsee tradition of daring entrepreneurship, expe-
rience gained in the hereditary cotton trade with China and Africa,
and duties that came to be levied on British manufacture after the
Mutiny, combined to spell success for the industry. By 1861 we find
that 13 mills had been erected (10 in Bombay and 3 in Ahmedabad),
7 of which were in actual operation. Dinshaw Maneckjee Petit was
planning bigger things with 60,000 spindles. The paid up capital was
still low, reaching 5,000 Rupees in two cases only.63

Though the American Civil War retarded its growth to a cer-
tain extent by raising the price of raw cotton, the spread of railways
and the Government's tariff policy helped it. An impecunious
Finance Member doubled the duties on British cotton.64 The re-
lief was, however, temporary, as the duties on piece-goods were once
again reduced to 5% and on yarn to 3½%. The abnormal cotton
boom of 1860's led to the slump of 1870's and affected the mushroom
growth of cotton industry. In 1872 we find only 18 mills working
in the Bombay Presidency and two in Bengal.65 But two booms
occurred in the next fifteen years—one between 1875-77 and the
other between 1885-90. In 1890 the number of mills had risen to
137, Bombay leading with 94. Many of these, however, were spin-
ning mills. The industry was still concentrated on production of
yarn for export to China. The little fine cloth it produced roused
Manchester66 and under the pressure of a General Election, the
Secretary of State prevailed upon a willing Lord Lytton to lower di-
ties on coarse British goods in spite of the adv. majority vote in
the Governor-General's Council.67

In 1895 the value of yarn exported reached 6.8 million
Rupees, and that of cloth, 3.4 millions tens of Rupees. As Sir He-
James stated in the Commons, while in the six years ending in 1862
the U.K. held two-thirds of the trade with Hongkong, China and Japan, in the four years ending in 1895, four-fifths of this trade had passed to India. The cloth was not much consumed in India, and the years of famine and plague that followed (1895-1900) did not allow the home demand to increase. Three factors slackened the pace of growth—(1) price of raw cotton, which American speculation sent rocketing in 1902, (2) a countervailing 5% excise duty on Indian mill cloth levied in 1894 (reduced to 3½% in 1896), and (3) a depression in the China market, aggravated by the silver basis of the Chinese currency. Though the rate of progress was maintained in looms, the number of spindles rose but slightly for some time after 1900.

6. Steel and Coal.

Heavy industries could not develop in India during the 19th century, not primarily because of capital shortage but because of (1) lack of high grade iron ore and (2) inadequate production of coal. In Bengal, Jessop and Co. tried to start iron works at Barakar in 1839, Mackay and Co. near Ranigunj in 1855, and Bengal Iron Co., near Asansol, in 1875, which it sold later to the Government. All met with failure. Major W. C. Lennan brought to the notice of the Madras government the fine quality of Salem steel in 1808, but Andrew Duncan's factory came to nought. J. M. Heath, a civil servant of the Company, was granted monopoly of iron production in Madras in 1825. He erected iron works at Porto Novo in 1830 with some capital borrowed from Alexander & Co. of Calcutta. We find him claiming discovery of chloromate of iron in December, 1832, but still in need of funds. His iron works failed, too, after struggling for thirty years.

In 1889 the Bengal Government sold its Asansol pig iron works to a new Bengal Iron and Steel Co., Ltd. for which Martin & Co. became the managing agents in 1894. Hampered by poor grade ore, it was producing only 40,000 to 50,000 tons of pig iron in 1907 and had dropped its steel project, though the Government had backed it from the beginning.

Thus all the iron and steel needed for the Indian railways, textile mills, etc., almost every mechanical appliance used by the planter or the peasant, were imported from Britain in the nineteenth century. The pre-war average of such imports was 808,000 tons, worth about Rs. 121 crores. This factor heavily weighed against industrialization and differentiated its character from that in Britain. While the Industrial Revolution in Britain was ushered in by the growth of iron and steel industries, it began in India with application of steam to jute
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and cotton textiles. The latter lacked Britain's solid basis of domestic production of iron and steel, and even the ancillary engineering industries (like the Jessops' workshop) were dependent on foreign trade for development.

England's great advantage was her magnificent fuel resource. Pig iron production got off to a fine start when Abraham Darby substituted coke for charcoal to smelt iron ore. This drew furnaces and foundries to the coal fields and enabled producers to replace wrought by cast iron and make steel by a special process. India suffered long for lack of adequate production of high grade coal. Seams of coal had been discovered in Bengal early in the nineteenth century and Alexander & Co. had started mining since 1820's. But there was only one mine at work till 1840, and only three operated in 1854. The commencement of the East Indian Railway gave an impetus to the industry, not only by easing the means of transport but by creating a regular demand for coal itself. By 1879-80 Raniganj and Jharia could show 56 mines producing about a million tons a year. In 1870 the Mohpani deposits in C.P. were opened, in 1874 the Warora fields. These were negligible, and Bengal, with an average production of 467,000 tons between 1869-75, could not supply even the needs of the railways. India was importing about 600,000 tons of coal a year in 1880. Little mechanisation had been introduced in the existing mines.

The nineties, however, saw a spectacular rise in coal output. The annual average shot up to more than 4½ million tons between 1896-1900. It came from deeper exploitation of Bengal deposits rather than discovery of new fields, and was called forth by increasing demand of jute and cotton industries and, of course, railways. It was also helped by liberal conditions of mining leases and licences —60 licences being granted in 1899 but 400 in 1907. This explains the rise of average production to about 12 milion tons between 1906-10.

7. Paper.

Production of machine-made paper dates from 1870 when the Bally Mills were established in Bengal. The Titaghur Paper Mill followed in 1882, the Bengal Paper Mill Co., in 1891 and the Imperial Mill in 1892-94. No other concern was floated in Bengal till 1918, but the industry was taking root in Lakhnau (1875), Hardwar (1876), Kanpur (1877). It was working under difficulties like the high cost of chemicals, heavy transport charges of coal, and severe competition from Europe, U.S.A. and Japan.
8. The Tanning Industry.

The modern tanning industry started late, though there was no dearth of hides and skins in India. It owed its origin to one Charles De Susa of Madras who, about 1845, introduced certain improvements in tanning methods. The small capitalist-cum-export trader ran the business which became very profitable around 1880's with increasing demand from Germany. Military authorities were responsible for introducing the industry in Northern India as adjuncts to arsenals. A harness and saddlery factory was set up at Kanpur under Government auspices in 1860. It was followed by the Government-aided private enterprise of Messrs Allen and Cooper. Soon Bombay became the third major seat of this industry. The Madras Government did valuable research work during 1904-11 to establish chrome-tanning when discovery of the chrome process in U.S.A. seriously affected the vegetable and bark-tanned Madras hides.

9. Conclusion.

This survey would be incomplete without a reference to the managing agency system responsible for the pioneering and promoting of industrial development in India. It grew on the ruins of the agency houses which financed the earliest British capitalist enterprise, and inherited many of their characteristics. The first managing agents, too, gathered experience in general trade and were not technical experts. Each line of business opened the way for another, and the market for the products of one was found in the other. The range of their business ran from steam transport to tea, from jute manufacture to colliery. They could supply capital directly or indirectly in a notoriously shy money-market as the old agency houses had once done (say, in indigo business), but they could, unlike their predecessors, also offer the requisite managerial efficiency. Like them they were connected with corresponding firms in Britain, and though sometimes technically separate, were run by the same partnership.

