UNIT 8 CRITIQUE OF COLONIAL ECONOMY

Structure

8.0 OBJECTIVES

This unit would enable you to understand:

- The colonial economy of India;
- The colonial commercial policy and its impact on Indian economy;
- The economic exploitation, forced poverty and famine in colonial India;
- The problem of labour and land policy in colonial India; and
- Financial and monetary problems in colonial India.

8.1 INTRODUCTION

Colonial economy refers to a mode of production and consumption. The East India Company established its foothold in India in the name of trading and gradually extended its rule over the entire country. It finally established the so called company government or British government of India to fulfill its economic agenda of draining the Indian economy through the use of trade and commerce. The colonial state and its ministers, the court of directors, exercised their control over the East India Company.

Europe, having just emerged from medievalism, was making its first experiments in Asiatic rule. Led by the medieval concept of conquest, Europe started to capture the Eastern world and exploit it. A medieval type of commerce was perpetuated on Indian trade. At this time, Portugal, Spain, and Holland established their power in Asia.

The English rose to dominance in India later and embodied the European ideals of the eighteenth century in place of the European ideals of the sixteenth century, modern as against semi-medieval Christendom. However England could not shake away the tradition of the period, the tradition of monopoly. Self-interest induced a corrupt and oligarchic ("the rule of the few") legislature. Principles were banished in the wake of politics. Men fought for material objects and gold ruled the aspirations of the greatest. India was stifled by such fatal powers.

8.2 AMBEDKAR'S IDEAS OF PRE-COLONIAL INDIAN ECONOMY

Ambedkar critically evaluated and described the economic condition of people in pre- colonial India. He studied economic development under various rulers in pre-colonial India to debunk the fallacious stand taken by the British historians of India. Ambedkar describes the country as prosperous under both Hindu and Muslim rules. The magnificence of Kannauj and wealth of Somnath temple are examples of Indian affluence at the time. In Ambedkar's view, British historians were wrong in describing Muslim rulers as barbarous and despots, whereas most of them were men of extraordinary character. For example, Mahmud of Ghazni supported a large number of literary geniuses, such as Firdausi and Al-Biruni. One of his illustrious successors was a woman, Razia Sultan; Feroz Shah Tughlaq was a well-known administrator and builder. His public work consisted of the following:

> 50 dams across rivers to promote irrigation, 40 mosques and 30 colleges, 100 Caravan series, 30 reservoirs, 100 hospitals, 100 public baths, 150 bridges, besides many other edifices for pleasure and ornament; and, above all, the canal from the point in the Jumna where it leaves the mountains of Carnal to Hausi and Hissar, a work which has been partially restored by the British Government…

The ryots were happy under his government; their houses were full of goodness and furniture. Their women generally used gold and silver.

Ambedkar quotes notes of an Italian traveler, Milo de Conti, who visited India. Conti speaks highly of what he saw in Gujarat, and found the banks of Ganges dotted with towns amidst gardens and orchards. He described a city called Maarazia, which was a powerful city, filled with gold, silver and precious stones.

Travelers Barbora and Bartema visited India in early 16th century and wrote about it. Barbora described Cambay as a well-built city, situated in a beautiful country filled with merchants, and with artisans and manufactures like those of Flanders.

Babur, who founded the Mughal dynasty in India, said the country was prosperous and had a large population; artisans were found everywhere. Babur was a benevolent ruler and his public work proves his statesmanship. Shah Jahan, who "reigned not so much as a king over his subjects, but rather as a father over his family." His rule was marked by prosperity and people lived in peace under his sovereign.

Under the Marathas, according to a traveler, the lives of people were simple and happy; there was no war or misery. "The people were cheerful, vigourous and in high health, and, unbounded hospitality was a universal virtue; every door was open, and friends, neighbors and strangers were alike welcome."

About the economic condition in south India under Tipu Sultan, a historian says that the country "was well cultivated, populous with industrious inhabitants." Cities were newly founded, commerce was extending, towns were increasing and everything was flourishing.

