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S. Ambirajan

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## I

## INTRODUCTION

Of all the instruction which the servants of the Honourable East India Company have ever brought with them from their parent land to India, that which they derived from the lectures of that truly amiable man Dr Malthus, on Political Economy, has been, perhaps, the most substantially useful to the country. Of the Civil Servants scarcely one can have discharged his duties for many years in any part of India without having often found the welfare and happiness of thousands placed in dependence upon his knowledge of the great principles of this science, and upon that feeling of assurance in the truth of its conclusions which will make him risk his reputation, and all that he holds most dear, in the enforcement of the measures which these conclusions prescribe.

Sir William Sleeman  
(Officer in the Military and Civil Service of the  
Honourable East India Company)

## ECONOMISTS AND INDIA

It is possible that the influence of economic events on the formation of economic theory has lessened as a consequence of the professionalisation of the discipline of economics in the past hundred years; but it has not disappeared altogether. Whether as explanation of certain economic phenomena or as prescription to cure certain economic ills, economists do take into account the hard realities, not just build theoretical structures. Whoever it may be – from Josiah Child to Joan Robinson – an economist's theoretical writings, reflect at some point the problems faced by contemporary policy makers. It could be said that economic doctrines respond to the challenge of social problems, and one can plausibly argue that the history of economic thought is the history of such intellectual responses to the social and economic problems faced from time to time.

But what of the influence of economic ideas on events? It is a palpable fact that economists – of past times as well as of the present – take themselves seriously and consider the offering of gratuitous advice to policy makers as a major role of their profession. Not only is such advice proffered, but it is also frequently claimed that economics is indispensable to the making of economic policy. Policy by definition is a particular course of action planned and carried out. The course of action is directed towards certain basic

objectives, and it is to achieve these that the course of action is planned. These objectives, in their turn, spring out of human needs, aspirations and interests which call for equally varied courses of action. The function of the policy maker, is to decide which of these objectives to choose and how to achieve them. Economists usually claim with some justification that their ideas play a significant part in this process of decision making. That 'theory' should play a large part in policy formation is natural for theory is only observed actuality in some spheres of life reduced to logic. Thus theory enables us to foresee what would be the consequences of certain actions. But few policy makers are capable of creating economic ideas; they have necessarily to work on the basis of the currently dominant economic thought. Policy makers themselves have perceived this, as Pierre Mendes-France (a former French Prime Minister) and Gabriel Ardant (the General Commissioner for Productivity in France) said, 'The interaction of economic theories and policies is seen all through modern history.'<sup>1</sup>

For a student interested in the interaction of economic ideas and policies, India should prove rewarding because India has long been of interest to academic economists, particularly of Britain. In the early days of the East India Company, the Directors were forced to act as economic theorists in order to defend the very existence of the Company. The writings of the employees of the Company defending its commercial activities and by the critics of the Company attacking its trading operations both contributed to the development of English economic thought in the seventeenth century. Later, in 1771, when the currency situation in the Indian possessions of the East India Company became chaotic, the officials prudently referred the matter to the then leading economist, Sir James Steuart. After examining the problem he wrote the interesting pamphlet, *The Principles of Money Applied to the Present State of Coin in Bengal*. Adam Smith, of course, is well known for his strictures on the East India Company's monopoly, but the Court of Directors of the Company, in spite of his attacks on them, actually wanted to include him in a Board of Commissioners which they were planning to send to India to investigate existing administrative malpractices; although Smith was prepared to go, the Board was never in fact sent.<sup>2</sup> Ricardo was a shareholder of the Company and used to attend the General Court of Proprietors, and there were occasions when he addressed the General Court on economic problems. Thomas Robert Malthus and Richard Jones were two important economists who were employed by the East India Company to teach their young civil servants at the East India College

<sup>1</sup> *Economics and Action* (London, 1955), p. 13.