They started either as family concerns like the Tatas or Currimbhaji Ebrahim & Sons., later converted into private limited partnerships, or, more often, directly as partnership, like Martin & Co. Partnership agency firms predominate in Bombay and Calcutta, while family concerns, as so in Ahmedabad. A few, however, are public limited companies like Binny & Co. of Madras, but some, though usually joint stock concerns, are more akin to partnerships as the managing agents appoint their own friends to the Boards of Directors.
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The system came in later for a good deal of criticism and was charged with retarding an Industrial Revolution in India by confining itself to export-orientated manufacture, but the evidence before the Indian Tariff Board proves that, in spite of many shortcomings, it has been on the whole inexpensive and efficient. As one leading authority asserts, "but for the managing agency system the pace of industrial development in India would have been slower, and the opportunities of British capital and British enterprise to function in India would have been limited." It was due to their efforts that between 1895-1918 the number of Joint Stock Companies at work in India rose from 1309, with an authorized capital of more than 416 million Rupees and a paid up capital of more than 291 million Rupees, to 2,789, with an authorized capital of more than 2½ billion Rupees and a paid up capital of more than 1 billion Rupees. The amount of British capital engaged in India is very difficult to estimate. Sir George Paish puts it (Ceylon included) at £ 365,399,000 in 1909-10, while H. F. Howard puts India's share alone at £ 450,000,000. This would give some idea of the great role played by foreign capital in developing Indian industry.

5. S. Pollard, op. cit.
8. Economists like Ranade and Kale were satisfied with this progress and wanted more, while some others considered patriotic fervour for industrialization to be misguided. See Ranade, Essays (3rd Edn.) pp. 97-98 and Kale, Indian Industrial and Economic Problems (2nd edn.) pp. 88 ff., for the former view, and J. M. Keynes, review of Theodore Mcrison's Economic Transition in India, Economic Journal, 1911, pp. 427 ff., for the latter. It wrongly assumed that industrialization would be at the cost of agriculture and could not foresee the fall of raw material prices between 1913-22 and, once again, from 1928.
10. A Tripathi, Trade and Finance in the Bengal Presidency, 1793-1833, pp. 42.
15. For Bengal see W. W. Hunter, Bengal MS Records, Vols. I-III; for Bihar see Buchman Hamilton's Reports on Sahabad. Purnea and Bhagalpur.
25. Ibid., p. XXVIII.
26a. See above, pp. 926 ff.
27. Wood to Wilson, 10 May, 1860, and Wood to Canning, 10 May, 1860, ibid.
28. Wood to Canning, 24 April, 1861, ibid.
30. Lt. Governor Grant calculated a loss of Rs. 20/- per acre in Deltaic Bengal.
32a. There is a good deal of similarity with the sugar plantations of the West Indies. See Richard Pare, Chichele Lectures, Supplement no. 4, Economic History Review, and K. G. Davies, Essays in Bibliography and Criticism, XLIV, 2nd Series, Vol. XIII, no. 1, 1960.
34. The Tea Committee included two Indians—Radhakanta Deb and Ramchand Sen.
35. It included five Indians—Dwarkanath Tagore, Prasanna Kumar Tagore, Rustomjee Cowasjee, Matilal Sil, and Hadjee Ispahani.
37. Edgar, Note on the Tea Industry in Bengal; Papers regarding the Tea Industry in Bengal, 1873. pp. 7-11. Also Memorandum by Mr. Campbell, ibid, pp. 125-28.
38. Reports on Tea and Tobacco Industries in India, 1874. Part I, Tea in Assam, East India Products.
40. Yr. 
   acreage. 
   production. 
1885-90 310,595 201,389,000 lb.
1900-04 524,720 23,500,000 lb.
42. Company. 
   Years. 
   Assam Tea Co. 1917-26 22% 
   Jorehat Tea Co. -do- 30% 
43. See Buchanan, The Development of Capitalist Enterprise in India, p. 69.
44. Ibid.
47. Statistical Abstracts.
48. Bengal Board of Trade to G.G. in C., 11 March, 1791.
49. Acts of Bengal Board of Trade, 7 March, 1797.
51. Bengal Commercial Reports, 1856-57. Here Gadgil is wrong. See Gadgil, The Industrial Evolution of India, p. 54.
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54. Wallace, op. cit., p. 17.
55. Ibid, p. 29.
57. Buchanan, op. cit., p. 245.
58. Wallace, op. cit., p. 84.
59. Table IV, Second Report, Indian Central Jute Committee, p. 38.
60. Buchanan, op. cit., p. 252.
61. Gadgil, op. cit., p. 103.
62. Ibid.
65. Proceedings of Bengal Board of Trade, 7 July, 1793.

White Calicoes | 1787 | 5s-3d + £ 18. 10s. % ad valorem
| 1802 | 6s-8d + £ 27. 1s. ld. % ad valorem
Muslins | 1787 | 5s-3d + £ 18 % ad valorem
| 1802 | 6s-8d + £ 30-15s-9d % ad valorem

68. Sinha, op. cit., Chaps. III and IV.
70. Kennedy’s evidence before House of Commons, 1831.
73. A Tripathi, op. cit., p. 134.
75. Phipps, A Guide to the Commerce of Bengal, p. 263.
76. Bishop Heber, Narrative of a Journey, p. 185.
78. Public Consultations (Madras), 13 August 1802, 12 April, 1803.
79. Revenue Consultations, Sea Customs (Madras), 27 Feb. 1826.
81. A. Tripathi, op. cit., f.n. 1, p. 204 and p. 231.
82. Ibid, f.n. 1, p. 165.
82a. This is very natural, as, unlike England, the ruin of the old hand-loom weavers was not accompanied by the growth of the machine industry in India. (Ed.).
83. Information enclosed in MSS. letter of Bartle Frene to Lord Elgin, 1 July, 1862. Elgin Papers, C.R.O.
85. East India Reports. House of Commons, 27 February, 1871, p. 82.
89. Buchanan, op. cit., p. 280.
90. Public Consultations (Madras), 2 March, 1808, 14 April, 1809.
92. Munro’s Minute of 30 December, 1824, and Madras, to Court (Publ., 21 January, 1825.
94. Watson, Iron and Steel in Bengal, and Lovat Fraser, Iron and Steel in 1900, pp. 11 et seq.
96. Parl. Papers, Affairs of the East India Co., 1831, V, p. 19. This coal mine
came to the hands of Dwarkanath Tagore and has been since 1843 owned by
the Bengal Coal Company.
97. Up to 1895 foreign import of coal maintained the same level. Then it began
to fall.
100. A. Chatterton, *Tanning and Working in Leather in the Madras Presidency*
(1904).
102. Tripathi, op. cit., chap. V.
103. Andrew Yule & Co., managed 10 jute, 18 tea, 14 coal, 3 transport, 1 sugar
and 8 other companies. See Lokanathan, *Industrial Organization in India*,
p. 48.
104. Ibid., pp. 16-28, 41-49. Indian Central Banking Enquiry Committee, *Majority*
105. This conformed to the traditional pattern of foreign investment in economi-
cally backward countries, viz. the American colonies in the 18th century.
It does not reflect any sinister conspiracy but reflects the poverty of local
consumers and expanding markets for primary products of the colonial coun-
tries in the great industrial centres of the world. See Nurkse, *Some Aspects of Capital Accumulation in Under-developed Countries* (1952),
p. 12-14.
106. Lokanathan, op. cit., p. 21. G. W. Tyson, *Bengal Chamber of Commerce and
CHAPTER XXXVI.

