

**GS Foundation 2024: Modern India**  
**Handout 14: Industrial and Financial Phase: Economic Policy**  
**(Dalhousie, Railways, Famine, Drain of Wealth)**  
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**Dalhousie's Reform and modernization: (1848-1856)**  
**(Modern Transportation and Communication System)**

Efficient transportation and communication required to develop India as a market for the British manufactured goods and as a supplier of raw materials,



- **Roads, Bridges and Canals:**

- Separated public works from military department and establishment of **Public Works Department (PWD)** for construction of roads, canals, bridges, and government buildings. The chief Engineer and other highly trained engineers were brought from England to supervise the work of construction. Irrigational works were undertaken on an extensive scale.
- Calcutta-Peshawar **GT Road** was renovated.
- Construction of **Ganga canal** and Bari doab canals in Punjab
- Stared engineering colleges to assist in construction work:
- **Light houses** were developed in the harbours of Calcutta, Bombay and Karachi to increase the foreign trade from the ports. Soon, the sea-trade was captured by English traders.

- **Postal Department:**

- Dalhousie established the postal department by passing a separate Post Office Act in 1854 which started the modern correspondence system. A new post of DG (Post) was created.
- The postage stamps were issued, and the letter could be sent to any region of India by posting a ½, 1, 2, 4 anna stamps.
- As a result of these reforms the post offices became the sources of revenue of the government. The people benefited from the modern postal system.

- **Telegraph Department:**

- A separate department was created.
- William O'Shaughnessy was the chairman of the department.
- The first electric telegraph line was established between Calcutta and Agra in 1852. By 1856, it was extended to Lahore and Peshawar.

- **Construction of Railways:**

- In 1831, the idea of railways first came in Madras. In 1834, the Court of Directors decided to introduce the steam engine.
- In 1853, the first railway line was established between Mumbai and Thane. In 1854, the second line between Calcutta and Raniganj was operated.

### Trivia



The Ganga canal was the brainchild of Sir Proby Cautley; construction began in 1840, and it was inaugurated by Governor-General Lord Dalhousie in 1854.



#### Sir Arthur Cotton

He constructed works on the Kaveri (Cauvery), Kollidam (Coleroon), and Godavari rivers. His dams on the Kollidam (1836) and the Godavari (1847–52) rivers irrigated wide areas. Cotton worked on the Kaveri River to and made these areas prosperous part of Madras state.



Trigonometric Survey of India (1802-52) - Surveyor **Radhanath Sikdar** measured **Mount Everest** in 1852 and named after Sir George Everest who was the Surveyor General of India from 1830-43.

### Other significant works of Dalhousie

- **Charter on Indian Forests, 1855**
  - Beginning of systematic forest policy in India
  - He reversed previous laissez-faire policy to establish the India Forest Department and annex large areas of sparsely populated lands.
  - He suggested that teak timber should be retained as state property and its trade strictly regulated.
- **Education**
  - Dalhousie oversaw the **implementation of Wood's Dispatch**. He established the **Department of Public Instruction** to implement the recommendations of the Dispatch, and he encouraged the establishment of schools and colleges across India.
  - In 1857, the first three modern **universities** – Calcutta, Bombay and Madras – were established.
  - **Colleges**
    - St. Xavier's College, Calcutta – It was founded in 1860, but it was Lord Dalhousie who gave permission to the Jesuits.
    - Elphinstone College, Bombay – It was founded in 1856, during Lord Dalhousie's tenure.

## Railways Construction

British claimed that they made railway for the benefits of Indian empire in India, but this notion is debunked by nationalist historians. The motives of the British behind railway construction were not benign.



- Lord Hardinge in 1843 memo – “Railways would be beneficial for the commerce, government and military control of the country.”
- Lord Dalhousie in 1853 – “The important role that India could play as a market for British goods and as a source for agricultural raw materials for Britain would be facilitated by the railways.”

From the very top and from the very beginning, it was clear that the British wanted to build the railways for their purposes.

### **Objectives**

- Economic
  - To carry the British manufactured goods from the port to the interior region.
  - To carry the Indian raw material from the interior region to the ports.
  - To provide a better market for the British iron and steel companies.
  - To create an outlet for investment of the British capital.
- Strategic
  - The Railways could provide an added mobility to the British army. (Proved useful in sending troops during 1857 to quell popular unrest)
  - Construction of ‘frontier lines’ to meet army movement.

### **Construction cost:**

Shashi Tharoor in the Era of Darkness called building of the Railways as “gigantic colonial scam.” The railways were built by the British at the expense of Indians. Indian taxpayers paid for the entire construction of the Indian Railways, but the profits were all made by the English. And even the construction costs were extortionist.