<sup>2</sup> See John Rae, *Life of Adam Smith* (London, 1895), p. 254.

established at Haileybury. James Mill made his name with a massive history of India, and later joined the East India Company as an examiner. John Stuart Mill also joined the Company as a writer and finally rose to the position of chief examiner. Francis Horner served on the Carnatic Commission from 1806 to 1809. Herman Merivale and William Thornton had both spent many years at the India Office in London as senior civil servants. James Wilson, the founder of the London *Economist* was India's first minister of finance. Besides these, Jean Baptiste Say, Robert Torrens, John Ramsay McCulloch and Karl Marx also wrote about India. Henry Fawcett, the blind Professor of Political Economy at Cambridge, wrote on Indian finance and for many years upheld Indian interests in Parliament with such zeal and knowledge that he became known as the 'Member for India'. Stanley Jevons, H. D. McLeod, Alfred Marshall and John Maynard Keynes were also concerned about Indian economic problems and all of them had at different occasions given evidence before parliamentary commissions on various aspects of the Indian economy.

Thus there was a significant body of thought (composed variously of monographic writings and policy documents as well as formal and informal discussions with policy makers and would-be civil servants) developed by generations of British economists relating to Indian economic problems. To this should be added their contributions to the theory of economic policy providing general guidance for the policy maker. The question immediately arises as to the extent of the impact of these efforts of the economists on the actual policies pursued in India. The possibilities of British economic ideas being applied to concrete Indian economic policies were considerable particularly in the hundred years after the publication of the *Wealth of Nations*, in view of the unusual circumstances in which India and its rulers were placed. The four most relevant aspects of this milieu were: (1) British attitudes towards India; (2) Structure of Indian administration; (3) Intellectual equipment of the rulers of India; and (4) Nature of British economic thought.

#### BRITISH ATTITUDES TOWARDS INDIA

The establishment of British rule was a novel phenomenon for India. Not that India had never been invaded before, but all the previous invaders had accepted India as their home, and had become a part of her life. The invaders had accepted the prevailing social and economic condition of the country and tried to fit themselves into it. But with the arrival of the British, India found herself placed in an entirely new political situation, with the 'centre of gravity' located outside her land, and in this way she was subjected

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to a class of rulers who were 'permanently alien in origin and character'.<sup>3</sup> Even in social and cultural life the new rulers remained foreign. The settlers adopted 'English rather than Indian standards of living and amusement'; and 'making every English settlement an exact replica, as far as possible, of an English town' was the aim.<sup>4</sup> This was perhaps due to what the Oxford historian Sir John Seeley has described as a clash of two cultures. The previous invaders found in India a superior culture and were, as time went on, culturally assimilated. The British, on the other hand, finding an old-established culture, were at first amazed (see, for instance, the works of Warren Hastings, William Jones, William Robertson and other early Indologists); but later, once the initial enthusiasm had cooled down, they found Indian society barbaric and set about 'civilising' it.

Till the death of Edmund Burke, the idea that India should be made a replica of England found little favour with the ruling classes. A conservative and a believer in the Natural order, Burke felt that British institutions were out of place in India. The Burkean conservative ideal was one of Imperial trusteeship. In other words, he believed that India should be allowed to develop according to her own experience and tradition, and thus Indian society should be insulated from the incursion of Western institutions, practices and prejudices. While developing according to their own cultural patterns, the people of India must nevertheless be given an opportunity to appreciate the European concept of liberty. For Burke, reform meant the expansion of existing values rather than the realisation of Utopian dreams. This conservative philosophy that the stronger country and society had a moral obligation to preserve the weaker lost its vogue after Burke. Jeremy Bentham, the utilitarian philosopher-jurist, on the other hand, thought it essential to carry out fundamental changes in Indian institutions.<sup>5</sup>

But it was left to his disciple James Mill to successfully introduce a certain amount of political and economic messianism into British attitudes towards India. It was James Mill who in his *History of India* made for the first time a savage frontal attack on Indian culture and Hindu civilisation and branded the whole system as barbaric and despotic. What he wanted was the transfer of Western civilisation and culture to India, and thus to impart a dynamic element into what he believed to be a stagnant society. His son John Stuart Mill also justified British rule in India in these terms and pointed out that only

<sup>3</sup> K. S. Shelvankar, *The Problem of India* (Harmondsworth, 1940), p. 18. See also for a contemporary comment, Mrs Julia Thomas, *Letters from Madras During the Years 1836–1839* (London, 1846), p. 44.