BANKING, CURRENCY AND EXCHANGE

I. CURRENCY AND EXCHANGE.

Under the Mughul Government the gold mohur and the silver rupya, without any fixed ratio of exchange between them, were current as legal tenders. In 1542 Sher Shāh had fixed the rupee's weight at 100 ratis or about 175 grains of fine silver, and the Mughuls accepted it as the standard weight for both gold and silver coinage. With the disruption of the Empire after 1707 the succession States claimed and exercised an undefined political sovereignty, and began to debase currency without altering the denominations, so that there soon ceased to be an Imperial legal tender current throughout India.

In Bengal, farming of mints, adopted by Ratan Chand, Diwan of Farrukh-siyar, led to the decline in value of the sicca rupee every year till, at the end of the third, it became a 'sonaut'. Under the Jagat Seths the undervaluation of all siccaas of an earlier date than the current year became established, so that they could earn huge batta or discount on them. The siccaas, however, were not the only rupees extant. The East India Company found a currency confusion in Calcutta which was worse confounded in the mofussil districts.

It was not till 1763 that the Company could wrest from a pliant Mir Jafar the undisputed right to coin their own siccaas at Calcutta. Meanwhile, scarcity of silver had become notorious. Not only no bullion had been imported since 1757, but a drainage of silver had started towards China, Madras and Bombay. Bi-metallism was introduced in 1766 to meet this problem and was further confirmed in 1769. But the ratio between the gold mohur and the sicca was inadvertently fixed, first at 1:14 and then at 1:16. Overvaluing of gold immediately resulted in 'batta' or discount on gold mohurs and made silver more scarce.

To secure uniformity of sicca coinage and prevent clipping by the money-changers, the rupee was provided with an inscription—'19 san (i.e. the 19th year of Shah Alam) 27.32' and given a fine silver content of 175.927 grains troy. But this arrangement of Hastings—one mint at Calcutta and use of one regnal year—added to confusion which was duly exploited by the mofussil shroffs. He suspended gold coinage altogether in 1777 for reasons discussed
above, but financial circumstances once again forced him to revert to gold in 1780 with the same results. Cornwallis' Committee on Currency diagnosed the disease—while the market ratio between gold and silver coins had been 1 : 12 or 1 : 13, the mint ratio had been fixed at 1 : 16. The Third Mysore War did not allow him, however, to continue with moné-metallism and in 1793 the gold mohur reappeared, valued at 16 sicea rupees. This experiment, almost a counsel of despair under the prevailing monetary stringency and the exigency of war-finance, was bound to fail like the two earlier ones and for the same cause—overvaluation of gold.

In Madras, too, bi-metallism was meeting with similar difficulties. The first attempt was made there in 1749 when 250 Arcot rupees (each containing 166.477 grains of fine silver) were legally rated at 100 star pagodas (each containing 42.048 grains of gold), which were the traditional currency in that region. Compared to the market ratio the star pagoda had been undervalued, and, after a few years of close proximity in the 1770's, the legal and the market ratios once again swung apart when the Third Mysore War began to cause heavy import of silver from Bengal. It had been a mistake to fix the ratio at 365 to 100 in 1790, but it was aggravated in 1797 by raising the ratio still further to 350 : 100. Bi-metallism on wrong lines ended in failure and caused disappearance of the pagodas. In Bombay the mohur was at first overvalued, but the change in 1774 brought it down almost to the market ratio. The introduction of debased Surat rupees at par, however, frustrated the designs of the Government and drove out Bombay rupees as also the gold mohurs. It was resolved to alter the standard of the mohur to that of the Surat rupee so as to give a ratio of 1 to 14.9, but the market ratio, inclined towards 1 to 15.5, caused the failure of the experiment.

In the light of this sad experience of bi-metallism in all the three Presidencies, and under the influence of Lord Liverpool, the Court of Directors decided for a silver standard in 1806, the rupee having a gross weight of 180 grains troy (pure silver content being 165 grains). The principal object was fixity of value. The Court believed that they were restoring the old Mughul Unit, which could also become a unit of weights and measures and be easily assimilated to the English Unit. The proposed standard of fineness agreed so closely with Bombay, Madras and Furrukabad rupees that a uniformity could be obtained without much dislocation.

The Court's order was first carried out in Madras in 1818, when the Arcot rupee and the star pagoda were replaced by a silver rupee and a gold rupee of the weight and fineness decided by the Court.
Bombay followed in 1824. Bengal eliminated the Banaras rupee in 1819 and brought the Furrukabad rupee (current in Lakhnau region) in line with Bombay and Madras rupees in 1833. With the exception of the Bengal sica and gold mohur, a uniformity of coinage had been accomplished. The Bengal Government clung to the bimetallic standard and Madras continued the system of double legal tender at a fixed ratio.

Rapid growth of internal and external trade, however, brought from the European merchants and agency houses a persistent demand for a common currency based on a single unit in place of a uniform currency composed of like independent units. Secondly, the surplus of one Presidency was not available for the deficiency of another without passing through the mint. By the Act XVII of 1835 a common silver currency was introduced in India as the sole legal tender, with a rupee weighing 1 tola or 180 grs. troy and containing 165 grs. of fine silver. It was not substitution of gold standard by silver standard but of bi-metallism by monometallism. That it was to be silver monometallism instead of gold was decided by prevalent theories (of Locke, Harris and Petty) as well as practice (though not of England), and popular preference played its part. Gold, however, continued to be freely coined at the Mint and to increase the revenue from seignorage, the Government authorised in 1841 receipt of gold mohurs of the same weight and fineness at the treasuries at the gold-silver ratio of 1 to 1. Discovery of gold fields in Australia and California, however, upset the ratio; gold became overvalued, and the privilege granted in 1841 was withdrawn in 1852.

The British system of revenue and finance and the enormous increase of trade called forth an increased demand for cash. But after 1850 the production of silver did not keep pace with the needs of the world, especially of countries like India, placed on an exclusive silver basis. To make matters worse, a large part of the coined silver was diverted from monetary to non-monetary purposes. As Cassels wrote in his minute on Gold Currency for India, "the mint has been pitted against the smelting pot, and the coin produced by so much patience and skill by the one has been rapidly reduced into bars by the other." The problem could not have been solved by assenting the import of silver which had already reached the highest peak. The lack of credit was woeful. Issue of interest-bearing treasury notes failed, as it was insufficient, confined in time and in place to the Presidency towns. By 1856 only twelve banks were in operation, of which the Bank of Bengal alone had more than a million pounds worth of notes in circulation.
Under these circumstances the demand for a gold currency grew stronger. But Sir Charles Wood (President of the India Board) was against a double standard and feared that a pure gold standard (where a sovereign would be legal tender), when gold supply had become so abundant, would benefit the debtors only. When he became the first Secretary of State for India, the situation had worsened, and in 1859 he was "thinking of trying a paper currency convertible at large treasuries and receivable as revenue". He agreed with Wilson's (the first Finance Member of the India Government) paper currency plan except its provision for a fixed bullion reserve and its dependence in crisis on sale of securities. Wilson's scheme of 1/3 silver reserve would end in issue of paper notes to three times the amount of bullion paid in. "The danger of an ill-regulated paper currency is that it is often issued beyond what would have been coined, and not diminished when coin would have been melted or exported. The quantity to be fixed is not the quantity of bullion, but the quantity of notes to be issued without bullion or coin." In his view the sum beyond which all notes must be on metal basis should be fixed at 4 crores.