"His country was found everywhere full of inhabitants and apparently cultivated to the utmost extent of which the soil was capable," he writes.

According to Macaulay, Bengal was known through the East as the Garden of Eden.

> Its population multiplied exceedingly; distant provinces were nourished from the overflowing of its granaries: and the noble ladies of London and Paris were clothed in the delicate produce of its looms.

Thus we saw pre-colonial Indian economy was booming and Indians were a prosperous people. Let us now look at the condition of England.

8.3 AMBEDKAR'S THOUGHTS ON ECONOMY OF ENGLAND AND COLONIAL INDIA

Ambedkar critically examined the historical and economic condition of England. England under the rule of Norman conquerors was in a pitiable condition. Normans used derogatory terms for Anglo-Saxons, who were denied justice by the iniquitous Norman magistrates.

However, the historians British of India had a wrong notion that Indians were ignorant and uncivilized and portrayed them not in good light. Ambedkar quotes Sir Thomas Munro's words to English historians of India that ancient Indians were far better economically than the English of the same period.

According to Ambedkar,

> If we recall the economic conditions of England before and after 1600 and India's tribute to England, we will get the answer to the question why England prospered and India declined after the religious reformation period. India contributed, or was forced to contribute, to the economic prosperity of England.

Quoting Sir Josiah Child, Ambedkar points out that in 1545 the trade of England was inconsiderable and merchants were very few. Describing the prosperity of the people after 1600, Sir Josiah reveals that in the stock exchange, there were more traders now with ten thousand pound estates than there were with one thousand pound estates in 1545. Sixty years ago, a man who could give a five hundred pound portion to his daughter was held in higher esteem than a man now who could give two thousand pounds to his daughter. Where earlier there was one coach, now there were a hundred. Most men paid a higher tax now in one year than their forefathers did in twenty years. Trade had improved with transportation of goods, which resulted in customs duty being increased six times. The mercantile class had become very powerful by the year 1600 and was instrumental in determining whether the rulers of England were vanquished or restored to power.

Ambedkar presents a vivid account of the East India Company's main political and economic motives:

The rule of the company was anything but wise, it was rigorous, it gave security but destroyed property. The scheme of administration was not perfect.

Ambedkar quotes Adam Smith who said that the merchants were incapable of considering themselves as sovereigns, even after they had become the rulers. For them, governing the state was secondary because their prime objective was business and trade, buying and selling. The merchants cared about their own interest and not the interest of the state. The proprietors and directors of Indian stock did not get any monetary benefit but got voting rights, which gave them some influence. Therefore, even a financially moderate person was willing to give thirteen to fourteen hundred pounds merely for the influence which he expected to acquire by means of a vote in the court of proprietors. This gave him a share, though not in the plunder, but in the appointment of plunderers of India.

Adam Smith describes how the merchants did not care about the prosperity or ruin of the Indian empire, how, unlike any rulers ever, they were completely indifferent to the happiness or misery of their subjects, the improvement or waste of their colony, the glory or disgrace of their administration.

This was true of the early rule of the company; later, gradually corruption was uprooted. However, under this regime Indians had no voice, no job, and were barred from all high paying jobs except petty positions like clerks.

Colonial India's contribution of Trade and stock to England's Economy

India contributed to the economic prosperity and mobility of shareholders, merchants and wealth of England by trade and stock. Trade is forefront in the expansion of wealth. Stock is a barometer of business conditions. Hence, we will see how much that stock would be a useful criteria to determine the value of trade with India in England. The following paragraphs help us to understand how, even though the market fluctuated greatly, the company made great profit.

The stock of East India Company had increased to 8 per cent after the union with Scotland in 1709, rose to 9 per cent in 1710 and 10 per cent in 1712. However, there were fluctuations due to

- competition with the French East India Company
- increase of capital cost
- formation of the Swedish East India Company in 1732
- sectarian wars in Europe
- war in Karnataka.