- Minimum guaranteed 5% profits on investment in East Indian Railway Company and Great India Peninsular Company.
- 99 years lease
- Wasteful expenditure:
  - Railways didn't try hard to earn profits.
  - One mile of railway in India cost 18,000 pounds (US: 2,000 pounds)

Private profit at public risk: the private profit was made by the Englishmen who were investing the public risk was borne by the Indians. MG Ranade pointed out that Railway construction was an important part of Drain of Wealth and refused to believe that it brought any

development in India. (In 1901-2, one-third or more of the annual Home Charges. (Fiscal burden)

### Consequences:

| <u>Long term unintended Positive Contribution</u>  | <u>Negative Impact</u>  |
|--|---|
| Geographical integration of India (rise of modern <u>nationalism</u> )   | Proved useful in controlling India, e.g. in <u>1857</u>   |
| <ul style="list-style-type: none"> <li>In the long run, it prepared the way for the rise of modern factory system in future.</li> </ul>  | <p>Unlike the west, industrialization (<u>iron, steel, transport, mining, engineering</u> etc) didn't follow the construction of railways in India. Till <u>1910</u>, all rail-tracks and till <u>1940</u>, all railway engines were imported from England. There was <u>no technology transfer</u>.</p>  |
| <ul style="list-style-type: none"> <li><u>Indian market was integrated.</u></li> <li>This also resulted in uniformity in the <u>price of goods</u> and <u>controlled inflation</u>.</li> </ul> | <ul style="list-style-type: none"> <li>Instead of connected Indian <u>centres</u> to each other, <u>the lines connected ports to hinterland</u> for import of <u>British goods</u> and mineral areas and <u>agrarian hinterland</u> with <u>export centres</u>.</li> <li>British traders paid one of the <u>lowest freight</u> rates in the world.</li> <li>Led to the <u>destruction of traditional</u> Indian industries. (<u>deindustrialization</u>)</li> </ul>   |
| <ul style="list-style-type: none"> <li>Also helped in the <u>reduction of famines</u>. (eg famine lines)</li> </ul>  | <ul style="list-style-type: none"> <li>Rather than transporting grain <u>surplus to grain scarce area</u> as a purported solution to famine, it exported <u>grains</u> from <u>India to Britain</u> even during the <u>time of scarcity</u>. It rather encouraged commercialization of agriculture and intensified the conditions of <u>famine and hunger</u>.</li> <li>Due to excessive focus on railway, other sectors like irrigation were starved of capital and neglected. Till 1902-03, only <u>75 crore rupees</u> were spent <u>on irrigation while</u> about <u>359 crore</u> on <u>railway construction</u>.</li> </ul> |
| <ul style="list-style-type: none"> <li>Promoted social mobility through weakening the social evils <u>like untouchability</u>.</li> </ul>  | <ul style="list-style-type: none"> <li><u>Racism</u> in Railway operation. Right upto the <u>first world war</u>, British insisted on hiring <u>white</u> people for all <u>jobs except menial jobs</u>.</li> <li>Third-class travellers paid among the <u>highest passenger fares</u> in the world travelling in <u>sub-human conditions</u>.</li> </ul>   |

**Marx**

- “The railway-system will therefore become, in India, truly the forerunner of modern industry.” (1853). Initially, Karl Marx was enthusiastic about the positive impact of railways on India. He made a prophecy that the railways would industrialize and modernize India.
- Just before his death in 1883, Marx was frustrated with the performance of Indian railways and declared that the railways were ‘useless to Hindus.’

**Identify the iconic still:**





## Famine (1770 to 1943)

### The impact of British economic policy on rural life

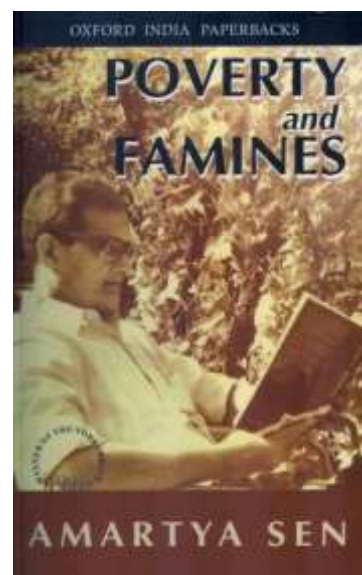
- Incident of famines exposed the true character of British rule in India. The incidents of famine were not new in Indian history, but under the British rule the incidents of famine multiplied in number.
  - 12 major famines in India under the Company's rule.
  - 10 severe famines under the rule of the British crown.
- Where climatic and environmental factors were responsible in most of the earlier incidents, but under British rule British policy was responsible to a large extent.