Laing, Wilson's successor as Finance Member, introduced some important changes in the original bill. First, he raised the lowest denomination of notes from Rs. 5 to Rs. 20. Secondly, he proposed to accept gold bullion or coin and issue against that notes to an extent not exceeding the-fourth of the total amount of issues represented by coin and bullion. Thirdly, he proposed that only the Bank of Bengal (and other Presidency banks, if need be) would get notes for coin and act as agent of issue, for which it will receive a commission of 3/4%. Laing explained in a minute that his object was "simply to leave the door open for cautious and tentative experiments with regard to the future use of gold" for which there was a popular demand. Wood was furious and stormed at the innovations. First, people would bring gold, take notes against it, and then demand silver if the Government rate of exchange held out any hope of profit. Secondly, higher denomination notes were useless in a country of low wages. Thirdly, mixing up of Government note circulation with banking business was not only dangerous but sheer throwing of money on the banks. Lord Elgin agreed.

Wood considered himself an expert on paper currency. He dwelt on the danger of over-issue and he even suspected a 'conspiracy' of promoters of the new plan, the British merchants, who were its supporters, and the Bank. "I admit the infinite temptation to the Bank to go on as usual in dangerous times, and to trust to issuing beyond the mark when the pinch comes. The general body
of the mercantile community are, I daresay, for this system. It
comes in aid of them when they have got into difficulty...”  

The paper currency, established under Act XIX of 1861, did
not prove the panacea it was avowed to be, and the value of total note
circulation by the end of 1863 reached 6 crores of rupees, which, in
Cassels' view, was about 6% of the whole metallic currency. An
unprecedented demand for Indian cotton, caused by the American Civil
War, resulted in a heavy pressure for currency which proved inade-
quate. Once again the cry arose for a gold currency 28 and for re-
stitution of the clauses in Laing's Paper Currency Act, ruled out as
offensive by Wood. 29 Sir Charles Trevelyan, who had succeeded
Laing, openly advocated a gold standard: sovereigns and half-sovere-
igns should be legal tender at the rate of one sovereign for Rs. 10,
and currency notes should be convertible either for rupees or sove-
reigns, but not for bullion. The Government of India accepted the
proposal 30 but the Secretary of State would not allow any deviation
from the mono-metallic system, i.e. the transitional stage of double
standard envisaged in Trevelyan's plan. He not only found flaw in
the undervaluing of sovereign 31 but objected to principle to a double
standard, in which the cheaper metal would prevail. “You cannot
by law make it cheaper to use gold, for that would be a fraud if done
intentionally, and if it is more convenient to use gold in spite of some
small loss, the people would do so without a law”. 32 He would only
concede acceptance of gold coin at a rate to be fixed by the Govern-
ment without making it a general legal tender. As the notification
of November 1864 fixed the value of a sovereign at Rs. 10, below
the real par, it remained inoperative.

The currency situation forced the Government to appoint the
Mansfield Commission in 1866 which advised acceptance of gold as
legal tender. 33 The Government dared not act on this recommenta-
dtion and only raised the exchange rate for a sovereign to Rs. 10-4
annas (1868). As the cotton boom died down, the excessive pressure
for currency abated and the home authority congratulated itself on
its wisdom in sticking to the silver standard of 1835, now supple-
mented by paper. A little too soon, as events proved.

The author of this Chapter finds no evidence in the private
 correspondence of the time of any sinister design of the India Office
to make a profit on remittances by retaining the silver standard.
Introduction of a gold standard might have been better at this stage
and might have averted misfortunes occurring in future, but to critic
ize Wood with our knowledge of later events would be unfair.  
His personal experience was against it, he found support in the aca-
demic circles, 34 he could never trust Laing or Trevelyan fully 35, and
the issue of note circulation was mixed up with the grant of a commission to, and keeping of large Government balances with, the Persidency Banks, much to his distaste. Wilson and his successors were well-known champions of British planters and capitalists and their hobnobbing with the Bengal Bank was suspect in the eyes of the Secretary of State. One of the reasons why the paper currency did not assume a large proportion was neglect of Wood's criticism of higher denomination notes[^36]. On the controversy over the use of banks as commission agents, both parties were wrong. Owing to the prevalence of internal exchange, the profit on remittances on different centres was so great that the commission of 3/4% proved to be little inducement to the banks, and the agreement on this score had to be dropped in 1866[^37]. No doubt the Independent Treasury System contributed to the difficulty of encashability of notes, and keeping of Government balances with the banks for this purpose and by way of compensation for the loss of their right of note issue may not be inherently bad, but the failure of the Bank of Bengal in 1863 and of the Bank of Bombay in 1874 to meet Government drafts showed that Wood's apprehensions were not unfounded. Moreover, there was little bank credit available in India to supplement Government currency and credits. The mistake lay in a slavish imitation of the English system which would not work under Indian conditions[^38].

The problem of the last quarter of the nineteenth century was not, however, the lack of elasticity but the violent fluctuations of the rupee-sterling exchange. The rate of exchange for a sicca rupee had been 2s. 6d. sterling before 1813. So long as the excess of exports over imports remained equal to the annual private remittable income and the annual home charges remittable by the Company (about two crores and a half in 1818[^39]), the exchange would remain at par. If it rose above, there would be a favourable exchange, and if it fell below, the exchange would decline. Up to 1816 the actual excess of exports per annum was sufficient to convey the remittable capital. But with the increasing British imports since 1818-19 the amount of remittable capital shot up to cause a fall of exchange. As remittance through trade languished, the exchange fell further[^40].

[^36]: normal rate ultimately steadied round 1 rupee for ls. 10½d.[^41]

So steady was this rate up to 1872[^42] that few people were conscious that India and Britain were on different currency standards. In 1873 gold silver exchange lost its old moorings and this dislocation reflected in the rupee-sterling exchange. The rupee was worth 22½d. in 1873, and by 1878 fell to 19½d. There was a slight recovery in 1879 and 1880 and then a slight fall to 19½d. in 1884.
From 1885 began a period of rapid fall which reached 14.5d. in 1893.43

The fall in the gold value of silver, which caused this, has been explained in either of two ways44—(1) a great increase in the production of silver as compared to that of gold, and (2) demonetization of silver by the principal countries of the world. Rival schools of interpretation grew up round these alternative explanations. It has been shown that silver had been most of the time falling in proportion, and though the proportion began to rise since 1873, it did not reach half the magnitude it had reached in the beginning of the 18th century. Secondly, there was little correlation between the supply and value of silver. If over-supply was the cause of fall in the value of silver after 1873, why did it not operate in the same way in the case of gold in the 1850’s?45 Goschen concluded that the fall in the gold value of silver could be explained by (1) demonetization policy of Germany and Scandinavia, (2) financial distress of Austria and Italy which had forced them to inflate their paper currency beyond measure and so to drive out silver, (3) cessation of silver purchase by France, and (4) the much diminished demand from India (during depression following the cotton boom).46 loops considered these factors temporary and optimistically prepared himself for a fall up to 18 d. in 1876. The real crux in this view was not Bismarck but India which had absorbed 70% of the total production during the last 24 years. With the prosperity of the Indian purchaser, the demand for silver would rise and, naturally, its value.47 He would not listen to the cry for a gold standard made by the European chambers of commerce.48