<sup>4</sup> T. G. P. Spear, *The Nabobs* (Oxford, 1963), p. 34.

<sup>5</sup> See S. G. Vesey-Fitzgerald, 'Bentham and the Indian Codes' in George Keeton and Georg Schwarzenberger (eds.), *Jeremy Bentham and the Law: A Symposium* (London, 1948), p. 222.

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this form of control 'which in the existing state of civilisation of the subject people, most facilitates their transition to a higher stage of improvement'.<sup>6</sup>

This idea that Britain's moral, intellectual and political power should be used to transform India continued to dominate British attitudes throughout the nineteenth century. Indeed many Englishmen believed that they had been chosen by Providence for the task of civilising India and that they should carry out the duties properly. F. C. Hodgson, for example, in his Le Bas Prize Essay for 1862, declared solemnly: 'We shall work out faithfully in common the task that Heaven has set us to do.'<sup>7</sup> Even critics of the British Empire such as Robert Knight thought that Britain should perform its duties towards India with a sense of responsibility in view of the fact that 'the all-wise Ruler of the World should have prepared the English people . . . for the guardianship and rule of nearly 200 000 000 of the human race'.<sup>8</sup> The British intelligentsia who ultimately provided the Indian administrators were thus taught to believe that it was the responsibility of Britain to emancipate India from the despotisms of the East by training India 'to English institutions'.<sup>9</sup> It is therefore hardly surprising to see reflected so many British ruling ideas in the actual governance of India.

## STRUCTURE OF INDIAN ADMINISTRATION

Apart from this general attitude, the structure of Indian administration itself was such that Indian problems were always viewed in the light of English

<sup>6</sup> *Considerations on Representative Government* (London, 1861, reprint 1910), p. 134. Mill applied the same considerations to Ireland. Writing to Prof. John Nichol, he said: 'I myself have always been for a good stout despotism – for governing Ireland like India. But it cannot be done. The spirit of Democracy has got too much head there, too prematurely.' 'Unpublished Letters from John Stuart Mill', *Fortnightly Review* (January–June 1897), LXVII, 675. On the whole British economists seem to have reserved self-rule for white colonies only, whereas for the non-white countries, they urged Britain to provide a benevolent but authoritarian rule. See for example the views of Adam Smith in E. A. Benians, 'Adam Smith's Project of an Empire', *The Cambridge Historical Journal*, 1 (1926), 251–6. James Mill also visualised independence for only the white colonies. In spite of the economic burden, he was against freedom for West Indies because of the white population 'with half a million of slaves at their throats' See the *Parliamentary History and Review* (1825), pp. 639 *et seq.*

<sup>7</sup> *British Influence in India* (London, 1863), p. 98. See also *Destiny of the British Empire as Revealed in the Scriptures* (London, 1865).

<sup>8</sup> *The Indian Empire and Our Financial Relations Therewith* (London, 1866), p. 4.

<sup>9</sup> Many distinguished writers in the late nineteenth and early twentieth centuries including the historians Sir John Seeley and James Anthony Froude, jurists like Lord James Bryce and Sir James Stephen and politicians like Lord Curzon and Earl of Cromer compared the British Empire in India to the Roman Empire of early Britain as the harbinger of civilisation to a place where only barbarism prevailed. See R. F. Betts, 'The Allusion to Rome in British Imperialist Thought', *Victorian Studies* (December 1971), XV, no. 2, pp. 149–59.

ideas and notions. India was being ruled from London as well as Calcutta and other local capitals. Normally it is the responsible administrators on the spot who decide policy. But during the late eighteenth and nineteenth centuries, the Home authorities had a major voice in the formation of policies. In the initial stages, of course, most of the power was concentrated at the head office in London. But with the passage of time and the growing need to take prompt action, the power of policy making was gradually delegated to the man on the spot.