While the dividend rate increased to 8 per cent in 1744, the average rate of dividend was about 9 per cent in this century. The company's stock had top position throughout 18th century. The stock was valued at 450 pounds in 1720, but fell to 148 pounds in 1755 when Burdwan and other provinces were ceded to the company. Increased cost of administration caused 6 per cent decline of dividends in 1760.

Even the stock value was more than the real value. Let us suppose an average dividend of 10 per cent and interest at a moderate rate of about 5-1/3 per cent on the cost price. As there was no profit on this stock, there was a continuous fall of stock until 1766.

From 1779 to 1788 the price became reasonable and averaged to 150 pounds. However, it fell to 118 pounds and 10 shillings in the crisis of 1784. The stock fluctuation was regulated by the trading company as it became a sovereign ruler and enacted the Pitts India Act, which resulted in increasing the price to 185 pounds and 10 shillings in 1787. Subsequently fluctuations declined.

The company had expectation to get higher profit from Bengal revenue, which caused an artificial boom and inflated the price to 233 pounds. But the stock declined to 60 per cent because of the war in Karnataka. However, the company received 1,91,644 pounds for each year and after the acceptance of territorial sovereignty of Bengal, the dividend increased to 10 per cent and the distributed amount was 3,19,408 pounds. This increase of dividend was unjustified and based on an exaggerated estimate of India's property. The dividend was paid by means of a loan at very high rate of interest.

Later the dividend fell from 12-1/2 per cent to 6 per cent for five years. Lord North intervened to regulate the company dividends, which were subjected to ministerial control after the Regulation Act was passed. This helped to increase the value of property and dividends slowly.

In 1792, the company signed a peace treaty with Tipu Sultan because of which it received a revenue of 2,40,000 pounds and a compensation of 16,00,000 pounds. This enabled the company to increase its dividend from 2 per cent to 11 per cent. The united company of merchants had paid to the English public 2,53,43,215 pounds from 1798 to 1803. India provided England 38,58,666 pounds for its war with America. Mr. Yale who earned money exclusively from trade with India set up the Yale College in the US.

Thus India paid dividends to the stock holders of England and contributed to the wealth of England.

Ambedkar quoted George Tucker to demonstrate how colonial India contributed to the prosperity of England.

- The East India Company drew a surplus revenue from India of around one million and a half sterling (almost 15 lakh pounds) after paying interest on their debt. This surplus was a direct tribute from India to England.
- Around four-fifth of the territorial debt was being held by European British, the interest on the debt was nearly two million sterling (20 lakhs pounds), which may be regarded as indirect tribute paid by India to England. Tucker estimated this indirect tribute together with the savings and profits from commerce at three million sterling (30 lakh pounds) per annum around the year 1821.
- England earned income by forcing Indian traders to use British ships for port-to-port transportation. Thus Indian ship tonnage formed a considerable portion of the whole tonnage of Great Britain.
- During this period in England, the state faced difficulties in providing employment opportunities. Indian service sector opened space to the overflowing classes in England seeking employment, thus economically contributing to England.

8.4 AMBEDKAR'S VIEW ON COLONIAL INDIAN ECONOMY AND PROTECTIVE COMMERCIAL POLICY OF BRITISH

India's economy was far better than England's. England had failed to compete with Indian goods. In spite of the high cost of transportation of goods to England, Indian manufactured goods had captured the English market and England had lost her home markets. This led England to adopt a strong protectionist policy. England adopted direct and drastic measures, like increased tariff against Indian goods to destroy the competition from Indian goods and thus harm the Indian economy.

In addition to high tariff, England used discriminatory trade practices and imposed heavy import duty on Indian manufactured goods. Few examples comparing import duty on goods from East Indies and West Indies are given below:

- Duty on sugar per quintal was one pound and 12 shillings for East Indies, and one pound and four shillings for West Indies.
- Duty on coffee was 9 pence for East Indies, and 6 pence for West Indies.
- Duty on spirits (sweetened) per gallon was one pound and 10 shillings for East Indies, and one pound for West Indies.
- Duty on spirits (not sweetened) per gallon was 15 shillings for East Indies, and for West Indies, it was 8 shillings and 6 pence.
- Duty on tamarinds per pound was 6 shillings for East Indies, and 2 pence only for West Indies.
- Duty on tobacco per pound was three shillings for East Indies, and 2 shillings and 9 pence to West Indies.
- Duty on teak wood (under 8 inches square per load) was one pound and 10 shillings for East Indies, but for West Indies it was 10 shillings only.
- Duty on wood not particularly enumerated, ad volerem was 20 per cent for East Indies and for 5 per cent for West Indies.