The question could not be shelved two years later. The fall continued and the Government of India, with expenditure account already swollen by the Afghan War, was faced with a rapidly rising sterling commitment.49 Strachey proposed limitation on coinage of the rupee.50 The Lords of the Treasury, whom the draft Bill was referred, were still undecided as to the cause of the fall in exchange, and considered that the proposals aimed at relieving the India Government from loss by exchange on the home remittances, the civil and military servants who desired to remit to England, and the British capitalists who had invested money India and wished to remit profits home. “But this relief will give at the expense of the Indian tax payer, even with the effect of increasing every debt or fixed payment in India, including debts due by ryots to money-lenders”, while, so far as the Governor concerned, its good effect would be qualified by enhancement of its obligations contracted on a silver basis.51
As the rupee fell very slightly over the next six years, there was a lull in the currency debate. Early in 1886 the rupee began to show a steep downward trend and the Government had to find out more and more rupees to meet its sterling payments.\(^{52}\) Dufferin sent a frantic telegram for permission to establish a bi-metallic currency. Randolph Churchill, the Secretary of State, confessed that it was a question of which I am as ignorant as a carp and of which I now have neither the time nor the industry to commence the practical and effective study.\(^{16}\) Others seemed to be equally confused and “I can only harp again on the old recommendation of economy”. The recommendation did not go well with the Burma War. The Liberal Kimberley could offer nothing better than his Conservative predecessor,\(^{64}\) and his Conservative successor, Lord Cross, would not agree to bi-metallism.\(^{55}\) He referred the question to the Finance Committee of the India Council, which urged on the appointment of a Commission of Inquiry. As fall of rupee by every penny meant an additional charge of £1 million, and the only remedy, re-imposition of customs or increase of salt tax, would be politically undesirable. The Treasury refused once again to countenance bi-metallism, and to the objections, put forward by Sir Stafford Northcote six years earlier, they added a positive argument, namely, the great stimulus which the fall in exchange had given to India’s export trade.\(^{56}\)

The rupee continued to fall. The International Conference of Brussels in 1892, like its two predecessors of Paris (1878, 1881), produced no change in the situation. It was, moreover, likely that the U.S.A. would repeal the clauses of the Sherman Act, which provided for the annual purchase of 54 million ounces of silver. There was a fall in the gold value of rupee securities\(^{67}\) and the British investors shied of the Indian market, which seriously affected the Government’s “extraordinary public works”. The municipalities and the local boards suffered for reduction of central financial aid. Though the official rate of exchange, somewhat higher than the market rate, afforded some relief to the civil and military servants at the cost of the exchequer, they could not remit as profitably as they had done before 1873.

Quite different, it has been assumed, was the effect on India’s trade. R. C. Dutt and others held that, favoured by the fall in exchange, the total trade of the country had more than doubled itself in twenty years.\(^{58}\) Certainly, the progress in the direction of manufacture was marked, with a chain reaction on Indian agriculture. Taking the base year (= 100) the exports of wheat had grown to 11.52:44 in 1891-92, and of tea to 1.075.75. The Indian manufactures were almost ousting the English products from the eastern
markets. It is debatable, however, whether a change in the real terms of trade between two countries can take place without a change in the comparative cost of their respective products. Fall in exchange would act as a bounty to the Indian producers only if the fall of silver in England in terms of gold were greater than the fall of silver in terms of commodities in India. Such an assumption was groundless, and there was no extraordinary flow of silver to India, which must have resulted if it were correct. If there was a bounty to exporters, it was temporary, and it was at the cost of the wage-earners and the primary producers, whose lot escaped the notice of the Indian historians, the members of the India Council and the Lords of the Treasury. The repeated attempts of the India Government to secure permission for bi-metallism came to nothing, and it was treated as a villain in the International Conferences, manœuvring to pounce upon the dwindling gold stock. In 1892 it was praying once again for the closing of the Indian mints to the unlimited coinage of silver.

The Herschell Committee (1892-93) was satisfied with these proposals and its recommendations were carried into effect on 26 June, 1893, by Act VIII and three executive notifications. (1) Free coinage of silver was stopped but Government could coin rupees in exchange for gold at 1s. 4d. per rupee. This was equivalent to a bullion parity of 43.1 pence per ounce. (2) Gold sovereigns and half-sovereigns would be received in satisfaction of public dues at the rate of 15 rupees and Rs. 7/8 annas respectively. (3) Currency notes would be issued in exchange for gold coin at the above rate and gold bullion at one rupee for 7.53344 grs. troy of fine gold. (4) Gold coins and bullion would be received by the Mint Masters on certain conditions. The British Treasury almost sacrificed Indian interests for an agreement with France and the U.S.A. on a stable monetary par of exchange between gold and silver (which would have nullified the Act of 1893), but the Government of India’s strong stand saved the situation. Thus did India go off the silver standard to which she has never returned.

Once, however, the rupee-stock was exhausted, the new arrangements began to show strain. The discount in the Indian money market rose to 16%. In fact, the currency system was still inelastic, hardly able to provide for expansion. The Indian Government (Probyn plan) proposed additions to currency through the use of gold by making the sovereign general legal tender, though the Government could alternatively coin rupees whenever in need (Lindsay’s plan). Under the pressure of the European Chambers of Commerce, Westland, the Finance Member, was asking for a gold standard with
a gold currency, while the advocates of the latter course proposed a gold standard without a gold currency. The Fowler committee of 1898 was called upon to choose between them. It rejected both Probyn's and Lindsay's plans. Instead, it recommended a gold standard with gold coins in circulation, making the sovereign legal tender and a current coin. But stringency in the money-market was against limiting the legal tender quality of rupees. The Government should be ready to use gold to support exchange and should coin no more rupees until the proportion of gold in the currency exceeded the public requirements. The Act XXII of 1899 was passed accordingly, making the British sovereign and half sovereign legal tender and a current coin at the rate of Rs. 15 and Rs. 7½ respectively (1s. 4d. the rupee) and authorizing issue of notes in exchange for them.

But the Government of India's scheme failed to materialize and its rival plan (A. M. Lindsay's) ultimately came to be adopted as the Gold Exchange Standard. According to that plan the Government was to give rupees in every case in return for gold, and gold for rupees only in case of foreign remittances. It was to be worked through the sale of rupee drafts in London without limit (called Council Bills) and of sterling drafts in India (called Reverse Councils) as rupees or gold were wanted. The former was launched in 1904 when the Secretary of State promised to sell Council Bills at 1s. 4½d. the rupee (which was the normal gold import point) without limit, and the latter came in 1908 when sterling drafts began to be sold at 1s. 3½d. the rupee. The Gold Standard Reserve was instituted in 1900 out of profits on coinage, and its rupee branch was opened in 1907 as an emergency fund to avoid delay in shipping bullion from London and coining it in India. By 1913 it was already over £22 million, largely in liquid form, and able to meet any crisis. Besides this, the India Government built up two reserves, one of gold and the other of rupees, out of cash balances and the paper currency reserve. The gold part of the reserves was mainly located in London and the silver in India. The plain effects were, therefore, that (1) the sovereign became full legal tender, (2) the silver rupee remained full legal tender, (3) the rupee, unlimited in issue, became convertible, till a fall in exchange, and, even then, without any guarantee of convertibility, and (4) that the Government alone had now the monopol of issuing silver did not prevent an overissue.