#### **Causes of Famine**

- The famines were a product both of uneven rainfall and British economic and administrative policies.
- FAD (food availability decline)
  - Monsoon failure, draught, epidemic etc
  - Land revenue settlements destroyed agriculture.
  - Commercialisation of agriculture  
→ Decline in production of coarse grains
  - Railway construction → Easier to transport grains to port
  - Export of grains to Britain in large quantities even during shortage
  - Black marketing and hoarding
- FEE (failure of exchange entitlements)
  - Heavy land revenue + collapse of handicraft → Drain of wealth → Decline in purchasing power
- The main cause that worsened the famine conditions was the lack of ameliorative measures to be taken by the colonial government as was customary.



Map of Indian famine of 1899–1900 from Prosperous British India by William Digby





### Examples of Famines:

| Year      | Region            | Death Toll               |
|-----------|-------------------|--------------------------|
| 1769      | Bengal            | 1/3rd population died    |
| 1833      | Guntur famine     | 40% population wiped out |
| 1866-67   | Odisha            | 13 lakh people died      |
| 1876-77   | Madras            | 50 lakh people died      |
| 1896-97   | Deccan, All India | 50 lakh people died      |
| 1899-1900 | All India         | 10 lakh people died      |
| 1943      | Bengal            | 15 lakh people died      |

### Famine Relief Steps

During the period of the Company's rule, no effort was ever made to understand the causes of famine and to help the people. Indians continued to die without any help of government.

However, factors such as growing awareness of the scale of the problem, public awareness and pressure, Indian activism, humanitarian concerns, economic considerations, and technological advances led to a change in approach, with the British government eventually recognizing their responsibility to provide relief to those affected by famine and establishing a framework for government intervention. Still, the efforts largely remained theoretical till the end.

| <u>Famine</u>                      | <u>Commission and Steps</u>   |
|------------------------------------|---|
| Delhi and Agra (1860-61)           | Inquiry commission under <b>Colonel Smith</b> for the first time. But <u>despite</u> some <u>inquiry</u> there was no significant outcome.  |
| Orissa famine (1865-66)            | <b>George Campbell</b> committee for famine relief. It recommended that government should undertake relief measure to help famine affected people, <u>steps must also be taken for employment generation</u> . This commission blamed the <u>official system for reoccurring famines</u> .  |
| Central India and Deccan (1877-78) | <ul style="list-style-type: none"> <li>Studied <u>opposition</u> by Justice Ranade.</li> <li>Thus, <b>Strachey Commission</b> considered the causes of famine. It suggested irrigation development, <u>revenue remission</u>, <u>relief operations</u>, and creation of <u>famine fund</u>, <u>apart from Famine Code formulation</u>.</li> </ul> |

|                         |   |
|-------------------------|---|
|                         | <ul style="list-style-type: none"> <li>• <b>Famine Code (1883):</b> <ul style="list-style-type: none"> <li>• If 75% crop destroyed due to famine, waive-off the land revenue.</li> <li>• The establishment of a system for the continuous flow of information from every local area to the provincial Government.</li> <li>• Nature of the relief works to be constructed on famine/scarcity.</li> <li>• The classification of relief labour and the scale of wages to be paid.</li> <li>• The organisation of free relief and the establishment of a system of village inspection.</li> <li>• Suspension of land revenue</li> <li>• Grants of Taccavi loans.</li> <li>• Relaxation in forest laws for the duration of famine</li> <li>• Protection of cattle.</li> </ul> </li> </ul> |
| Deccan famine (1898-99) | In 1897, James Lyall committee was appointed but before it could recommend anything another famine struck India in 1899–1900.   |
| 1900 famine             | <b>McDonald Committee by Curzon</b> <ul style="list-style-type: none"> <li>• Acknowledge moral responsibility, launch relief measures</li> <li>• Appoint Famine Relief Commissioner</li> <li>• Revise famine code</li> <li>• No delay in providing food grains and other assistance</li> <li>• Develop Irrigation facilities</li> <li>• Agriculture bank to be established</li> <li>• Develop transport facilities</li> <li>• Advance for purchase of seeds and other material.</li> </ul>  |
| 1943 Bengal famine      | <b>Woodhead Commission</b> <ul style="list-style-type: none"> <li>• The Department of food and agriculture should be merged.</li> <li>• All India food council should be established.</li> <li>• Steps should be taken for the production of food grains.</li> </ul>  |

The British Indian government's famine policies and relief initiatives failed to help Indians significantly. Sufferings of Indians persisted as millions continued to die.



**Florence Nightingale (1820-1910)**

- Considered as the founder of modern nursing, she made efforts to educate British subjects about India's famines through her writing.
- She identified two types of famine: grain famine and a "money famine". She pointed out that the famines in British India were not caused by the lack of food in a particular geographical area. They were instead caused by inadequate transportation of food, which in turn was caused due to the absence of a political and social structure.



### Drain of wealth

The term Drain of Wealth refers to unilateral outflow of a part of Indian resources to Britain for which Indian received nothing in return. Drain of Wealth was carried out by British by misusing their political authority. Every section of Indian population was exploited to drain out maximum possible amount of wealth from India.