The English tariff on Indian goods was not only discriminatory but also differed according to its use in England. The ad-volorem duty on piece–goods or garments sold at East India House differed in the following way:

- The import duty on calicoes was 3 pounds, 6 shillings and 8 pence per cent. If they were used for home consumption, there was a further duty of 68 pounds, 6 shillings and 8 pence per cent.
- The import duty on muslins was 10 per cent and for home consumption was 27 pounds, 6 shillings and 8 pence per cent.
- Coloured cloth was prohibited in England and import duty on this cloth was 3 pounds, 3shillings and 8 pence per cent. These goods were only for exportation.

Further, the parliament of England had levied a new duty of 20 per cent on the consolidated duty. This made the duty on calicoes for home consumption 78 pounds, 6 shillings and 8 pence per cent. And the duty on muslin for home consumption 31 pounds, 6 shillings and 8 pence.

Colonial Customs Duty Policy and its Impact on Indian Traders

Ambedkar quotes Mr. Holt Mackengie who writes that some Indian commodities had to pass through as many as ten custom houses and several subordinate chowkis before they reach the Presidency. Few Indian goods could escape repeated detention. Even if there were no exactions and delays, the system would seriously hinder the commercial intercourse of the country. No interchange of goods could take place between districts separated by a line of custom houses (chowkis) unless the difference of price was large enough to cover the cost of transportation and the duty paid to the government. Therefore, the consumers faced the tax burden and needed to pay more for goods.

In addition to the duty imposed by the government, custom house officers also demanded bribes. A rich merchant could afford to pay the amount demanded from him, but even a moderate demand would erase a petty trader's meagre profits.

The prime objective of British authorities and merchant body was finding a market for goods manufactured in the United Kingdom. Therefore, they gave more importance to import than export trade of India. As per the Regulation Act IX of 1810, goods that the UK exported were exempted from customs duty and commodities that India exported, on which England made profit, such as indigo, cotton, wool and hemp, were exempted from customs duties.

Ambedkar, quoting Lord Ellenborough on inland duties against Indians, writes that while the customs duty on cotton manufactures of England, imported into India, was 2-1/2 per cent, cotton manufactures of India were subjected to a duty of 7-1/2 per cent on yarn, additional 2-1/2 per cent on the manufactured article, and finally an additional 2-1/2 per cent for white cloth dyed after Rowana (pass), making the total duty on cotton goods of India, consumed in India, 17-1/2 per cent. Similarly, the duty on raw leather was 5 per cent, additional 5 per cent on manufactured leather and an additional 5 per cent for leather made into boots and shoes. Thus, the total duty was 15 per cent on Indian leather goods consumed in India. The customs duty paid on sugar was 5 per cent when imported into a town and an additional 5 per cent for town duty. A duty was 5 per cent was to be paid on sugar manufactured and exported from the same town. Thus the total duty paid on Indian sugar consumed in India was 15 per cent. There were no less than 235 separate articles subjected to inland duties. In the name of power of search the duty was levied on Indian commodities in each custom office and officers exercised their power to stop the internal trade by delaying custom procedure to extort bribe from traders.

The lack of uniform currency system was another obstacle to kill the Indian industries.

Ambedkar quotes Frederick List who said:

> Had they sanctioned the free importation into England of Indian cotton and silk goods,the English cotton and silk manufacturers must, of necessity, soon come to a stand. India had not only the advantage of cheaper labour and raw material, but also the experience, the skill and the practice of centuries.