II. BANKING

The house of Jagat Seths dominated the field of indigenous banking in Bengal (and outside Bengal) before its conquest by the East India Company. Mir Kasim's ruinous expropriation, loss of the
privilege to receive Government revenues after 1765, and transfer of the treasury to Calcutta in 1772 brought about the fall of the house, and on its ruins sprang up numerous native shroffs like Hazari Mal, Dayal Chand and Monohar Das Dwarka Das. Meanwhile, the European agency houses of Calcutta had added banking to their multifarious business, and we hear of the Bank of Hindostan, run by Alexander & Co. (1770), the Bengal Bank (1784), and the General Bank of India (1786), the last-mentioned being the earliest joint-stock bank with limited liability.\textsuperscript{63} The Bengal Bank had official proprietors and tried to secure Government patronage, but the General Bank was more fortunate. On lending twenty lakhs of current rupees to Cornwallis, it secured recognition of its notes and became virtual bankers of the Government. There were runs on the Bengal Bank and the Bank of Hindostan when news of British reverses in the Third Anglo-Mysore War reached Calcutta, and they failed in 1791. The Government came to their assistance in view of the possible disastrous effects on public credit, public contractors and holders of Government securities.\textsuperscript{70} The latter survived with this help.

In 1806 Barlow proposed the establishment of a chartered bank at Calcutta to be "of the greatest service to the commercial interests of this Presidency" and to "afford the most essential aid to all the financial operations of this government, by defeating the measures and combinations to which the numerous individuals at this Presidency...invariably resort, for the depreciation of public securities, whenever an opportunity is afforded to them for that purpose, by the pressure of public or private distress."\textsuperscript{71} Pending the Court's decision, a provisional bank\textsuperscript{72} was set up with nine directors, three nominated by the Government and six nominated by the subscribers (each share was worth Rs. 10,000), till a formal election should take place on the Court's approval. The notes of the Bank soon replaced the depreciated Treasury Bills. But the Court suspected the move to be in the interest of the agency houses,\textsuperscript{73} and withheld its sanction to a permanent institution till 1808. The Bank of Bengal, the first Chartered Bank in India, was launched on its career on 2 January, 1809, with a capital of 50 lakhs. It was entrusted with the funds (10 lakhs) of the Government, its notes alone were recognized, and monopolized all business, with the Bengal Bank defunct, the Calcutta Bank dissolved, and the Bank of Hindostan moribund.

The tragic failure of the agency houses of Calcutta between 1790 and 1832 underlined the urgent necessity of expansion of commercial banking. Banking business had always been an adjunct to their multifarious trading and financial activities. Run on unscientific
lines and drained of funds to bolster marginal indigo concerns or to satisfy claims of departing partners, they could not cope with the crisis. Cheaper and safer banking was a battle cry of the free-traders of 1833, and their victory was clinched by the grant of a charter to the Union Bank in 1835. The first Bank of Bombay was established under a charter, similar to that of the Bank of Bengal, in 1840, and the Bank of Madras followed in 1843. Until 1862 the three Presidency Banks worked under severe restrictions (a price for their privileges), the most important of which was limitation on purchase or sale of bills on London, China, etc. i.e. on exchange operations.

The Union Bank, however, crashed with many other private banking and agency concerns during the crisis of 1847-48. "In the absence of established and well-accredited means of conducting the exchanges, a system had arisen exactly similar in its nature to that known at home by the term 'accommodation bills'... Houses in Calcutta drew upon their own Houses in London and the Houses in London to cover themselves drew new sets of Bills and, with the proceeds of such Bills, purchased other Bills upon other Houses... and (Calcutta Houses) transmitted them to the Houses in London to pay former Bills of the drawn drawing". Thus an enormous amount of cross bills became current, representing no transactions, and, what was even worse, drawn without any regard to the state of exchange, under the dire necessity to meet engagements at all hazards. The crisis once again underlined the danger of a policy of exclusiveness pursued by the Company. Until a liberal policy was adopted to encourage commodity and exchange banking on legitimate lines, a fictitious and unsound system was bound to reappear.

The Com. opposed such a policy as late as 1852. Authority had been given to the three Presidency Banks to issue notes to the aggregate amount of 5 crores of rupees, but notes to the amount of only 2 crores were in circulation. The minimum cash balance had been fixed at one-fourth of the outstanding obligations, but the cash balances actually kept were only a little below the obligations in two cases and, in one case, went above. The Presidency Banks could easily enlarge their liabilities to three times under the so-called restrictive system. Outside the Presidency towns the number of unchartered banks were 7 in Bengal and 2 in Bombay—the biggest in the former being the United Service Bank (est. 1833) with a paid up capital of 60 lakhs, the North-West Bank of India (est. 1839) with 23 lakhs and the Delhi Bank (est. 1844) with 16 lakhs, 2½ the Oriental Bank (est. 1842) and the Commercial Bank of India (est. 1845) of Bombay had a proposed capital of 2 crores and 1 crore respectively. Only the Bombay banks issued notes to a small
extent. The Court, moreover, considered a combination of banking and remittance operations unwise and refused to grant the privilege of note issue to other than the Presidency Banks.

Whatever the Court might say, the rapid rise of the value of the banking shares and the amount of dividends paid by the best banks showed a considerable scope of expansion for ordinary banking, and the phenomenal increase of India's trade with Britain and the Far East had been calling for introduction of exchange banking. The note circulation of unchartered banks was restricted because their notes were not accepted in the treasuries. The cry against monopoly had been raised in the forties, and the Oriental Bank (est. 1842) had secured permission from the British Treasury (1851) to establish agencies in India "for the purposes of exchange, deposit and remittance" to facilitate its banking operations in Ceylon, Mauritius and Hongkong. The Court had opposed the charter but it had been established in law that the Crown could grant it for the limited purpose of exchange, deposit and remittance. The first round had been won and the second round opened in the fifties, when memorials poured upon the India Board and the Treasury for permission to establish more exchange banks. Wilson, Financial Secretary to the Treasury, advised Wood to initiate a liberal policy. A grant of limited liability (to double the amount of shares held) in exchange for checks and safeguards (viz. capital to be entirely paid up in two years, etc.) would be much safer than an insistence on unlimited liability without checks. The Chartered Bank of India, Australia and China received the Royal Charter on 29 December, 1853, as a result of this debate, but commenced business only from 1858.