#### **Changing nature of Drain of Wealth:**

**In the mercantile phase**, apart from loot and plunder, it was the Indian handicraft products were exported to Britain after being purchased through Indian revenues. (Investment, after Diwani rights)

**In the industrial phase**, raw materials and agricultural products were exported from India to Britain while British industrial goods were sold in India.

The Charter of 1813 abolished the trade monopoly with India. The Charter of 1833 finally abolished Chinese trade and tea monopoly. Thus, in order to continue earning profit:

- More commodities: Certain items including agrarian products as well as exclusive items like indigo, cotton and opium continued to be exported from India. Then other items were also added to the list of exportable items, such as tea, coffee, cereals, sugar, etc.
- Coercion: As the products were procured through coercive means, India could not get any return against these products.
- Triangular Trade: The company had already controlled the production of opium, now it started exporting opium to China massively and in return, silk and tea were purchased from China and exported to Britain. Thus developed a triangular trading system.

**In the financial phase**, a substantial amount from India was regularly transferred to Britain in the form of home charges.

#### **Home charge**

- The term home charges refer to expenditure carried out by company (upto 1858) and by British Indian government (after 1858) in London on behalf of India. It was the amount that the British Indian government was liable to pay to the British government and the private British capitalist.
- It consisted of many items such as the
  - **Dividend**: paid by the company to the shareholders (before 1858)
  - **Administrative expenditure**:
    - Salary of the official working in London for India (eg Secretary of Office charges)
    - Excessive employment of European was another cause of drain because their salary and other allowances were very high when compared with Indians.
    - Pension to the retired British officers etc.

- **Investment:** paid on loans raised abroad. E.g. Guaranteed profit of railways (major one), shipping, plantations etc.
- **Loan:** Interest on government loans
- **Military expenditure**
  - Amount which was spent in Britain for **military purchase** for the Indian army and its use outside India. Indian army working for British colonial interests outside India but was paid by India. eg Persian Gulf Aden Port, in Africa Zanzibar – two important naval bases both paid by India
  - The wars and battles fought by Indian soldiers for the benefit of Britain also incurred huge expenditure. Afghan wars, Burma wars and WW1 and 2 fought by Indian soldiers were financial out of Indian revenue.
- The home charge constituted about 13% of total Indian revenue upto 1857 and increased upto 24% during 1897-1907 (Data calculated by R C Dutt). By 1927, it became 40%. In 1901-02, almost 40% of the total home charges was the only guaranteed interest on the railways.

### European finance capital

- As the result of industrial revolution there was huge accumulation of capital in Britain.
- The Charter Act of 1833 paved the way for the entry of European capital in India. It also allowed to Europeans to purchase movable as well immovable properties in India. Thus, there was a huge influx of the foreign capital in India.
- European capital was invested in the development of infrastructure, shipping, mining, insurance, and plantation industries.
- The investors had shares in multiple businesses and all of these were used to ensure the maximum possible profit for European investors.
- All these business ventures were controlled by Europeans by interlocking managing agencies. Indian businessmen were kept out of business activities involving Europeans. The European banks, shipping and ports etc denied services to Indians to keep them out and provided services to Europeans.

### Effects of the Drain

economical wealth: drain of wealth of India economical hollowness because substantial portion of resources is not available to Indian for consumption.

data bai Naoroji concede drain of wealth is real cause of Indian poverty all other causes are secondary to this cause.

3) another nationalist leader also argued the drain was not only wealth but also capital. drain cause loss employment and income. had it been it spend here instated of in England it would have generated income here too. drain was responsible for slow growth modern industry in India. Indian had limited capital to invest on the contrary the accumulated thanks to drain from India help in the rapid industrialization there.

4) It played important role decline handicraft in Indian the raw material exported from indian led to rise input cost for handicraft there was no captical to upgrade the technology british industrial good now readily to ruin indian industries. thus drain of wealth also deindustrialization of indina

5) It affected pleasant directly the high land revaue rate due to drain. the frequent occurances of famine and food shorttes was also because of drain.

6) it resulted in the greater british economical control over indian economic because wealth thus drain out of indian return as european capital later. which was used for railway construction and other bussiness activity.

political effects:

1) the early nationalist like dada bai naoroji , RC dutt, mg randande. put forward analysis of the drain their critics expose the true colonial test of British rule

2) the nationalist leader through paper books newspapers highlighted the drain theory and clarified in the simple terms for common people to grasp. drain theory thus created awareness amongst common people anti British discontent.

3) though drain theory the nationalist leader brought the inherent political conflict between Indian and England to the surface they high listed that economical remedies would resolve other economic problem the drain requires the political solution.

when the congress party adopted the resolution of swaraj in 1905 at Calcutta presided by the dada bai Naoroji. It was long term outcome of drain theory.