Ambedkar cites historian H. H. Wilson who admitted that England's trade practices were unjust towards India. Indian cotton and silk could be sold in England at a price 50 to 60 per cent lower than that fabricated in England. However, England imposed duties of 70 per cent and 80 per cent on their value, thus prohibiting Indian exports to protect their cotton and silk industries. If England had not followed such prohibitory duties and decrees on Indian goods, the Mills of Paisley and Manchester would have come to a complete standstill in spite of the power of steam behind them.

Further, he said that if India had been independent, it could have retaliated, imposed prohibitive duties on British goods to protect its own productive industry from annihilation.

However, India was not permitted to defend herself. India was under the mercy of a stranger. The British could impose their goods on Indians as they did not have to pay any duties. The foreign manufacturers employed their political arms to keep India down and strangle the competition. India could not contend with the British on equal terms. Therefore, manufacturers were compelled to take up farming for maintenance, a department already overstocked.

8.5 THE PROBLEM OF FARMERS AND COLONIAL LAND POLICY

England's land revenue policy and prohibitory protectionist policy had ruined the Indian industry and farmers. Ambedkar quotes Bishop Heber, travelling in India in 1830, who writes about the pathetic economic condition of farmers who were pushed into misery and poverty.

Neither native nor European agriculturist, I think, can thrive at the present rate of taxation. Half the gross produce of the soil is demanded by Government.

Bishop Heber writes about how the Indian farmers cultivated very frugally and were prudent in consuming food, however their provisions of grains became insufficient even during a favorable monsoon. When their crops failed in slight degree, even government assistance did not prevent men, women and children from dying. Bengal had fertile agrarian land and a system of permanent Assessment (tax) because of which famine was unknown there. However, in Northern India, the peasantry was worse off, poorer and more dispirited in the Company's provinces than under native princes. In Madras Presidency, the soil was poor and farmers were worse off. He writes,

The fact is, no Native Prince demands the rent which we do, and making every allowance for the superior regularity of our system, etc., I met with very few men who will not, in confidence, own their belief that the people are over-taxed, and that the country is in a gradual state of impoverishment.

Bishop Heber explains that the colonial collectors did not declare the gloomy status of people to the secretaries of Madras and Calcutta, lest it may defame them. Further, Bishop Heber speaks on trade and industries. He explains that the trade of Surat had fallen and consisted of raw cotton, which was shipped to Bombay. The English undersold the Indian manufactured goods, leading to a dismal decay of the circumstances of Indian merchants. Bishop Heber writes that the natives petitioned to the British Parliament but the appeal was in vain.

To ameliorate their misery, natives petitioned Parliament saying, "that every encouragement is held out to the exportation from England to India of the growth and produce of foreign, as well as English industry, while many thousands of the natives of India, who, a short time ago, derived a livelihood from the growth of cotton and the manufacture of cotton goods, are without bread, in consequence of the facilities afforded to the produce of America, and the manufacturing industry of England." But the appeal was made in vain and the interests of England always remained in the forefront in the eyes of those that were called upon to rule the destinies of India.

8.6 AMBEDKAR CRITIQUES ON FINANCIAL AND MONETARY ECONOMY IN COLONIAL INDIA

Critique on Financial Economy in Colonial India

Ambedkar examined the changes in administration and finance of the East India Company during the period 1792 to 1858, which led him to conclude that colonial rulers had imposed injustice on Indians. His detailed analysis of gross revenue and expenditure of colonial India revealed that the company had surplus revenue for 36 years and was in deficit for the remaining 30 years, though the combined surplus was in excess of the combined deficit. The main reason for the deficit was that money was not saved in India. It went as a tribute and dividends to company shareholders. The money flow was not sufficient in India to pay to dividends and it had an impact on increasing debt or public debt of India.

The Indian debt was increased because the company borrowed money. There were two ways to raise loans:

i) within India by accepting exchange of loan notes

ii) Home bond debt raised in England by issuing bonds.