The whole position was reviewed in 1861 in connection with the passing of the Act XIX. Till that year the Government had not issued any notes and the three Presidency Banks were the most important note-issuing banks. When the Government deprived them of the right of note-issuance by the Act XIX, it relaxed the statutory limitations on their business and granted them certain benefits as its agents for transacting the paper currency. The agency was taken away in 1866. The Bank of Bombay was dissolved in 1868, though a new bank of the same name was floated in the same year. The Presidency Banks Act of 1876, amended in 1879, 1899 and 1906, governed them till the formation of the Imperial Bank of India (1921). The Act of 1876 imposed severe restrictions on the charter and mode of their business. They could not deal in exchange, borrow or receive deposits payable out of India, or lend money for a longer than three months (till 1907, then six months), or upon mortgage or on immovable property. In return, the Government relin-
quished its share of capital and abandoned the policy of direct interference in management. But they also ceased to enjoy the use of Government balances by the development of the Reserve Treasury System, and in 1877 the Secretary of State refused to allow them to set up agencies in England. In spite of this, their total deposits rose from 6.4 crores in 1870 to 14.16 crores in 1890, to 32.34 crores in 1910, and to 76.18 crores in 1921.\footnote{33} They became bankers for the Government and, increasingly, banker’s banks, i.e. the backbone of the internal banking system. Keynes’ able advocacy for a Central Bank\footnote{33a} before the Chamberlain Commission bore fruit in the amalgamation of these banks in 1921 in the Imperial Bank of India, though it differed in vital respects from his model.

As the Presidency Banks were precluded from dealing in foreign exchange, the Exchange Banks came to fill the gap. To the Oriental Bank and the Chartered Bank of India, Australia and China were added the National Bank of India (1863), the Hongkong and Shanghai Banking Corporation (1864), and the Chartered Mercantile Bank of India, London and China, etc. With the sudden fall of cotton prices after the end of the American Civil War, Liverpool was hard hit, the Overend Gurney & Co. failed, and the depression spread to Bombay. It overwhelmed the Commercial Bank Corporation of the East, the Agra and Masterman’s Bank and the Asiatic Banking Corporation. At the beginning of 1866 there had been 24 exchange banks in Bombay and 22 in Calcutta. The following year there were only seven left in India. The Oriental Bank (first Chartered Exchange Bank)\footnote{34} crashed in 1884, and the new Oriental Bank, which replaced it next year, went into liquidation in 1893. By the turn of the century the Agra Bank was liquidated. The Exchange Banks suffered from the constant fluctuation of exchange rate during these years and made a most important contribution to India’s economic development by assuming responsibility for a large part of the exchange risks. Besides these, there were agencies of banking corporations doing business all over Asia (major portion outside India), like Yokohama Specie Bank or Comptoir National d’ Escompte de Paris. In 1921 the total number of banks of both these varieties was 17. Their aggregate paid up capital had risen to £66,369,000, reserve and ret. to £45,263,000, while their deposits outside India amounted to £26,473,000 and in India to Rs. 75,19,61,000. When we remember that their total Indian deposits in 1870 amounted to only 52 lakhs of rupees, the progress is indeed striking. Their only defect was dangerously low cash balances which invited Professor Keynes’ warning in 1913.\footnote{65}
The Indian Joint Stock Banks form a third category. Official banking statistics from 1913 have divided them into two classes—(1) those having a paid up capital and reserves of and over 5 lakhs of rupees, and (2) those having a paid up capital and reserves between 1 lakh and 5 lakhs. There were seven banks of the former type in 1870, mostly under European management. Only three of them—the Bank of Upper India (1863), the Allahabad Bank (1865) and the Bangalore Bank (1868) survived. Seven more were added between 1870 and 1894 of which the Alliance Bank of Simla (1874) and the Punjab National Bank (1894) were prominent. A fresh outburst occurred from 1904 and many important banks like the Bank of India (paid up capital—50 lakhs, reserve, etc., 51 lakhs), the Indian Specie Bank and the Central Bank of India were founded.66

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1. Murshid Quli Khan had frustrated their earlier attempts, and the three Bengal revolutions between 1757-1763 did not give them an opportunity.
1e. See preamble of Regulation XXXV of 1793.
3. In 1768 100 star pagodas were worth 370 arcot rupees in the market.
5. See report of Dr. Scott on the History of Coinage in the Bombay Presidency, with appendices; Bombay Public Consultations, 27 January, 1801.
6. Court to G. G. in C., 25 April, 1806: "To adjust the relative values of gold and silver coin according to the fluctuations in the values of the metals would create continual difficulties, and the establishment of such a principle would of itself tend to perpetuate inconvenience and error."
10. Bombay Financial Consult., 25 February and 14th April, 1834
11. That the issue had not been finally decided in England was clear from Peel's famous proviso in the Bank Charter Act of 1844.
14. Ibid.
17. Papers relating to the Introduction of a Gold Currency in India, 1866, pp. 1-3.
20. Same to same, 2 November, ibid, p. 204.
23. Laing's minute on Currency and Banking, 7 May, 1862.
26. Wood to Elgin. 9 April, 1822. ibid. f. 180. He later wrote to Trevelyan that both Beaton and Grey were shareholders of the Bank.
29. All the Chambers of Commerce petitioned the Government. Their great champion was Sir William Mansfield. See his minute on gold currency for India, House of Commons Return 79 of 1865.
32. Same to same. 31 August, 1864, ibid, Vol. XVIII p. 64.
33. For Report see House of Commons Return 148 of 1868.
34. Professor J. E. Cairnes, for example.
35. The past careers of both justified it to some extent.
36. B. R. Ambedkar, The Problem of the Rupee, p. 56. Five rupee notes were issued from 1871.
37. See House of Commons Return, East India (Paper Money), 215 of 1862.
38. See Professor Marshall's evidence before the Fowler Committee, Minutes of Evidence, Q. 11776.
40. Ibid.
41. It actually meant that gold-silver exchange became stable at the ratio of 1 to 153, for in absence of a common metal standard, exchange is governed by the relative value of metals.
42. There were fluctuation on a limited scale. The rupee fell to Is. 9d. in 1846-47 (a year of world depression) and rose to about 2s. between 1850-53, 1855-60, 1862-64, which came to be considered as the normal level. Private merchants complained of arbitrary changes in the rate of exchange by the Court of Directors to suit their own needs.
44. See Leavens, op. cit., Chapt. V.
45. The value of silver, expressed in gold, changed only from 593d. in 1848 to 594d. in 1870, i.e., by 3%.
46. Salisbury to Lytton, 30 June, 1876. Lytton Papers (C.R.O.), Vol. I. He might have added to suspension of free coinage of silver in the U.S.A. from 1873 and (2) partial suspension in Russia from 1876.
47. Same to same. 22 August, 1876, ibid.
48. Same to same. 1st Sept., 1876, ibid.
49. Year. Total excess of rupees needed to provide for the net sterling payments over those required in 1874-75.
1875 86,97,980
1876 3,15,00,820
1877 1,30,05,481
1878 1,65,23,170
50. Financial Despatch, 9 November, 1878. The resident Englishman, officer or trader who received his salary or profits in rupees, was in a quandary. When 100 rupees saved in India brought him a remittance of £ 10 before, a 2% depreciation of gold value of the rupee now brought him only £ 7-10s.
51. This is from Sir Stafford Northcote. Goschen was against restrictions on silver coinage and Giffen thought gold was appreciating. See Salisbury to Lytton, 3 January and 2 February, 1879. Lytton Papers, op. cit., Vol. IV.
52. Year. Total excess of rupees needed over those needed in 1874.
1886 4,70,03,962
1887 4,75,31,61
1888 9,00,38,166
1889 9,73,56,889
1890 9,06,11,857
1891 10,44,44,529
BANKING, CURRENCY AND EXCHANGE


