ECONOMIC DEPRESSION

IN

THE MADRAS PRESIDENCY

(1820—1854)

BY

P. J. THOMAS

University Professor of Economics, Madras

AND

B. NATARAJA PILLAI

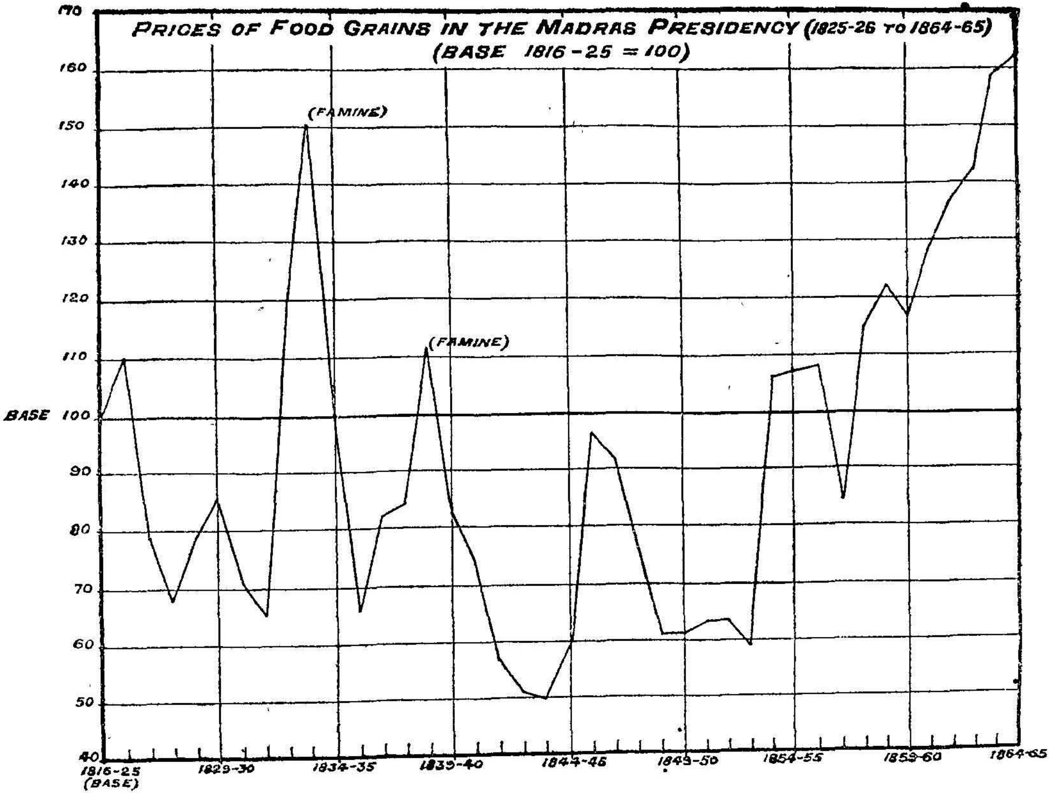
Research Student, University of Madras

Paper submitted to the Indian Economic Conference
held at Annamalainagar, January, 1934

MADRAS

PRINTED AT THE DIOCESAN PRESS, VEPERY

1933



PRICES OF FOOD GRAINS IN THE MADRAS PRESIDENCY (1825-26 TO 1864-65)
(BASE 1816-25 = 100)
(FAMINE)
(FAMINE)
170
160
150
140
130
120
110
BASE 100
90
80
70
60
50
40
1816-25 (BASE)
1829-30
1834-35
1839-40
1844-45
1849-50
1854-55
1859-60
1864-65

ECONOMIC DEPRESSION IN THE MADRAS PRESIDENCY (1820-1854)

'Long lines of cliff breaking have left a chasm:
And in the chasm are foam and yellow sands.'

—TENNYSON.

I

Exactly a hundred years ago, there was an economic depression of great magnitude in India. It commenced about the year 1820 and continued its chequered course till about 1854. It seems to have prevailed in all parts of India, but was perhaps most pronounced in the ryotwari provinces of Madras and Bombay. Madras Presidency was formed in the early years of the 19th century, and soon afterwards it found itself in the grip of a fell slump which seriously affected public and private economy and produced a great deal of suffering all over the Presidency. The following index numbers were constructed by taking into account the prices of foodgrains [paddy (2 sorts), cholam, ragi, varagu, and cumbu], with the period 1816-25 as the base :—

Years	Average Price per Madras Garce in Rs.				Index Nos.	
	Paddy 1st sort.	Cholam	Ragi	Cumbu		
1816-25 Base	111·1	137·5	114·4	111·1	**100**	
1825-26	122·6	152·2	130·0	124·0	**110**	
1826-27	92·5	103·0	91·8	87·0	**79**	
1827-28	80·6	84·6	78·5	77·0	**68**	
1828-29	92·3	105·3	89·6	86·8	**79**	
1829-30	97·3	109·5	100·6	99·8	**85**	
1830-31	83·0	99·5	75·6	82·0	**71**	
1831-32	71·8	85·8	74·0	72·5	**65**	
1832-33	120·7	171·3	146·5	154·1	**120**	(Famine)
1833-34	156·2	203	174·5	177·3	**150**	(Famine)
1834-35	99·7	122·7	113·5	124·5	**98**	