Ambedkar had found that the Indian debt rose from 70 lakh pounds to 607 lakh pounds, an increase of 767 per cent in the years 1792-1857. However, the Home bond debt never exceeded 66 lakh pounds during the years 1800-1857. The surprising fact was that Indian debt was more than home bond debt. The Home bond debt did not increase because the English parliament's regulation limited the borrowing capacity of East India Company.

The tax that the British government imposed on land was not only excessive, it was fluctuating and uncertain in many provinces. The tax rate for Indians ranged from 80 to 90 per cent while in England it was between 5 and 20 per cent for 100 years up to 1798. The British government generated huge revenue during the period 1792 -93 to 1885-86. The major components of average revenue are given below:

- land tax: 54 per cent
- tax on salt: 11per cent
- opium duties: 8.7 per cent
- customs duty: 6.2 per cent.

During the period 1800 -1857, the British government spent between 45 per cent and 64 per cent of expenditure on military alone, whereas they spent negligible amount on public works in India. Ambedkar quoting John Bright wrote that a single city of Manchester in England had spent more on a single item, water, than the money spent on all kind of public works in India.

The British administration and finance of East India Company benefited from financial settlement. The East India Company ceased to be a commercial corporation as per the Act of 1834. After this Act, the company benefited in the following ways:

- 15 per cent payment for territorial charges to England
- 12 per cent for liquidation of part of home debt
- 13 per cent for redemption of capital stock of the company.

The public debt of India was entirely due to wars and India had to bear the burden of debt. The company had spent 6,94,73,484 pounds on wars and this unproductive expenditure was placed on the shoulder of the poverty-stricken Indians. The revenue from India was spent outside India for non-Indian purpose. Ambedkar dissected the Act of 1858 and showed it to be unfavorable to India and having evil administrative objectives such as autocracy, secrecy and irresponsibility towards Indians.

From an economic point of view, India contributed immensely to the prosperity of England but did not get any economic benefits in return. England's contribution lay in the uneconomic realm, such as maintenance of peace, introduction of western Education, building modern institutions including administrative and judicial system.

Ambedkar's contribution to the field of public finance and his earlier work on administration and finance of East India Company gave substantive inferences and criticism. He further developed his Ph. D thesis on the Evolution of Provincial Finance in British India. This work explores the central-state financial relationship in British India during the period 1833-1921. He criticized the British government for its excessive revenue collection through taxation; however a poor country like India had limits to taxation. As the result, the problem of equitable distribution of burden on various forms of government such as the central, provincial and local government assumed significance.

The centralization of government finances was a failure on account of faulty fiscal system marked by injurious taxes and extravagant expenditure. The financial system collapsed due to imprudent and unsound fiscal policy. British India suffered its fiscal malady during 1792-1870 mainly because of the inadequacy of imperial system of finance. Financial inadequacy resulted in chronic budget deficit.

Ambedkar in his study cautioned the British government that chronic budget deficit should be corrected not only by increasing the revenue, but also by increasing the stability and productivity of the nation. The taxing capacity of the country must give the benefit to the treasury and the people. He observed that land tax in India was very high which prevented the prosperity of agriculture. Custom taxes hampered Indian manufacturers; internal and external customs blocked trade and repressed industry.

He urged that tax was not equitable: landlords enjoyed conspicuous consumption and led a life of leisure while exploiting poor tenants. European civil servants reveled in the many exemptions and privileges and lived with pomp, while the Indian poor was harassed by taxes on salt and other items. The government was unable to alleviate the burden of taxes from the injurious revenue system. Ambedkar argued that when revenue laws are harmful to the people, the government can only blame itself for its empty treasury. The bulk of government revenue rose out of injurious taxes and it spent them on unproductive uses. The government wasted between 52 and 80 per cent of its revenue on war services. The salary of a European soldier was four times higher than that of an Indian. Though the war was fought in the name of peace, it did not bring any progress. Education formed no part of the expenditure incurred and useful public works were far and few between. There were no long term plans in the imperial budget for the following sectors:

- railways
- canals for navigation
- irrigation
- other aids to the development of commerce and industry.