54. Kimberley to Lord Dufferin, 21 May, 1885, Gold.

55. Lord Cross to Lord Dufferin, 13 August, 1885, ibid.

56. They considered a fixed ratio between gold and silver utterly impracticable. Treasury to India office, 31 May, 1885.


58. Year | Exports | Imports |
<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>1870-71</td>
<td>57,556,951</td>
<td>39,913,922</td>
</tr>
<tr>
<td>*1873-74</td>
<td>56,548,842</td>
<td>36,43,121</td>
</tr>
<tr>
<td>1878-79</td>
<td>64,919,741</td>
<td>44,857,343</td>
</tr>
<tr>
<td>1883-84</td>
<td>38,186,397</td>
<td>68,157,343</td>
</tr>
<tr>
<td>1888-89</td>
<td>98,833,878</td>
<td>83,285,456</td>
</tr>
<tr>
<td>*1891-92</td>
<td>111,460,278</td>
<td>84,155,050</td>
</tr>
</tbody>
</table>


59. See evidence and memorandum of Professor Marshall before the Royal Commission on Gold and Silver (1886). A favourable effect of depreciation has not been proved in the case of wheat exports. See Karl Elstäetter, The Indian Silver Currency (Chicago), Chapter II.

60. John Maynard Keynes, Indian Currency and Finance, op. 2-4.

61. Government of India, Fin. Despatch, No. 150, 21 June, 1892, and No. 205, 2 August, 1892. The Government was losing on remittances for Home Charges, and the British in India (except the planters) had a personal interest in higher exchange. See Memorials, Herschell Committee, Minutes of Evidence, pp. 155-59. But the exporters of cotton piece-goods to India opposed it. See Lansdowne Papers (C.R.O.); Lansdowne to Kindlebury, 23 August, 12 September, and 5 October, 1892 (MSS. EUR. D 558, IV, Vol. IV), and same to same, 1 February and 3 May, 1893 (MSS. EUR. D 558, IX, Vol. V).


64. For the earliest elaboration of A. M. Lindsay's scheme, see Calcutta Review, October, 1878, and for Mr. Lesley Probyn's scheme, Economic Journal, Vol. VII, pp. 714-75. The former may be called the Gold Exchange Standard, and the latter, Gold Bullion Standard. For criticism, see evidence of Lord Rothschild before Fowler Committee.

64a. Government of India, Fin. Despatch, No. 70, 3 May, 1898. Also see Elgin to Lord George Hamilton, 3 March, 24 March, 5 May, and 12 May, 1898. EUR. MSS. F 84, Vol. 16.

65. The majority of witnesses took the Home Charges for granted and the rate of 1s. 4d. for a rupee just. Of the two Indian witnesses, Mr. Rustomji recommended the reduced rate of 1s. 2d. and R. C. Dutt was against artificial fixing of the sterling value of rupee. Minutes of Evidence, Fowler Committee, Q. 10,707.

66. See J. M. Keynes, op. cit., Chapters, II, V and VI.

67. The attempt of minting gold in India (1900-1901) was frustrated by the British Treasury. See ibid, pp. 64-66 for Keynes's support of the Treasury view. The hoarding habit of the Indian public and unsuitability as currency of sovereign of high value would have made the experiment a failure.


69. H. Sinha, Early European Banking in India, p. 9.

70. J. C. Sinha, op. cit.

71. G. G. in. C. to Court (Public), 13 March, 1806. Actually, Henry St. George Tucker, the Accountant General, was behind this.

72. It was called "Bank of Calcutta" or "Bank of Bengal" indifferently, in the beginning.

73. Court to G. G. in C. (Public), 9 Sept. 1806.

74. It had been founded in 1829. Dwarkanath Tagore, a director of this Bank. As Brunyate says, "out of their (agency houses) Jain rose the Union Bank, a joint stock Bank created by cooperation among all the large Calcutta houses". Bank of Hindostan had failed with Alexander's death.

75. The former started with a capital of 56 lakhs and the latter with 15. See J. Wilson's memorandum on 'Banks in India,' 14 March, 1853, Halifax Papers (India Board), op. cit.
BRITISH PARAMOUITY AND INDIAN RENAISSANCE

76. Ibid. See also J. Wilson, Capital, Currency and Banking (1847), and Editorials in the Economist, which he had founded in 1843.
77. Court to the India Board, 11 November, 1852.
78. (a) The £ 25 share of Oriental Bank rose to £ 55 / £ 60.
(b) Banks

<table>
<thead>
<tr>
<th>Bank</th>
<th>Dividends last paid</th>
</tr>
</thead>
<tbody>
<tr>
<td>Bank of Bengal</td>
<td>83 %</td>
</tr>
<tr>
<td>&quot; &quot; Madras</td>
<td>10 %</td>
</tr>
<tr>
<td>&quot; &quot; Bombay</td>
<td>54 %</td>
</tr>
<tr>
<td>Oriental Bank</td>
<td>10 %</td>
</tr>
<tr>
<td>Commercial Bank</td>
<td>7 %</td>
</tr>
<tr>
<td>Agra and United Service Bank</td>
<td>8 %</td>
</tr>
</tbody>
</table>


79. See Auckland to Court, 26 April, 1841, and H.T. Prinsep's minute favouring establishment of exchange banks, return to House of Commons, 8 March and 7 April, 1843. Jardine of Jardine, Mathieson & Co, made the first move for it on 3 April, 1840. Halifax Papers (India Board), op. cit.

80. T.W. Henderson (Chairman of Bank of Asia) to Sir Charles Wood, 16 May, 1853; G. Arbuthnot (of Oriental Bank) to same, 2 March, 1853; Memorial of Bank of Asia to the Treasury, 25 April, 1853. Ibid.

81. Wilson's memorandum to Wood, 11 June, 1853. Ibid.


82a. Sir William Moseley, on the presidency Banks Bill; Government of India, Legislative Proceedings, April 1876, No. 284, Vol. 1017.

83. On a paid up capital of £ 2 crores the Bank of Bengal paid a dividend of 8½ % in 1880 which rose to 19½ % in 1929; on a capital of 1 crore the Bank of Bombay paid 7½ % in 1880 and 22 % in 1929, and on a capital, rising from 50 lakhs in 1880 to 400 lakhs in 1913, the Bank of Madras paid 8 % in 1880 and 18 % in 1920. H. Chabani, Indian Currency, Banking and Exchange, p. 154. Also J. M. Keynes, op. cit., p. 204.

83a. Lord George Hamilton was in favour of amalgamation of Presidency Banks and establishment of a Central Bank, and Rothschild was consulted in 1899. See Dawkins to Curzon, 20 January, 1899, and 5 October, 1900, Letters and Telegrams England and Abroad (of Curzon), British Museum, Vol. I, p. 101, p. 174 a. But Law, the Finance Member, did not dare. Same to same, 28 February, 1901, ibid. p. 211.

84. Though Keynes calls this Delhi and London Bank the first exchange bank in India, it had more the character of an Indian joint stock bank than that of an Exchange Bank proper. Moreover, the Oriental was established two years earlier.

85. J. M. Keynes, op. cit. p. 216.

86. Ibid. p. 294