The administration was managed by a Court of Directors elected by the share-holders of the East India Company. These directors were divided into various committees for different subjects. After discussing the many administrative problems of their Indian possessions, the committees put their recommendations before the Court for its final decision. The Court of Directors was itself responsible to the Board of Control, the body set up by the government in 1784 to supervise the Indian administration. The Court of Directors conducted Indian administration by replying to queries from India and communicating the policies to be implemented. The Board of Control could only examine and review the orders of the Court of Directors, but not initiate them; on the other hand, the Court had no certainty that its orders would be approved by the Board of Control.<sup>10</sup> This delicate balance was perhaps responsible for the close cooperation between these two bodies over the long period of their currency. Much of the business appears to have been transacted in informal meetings between the Chairman of the Court of Directors and the President of the Board of Control.<sup>11</sup> When in 1858 the Crown took over the Indian territories from the Company, both the Court and the Board were abolished; and a secretary of state with an advisory council was installed to advise and supervise the Indian government.

However, with the Secretary of State becoming the supreme master of the Government of India, English politics began more and more to influence Indian administration. While the East India Company was primarily interested in the Indian territories as such, the Secretary of State was interested in India as a political weapon in the armoury of his party and his policy had

<sup>10</sup> The mechanism of this system is described in a Memorandum by Broughton. See Report of the Select Committee on Indian Territories, *Parl. Papers*. h.c. 533, vol. x of Session 1852. See also 'Chairs' (Abbreviation for the Chairman and Deputy Chairman) to Ellenborough, 27 August 1829, *Letters to the Board*, India Office Records, vol. ix.

<sup>11</sup> Joseph Farington, a contemporary diarist recorded: 'Mr Majoribanks, being Deputy Chairman of the East India Company, told me that the Chairman and Deputy Chairman for the time being have a *weekly meeting* with the President of the Board of Control (now Mr Canning) at which they make their respective reports and amicably arrange matters.' *The Farington Diary* edited by James Greig (London, 1922), VIII, 205.

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to trim its sails according to the shifting breezes in Parliament. Thus the periodical adjustments in the balance of power between various parliamentary groups introduced an unstable element in Indian policies too. This was in marked contrast with the state of affairs during the East India Company's regime. The Court of Directors was usually able to resist the play of British politics in Indian affairs, and sometimes even went against the wishes of the government – in the words of a former member of the Indian civil service, acting as an effective barrier between 'the interests of the people of India and the powerful classes in England'.<sup>12</sup>

The Court of Directors first prepared the drafts in answer to queries from India. The Directors' chief adviser in all matters affecting the administration of India was the Examiner of Indian correspondence, and it was in his department that the bulk of the Company's despatches to the various Governments in India were prepared. Until 1804 one man alone had to study and pass all the despatches from India and also to prepare the replies of the Directors relating to political, revenue, judicial and military affairs. It was the Auditor of Indian accounts who looked after the financial despatches, but in 1804 the military despatches were also entrusted to the Auditor. Two new assistant secretaries were appointed in 1809 to look after the judicial and revenue sides respectively under the direct supervision of the Chief Examiner, and an assistant examiner to deal with the miscellaneous subjects labelled as 'public'.<sup>13</sup> These were the examiners who composed the drafts and converted the vague suggestions of the Directors into workable orders. The examiners ordinarily received little help from the Directors, and they first prepared the drafts and then received the Directors' approval. About half of these drafts returned from the Board of Control without any alterations,<sup>14</sup> and such of the changes – often merely verbal – that were made, were usually in the political department. Less than one per cent of these drafts underwent 'alteration in principle and substance by the Board of Control'.<sup>15</sup>

<sup>12</sup> A. J. Arbuthnot, *Memories of Rugby and India* (London, 1910), p. 221.