A weak economy and chronic deficit prevailed in 1833 when the centralization of imperial finance and government was established. The imperial administration was not de jure but de facto. Administration of provinces was under the primary units of executive and the Imperial administration was the co-ordinating authority. The dichotomy was dangerous for government finance. The expenditure budget was prepared by provincial governments but the responsibility of finding resources rested on the government of India, with the result that the government of India came under financial strain. It was then realized that the provincial governments must draw up their own revenue and expenditure budget. In 1871 provincial budgets came into force.

Ambedkar observed that in Budget Assignment, there were high taxes and inequitable taxation; the imperial government reduced income tax due to outcry of the richer classes which led to additional deficit, hence it curtailed the assignments of the provinces. The provinces therefore, had to resort to higher taxation and again impose tax and cesses on an already overburdened class of tax payers, namely landholders. As a matter of justice, the income tax should have been under the state for their relief. This justice was absent for a long time from Financial Secretariat of Government of India.

Ambedkar criticised in a healthy way the financial inadequacy of the new arrangement; the government had not been able to marshal in the two revenue sources properly, viz. land revenue and customs revenue.

Critique on Monetary Economy in Colonial India

At the time two types of money systems were in use: silver standard and gold standard. Due to uncertainties in international exchange rate, it was difficult to define how much gold was equal to how much silver. The exchange rate between the rupee and the sterling was stable at 1 Rupee = 1 shilling and 10-1/2 pence prior to 1873 and its reflections in the exchange rate between gold and silver was 1 to 15-1/2. However, after 1873, the rupee- sterling parity was dislocated, which resulted in gold-silver exchange ratio losing its growth.

Since India, a silver standard country was bound to a gold standard country, in reality, the economic and financial life of India was controlled by relative values of gold and silver, which governed the rupee-sterling exchange. It was obvious that if India had to make gold payments to England, India had to bear the burden of the increasing value of gold. The payments included the following:

- interest on debt and stock of guaranteed railway companies
- expenses on European troops maintained in India
- pension and non-effective allowances payable in England
- cost of home administration
- supplies purchased in England for use or consumption in India.

Because of the appreciation of gold value (more than the revenue from India), a high tax and rigid financial economy was imposed to compensate for the increase in the cost of sterling. The English investor did not invest in Indian rupee securities due to fall in the gold value of silver and fall in the gold value of rupee securities. Even Indian trade and industry was affected by the fall in the value of rupee; ultimately foreign trade showed significant buoyancy, not Indian trade. The central government treasury was diminishing by the loss due to exchange. The fall of exchange and instability of silver, both affected the fixed income groups, including a large section of Indian people, government, and Europeans. So to establish stable monetary conditions, restoration of common standard of value was needed.

Ambedkar was in favour of a gold standard and criticized Keynes who favoured a gold exchange standard, because gold exchange standard does not have the stability of the gold standard. In the gold standard, additions to the supply of currency are so small that the stability of the standard does not get affected. On the other hand, in the gold exchange standard, the supply of currency is dependent of the will of the issuer and hence its stability is more easily jeopardized. This was evident in India where, prices varied much less under the gold exchange standard.

8.7 LET US SUM UP

Ambedkar's criticism of colonial economy was based on his empirical and theoretical work on economic history, financial economy and monetary economics. He proved that

- the colonial rulers followed discriminatory trade policy
- exploited Indian resources
- overburdened Indian farmers with tax
- failed to control the financial economy
- created disequilibrium in monetary system
- made the Indian government pay unjustifiably more to England.

India was thus forced to remain an underdeveloped country because its resources were exploited by England for its own economic development.

8.8 QUESTIONS TO CHECK YOUR PROGRESS

1) What were Ambedkar's ideas on India's pre-colonial economy?
2) How did Ambedkar critically evaluate the colonial commercial policy and its impact on the Indian economy?
3) What were Ambedkar's views on the economic exploitation, forced poverty and famine in colonial India?
4) Discuss the labour and land policy problems in colonial India.
5) According to Ambedkar, what were the financial and monetary economic problems in colonial India?

SUGGESTED READINGS

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Note:

1) A pound has 20 shillings.