<sup>13</sup> See the chapter 'The Examiners Department' in William Foster, *The East India House* (London, 1924).

<sup>14</sup> J. C. Melvill's evidence on 5 May 1852 to the House of Lords Select Committee, III Report, *Parl. Papers*, H.C. 20 III, vol. XXX of Session 1852–3, Q. 269.

<sup>15</sup> John Stuart Mill's evidence on 22 June 1852, *ibid*, Q. 3038. The situation was not different even during the present century. See for the experience of Keynes in the India Office in R. F. Harrod, *The Life of John Maynard Keynes* (London, 1951), p. 143. See for a caustic comment on the power wielded by the India Office bureaucrats: Lord Dalhousie to Sir George Couper dated 8 December 1851 in A. C. Banerjee (ed.) *Indian Constitutional Documents* (Calcutta, 1948), I, 287.



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Not only was the power of the Home authorities over the Government of India complete on paper, the Government of India was required to administer the Indian territories under the 'direction and authority' of the East India Company, and was subject to the superintendence of the Board of Control (after 1858 of the Secretary of State for India). In other words, the decisive policies were laid down in London, and the Government in India had merely to execute them. With every added means of communication, this legal power over the Indian Government enabled the Court of Directors (or the Secretary of State) to strengthen their control over India. In spite of this, in practice, much of the administrative work was done without any serious interference from the Home authorities. The various Governments in India proceeded each 'to act upon its own decision', assuming that their actions would be approved at home as soon as information was received. The Indian authorities had in many cases to take the necessary decisions themselves, because despatches took four to six months to reach India, which meant eight months to a year to get instructions from home. But as 'the despatches from the India House have in many cases tended greatly to form the opinions of Indian politicians in India',<sup>16</sup> there was little fear of Indian policies being radically different from what the Court of Directors were likely to prescribe. Hence considerable tolerance was shown to the actions of the Indian Government.

On the other hand, for all the leeway that was given to the Indian administrators, there was always a threat hanging over their heads, for laws passed by the Government, although they could have immediate effect, were liable to be rescinded later on by the Home Government. It was little wonder the Governor-General and all concerned in the administration of India were generally content to carry out faithfully the wishes of the Court of Directors and its successors.

When the Crown assumed the responsibility for the Government of India, the influence of the Home Government became more pronounced still. This curtailed the power of the local authorities even in minor details, and they naturally resented such interference.<sup>17</sup> That the Indian officials resented political interference in Indian policy was a source of great irritation to the officials of the India Office. Indeed it was felt in some official quarters that the obstinate and insolent Indian bureaucracy should be firmly kept in check.<sup>18</sup>

<sup>16</sup> John Stuart Mill's evidence, *op. cit.*, Q. 2990.

<sup>17</sup> See for example the views of Sir John Strachey: Strachey to Lytton, 6 August 1878 (Lytton Papers, India Office Library).

<sup>18</sup> Mallet to Ripon, 28 January 1881 (Ripon Papers, British Museum).



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In the Indian sphere, the Governor-General was the supreme authority. There were two bases to his power. Apart from the constitutional position, it always happened that most of the Governor-Generals and Viceroys were distinguished figures in English politics and consequently commanded much respect in Britain as well as India. It was the Governor-General (or the Viceroy as he was called after the Crown takeover) who took the final decisions, and his Council was nothing more than a panel of advisers 'offering opinions on the cases put before them, but exercising no individual responsibility'.<sup>19</sup> The Council had no power to alter, but only the privilege to record its views in case of any differences of opinion.

## THE INTELLECTUAL BACKGROUND

The above is a brief description of the institutional aspect of policy making in nineteenth-century India. What of the intellectual side in the formation of economic policies? This would naturally depend on the individual thinking of the policy makers as it was conditioned by prevailing ideas and current conceptions of problems. Consequently the intellectual content can be ascertained only by a study of the policy makers themselves and the factors that conditioned their mental attitudes towards various economic problems.

An important factor which conditioned the mental attitudes of those involved in formulating and executing economic policies in India in the nineteenth century was the acceptance of the British public of the value of political economy as an aid to policy making. Although Adam Smith was not the originator of most of the concepts and arguments to be found in the *Wealth of Nations*, he undoubtedly gave political economy its distinct form by his coherent synthesis of the contributions of his predecessors. Within a short time of its publication, the work became indispensable reading for most politicians, and the new discipline acquired a reputation of usefulness.<sup>20</sup> In a modern commentator's words, many of the educated class in nineteenth-century Britain had great faith in the principles of political economy as 'truths to be explained and accepted, not hypotheses to be debated'.<sup>21</sup> Early in the century, the Utilitarian aim of diffusing useful knowledge found much favour. Political economy as founded by Adam

<sup>19</sup> George Chesney, *Indian Polity* (London, 1868), p. 122.

<sup>20</sup> See for example Edmund Burke's forthright views: C. R. Fay, *Burke and Adam Smith* (Belfast, 1956), p. 14.

<sup>21</sup> J. F. C. Harrison, *Learning and Living 1790–1960: A Study in the History of the English Adult Education Movement* (London, 1961), p. 81. See also R. K. Webb, *The British Working Class Reader 1790–1848 Literacy and Social Tension* (London, 1955), pp. 97 *et seq.*

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Smith and developed by the Classical School of Economists was deemed part of this useful knowledge.<sup>22</sup> It was the view of David Ricardo that ‘By an adherence to these (Principles of Political Economy), Governments cannot fail to promote the welfare of the people.’<sup>23</sup> Indeed the official Utilitarian organ, the *Westminster Review*, went even further and declared that ‘The application of a wise system of political economy’ was absolutely essential ‘to prevent waste, and to diffuse enjoyment’ in India.<sup>24</sup> Envious foreign observers even claimed that ‘England is indebted for the gigantic increase and flourishing state of most of her colonies, [to] a policy built on the soundest principles of political economy.’<sup>25</sup>

Throughout the century, attempts were made to educate the public at large – especially schoolchildren and the working classes – to appreciate the truths of this new science. Many popular expositions of political economy were published to spread the message. The teaching of political economy in the schools was encouraged and suitable extracts from the writings of eminent economists were made readily and widely available to schoolchildren.<sup>26</sup> The British adult education movement, which was mainly founded by middle-class intellectuals, stressed the spread of the principles of political economy among the working classes. So did the many institutions (e.g. Birkbeck Schools) that mushroomed to educate the children of the poor. Young or old, rich or poor, man or woman, very few in the nineteenth century could have escaped the predisposition of opinion in favour of learning political economy.

Indian administration from the beginning was largely in the hands of people who had grown up in such an atmosphere and thus had been inculcated in their formative years with a belief in the virtues of political economy. Further, many of the key individuals in the policy making apparatus were trained economists. There were directors of the East India Company like David Scott, Francis Baring, Charles Grant, Randle Jackson, Henry St George Tucker and R. D. Mangles who had acquired an understanding of the then current principles of political economy; and in the background there were the examiners who wrote the despatches and did what present-

<sup>22</sup> See Richard D. Altick, *The English Common Reader: A Social History of the Mass Reading Public 1800–1900* (Chicago, 1957), chapter vi.

<sup>23</sup> Ricardo to Malthus, 4 September 1820: P. Sraffa (ed.), *Works and Correspondence of David Ricardo*, VIII (Cambridge, 1951), 228.

<sup>24</sup> Issue dated October 1825, p. 266.

<sup>25</sup> Count Bjornstjerna, *The British Empire in the East* (London, 1840), pp. 176–7.

<sup>26</sup> See J. M. Goldstrom, ‘Richard Whately and Political Economy in School Books’ *Irish Historical Studies*, xv (September 1966), 140 *et seq.* See also R. Gilmour, ‘The Gradgrind School: Political Economy in the Classroom’, *Victorian Studies* (December 1967), xi, no. 2, pp. 212–19.