Years	Average Price per Madras Garce in Rs.				Index No.
	Paddy 1st sort.	Cholam	Ragi	Cumbu	
1835-36	80·4	87·8	80·4	74·5	**66**
1836-37	97·8	111·6	103·0	95·8	**83**
1837-38	98·5	113·1	109·8	95·1	**84**
1838-39	122·6	153·5	125·8	126·0	**111** (*Famine*)
1839-40	97·4	110·6	102·6	86·8	**82**
1840-41	85·1	100·2	85·8	80·6	**74**
1841-42	63·8	70·7	67·3	63·4	**56**
1842-43	67·6	61·7	66·2	57·1	**51**
1843-44	67·0	60·0	66·3	55·7	**50**
1844-45	76·9	78·4	80·4	64·0	**60**
1845-46	110·7	128·7	121·3	119·1	**96**
1846-47	106·5	125·7	117·0	121·2	**91**
1847-48	79·6	110·8	96·7	92·2	**76**
1848-49	72·3	82·4	77·0	68·4	**61**
1849-50	75·5	81·2	74·2	75·7	**61**
1850-51	70·6	86·5	68·8	76·4	**63**
1851-52	68·7	83·8	66·8	71·2	**60**
1852-53	68·7	85·0	67·5	74·1	**60**
1853-54	111·7	151·0	123·8	127·3	**106**
1854-55	119·8	146·8	125·7	122·5	**107**
1846-55 (10 years)	88·5	106·7	97·5	94·3	**81·3**
1856-65 (10 years)	143·7	165·1	158·4	146·3	**121·5**

Between 1825 and 1854, prices were constantly on the decline; but the most acute fall occurred during the period 1840-45 when the index number stood at 58.20, thus recording a fall of 41.80 per cent from the basic period. The year-to-year variations of prices shown above are much larger than we are accustomed to in modern times, but that must have been chiefly due to the lack of communications and the caprices of weather. These circumstances have changed since, owing to the growth of irrigation and cheapening of transport.

In many ways, the depression of 1820-54 is analogous to the recent price slump which commenced in 1920 and is still continuing. The analogy is perhaps least in regard to causes, and greatest in regard to course and effects. Both depressions embarrassed Government by reducing revenue and disorganising trade; agriculture suffered most under both and the agriculturist's burdens increased, owing to the rigidity of his dues—revenue, rent, interest, and other fixed charges. It was to combat the depression of 1820-50 that Government slightly modified its laissez faire policy and interested itself in irrigation and road-making and agricultural improvement; the burdens of the tax-payer were also lightened by a more liberal policy of land revenue settlement. Indeed conditions have largely changed in the last 100 years; none the less the experiences of the depression of 1820-50 must be of some value in combating the present depression.

Although this was perhaps the greatest depression of the 19th century in India, the attention of economists has not been sufficiently directed to this important event in Indian economic history. In fact, the only information available to the student is contained in two or three paragraphs in Mr. Srinivasaraghava Aiyangar's able *Memorandum on the Progress of the Madras Presidency during the last* 40 *years* (1892), and in a short note by Peddar. Lately, the original documents connected with the subject have been explored and a work is being prepared by us. In this paper, it is only proposed to enquire into the causes of the depression.

II

Causes of the Slump

Mr. Srinivasaraghava Aiyangar attributed the depression of 1820-54 to local causes, as he did not realize that the depression was not confined to India. It prevailed in England and over all Western Europe and was one of those secular price movements which affect nearly the whole world. Ever since the influx of American silver into Europe in the 16th century, there have been several long-period movements of prices in Europe, and as different parts of the world have become connected by trade, these movements transmitted themselves to distant parts of the world.

Thus, even in the 16th and 17th centuries, when India's connection with Europe was far from intimate, prices in India rose simultaneously with prices in Europe, and it is said that the successive enhancements of the Moghul land revenue were due to these increased prices.[1]

Without entering into the still unsettled controversy on the cause of trade cycles, it may be said that in those days, at any rate, monetary causes were more potent than non-monetary. In recent times, the relation between gold and prices has become rather remote, but in the 19th century and to a larger extent in the previous centuries, the relation between prices and the precious metals had been much more direct. As credit had not developed in those days and as even paper money was scantily used, money then meant the metallic circulating medium.

Writing about the depression of 1820-50 in Europe, Sir Walter Layton, who has carefully analysed these secular price movements, says: 'Prior to 1810, Europe had received the greater part of its supply from the Spanish colonies of Central and S. America. But during the wars of the French Revolution the colonies threw off the yoke of Spain and 15 years of civil war and internal disorder followed during which period the mines were practically deserted and a great slump occurred in the output of the precious metals'.[2] According to the estimates of Del Mar, the output of gold and silver from Spanish America which amounted to £7,200,000 a year before the French Revolutionary wars, fell to £5 million in 1925 and £4 million in 1929; and this was the potent cause of the depression in Europe.[3]

The scarcity of precious metals affected India even as it affected Europe. As India did not have any considerable local supply of gold or silver, she had to get both the metals from outside, and what affected their supply outside affected the supply in India as well. In those days, as now, a general fall of prices meant a diminution in the supply of money or an increase in the demand for it or both. After 1800, the

[1] *Fifth Report*, Vol. II, p. 186 (1883 Edition).
[2] Layton, *An Introduction to the Study of Prices*, p. 38.
[3] Del Mar, *History of the Precious Metals*, chapter xviii.

supply of money in India diminished owing to various causes, while the demand for money increased considerably. We will see how this happened.

III

Supply of Money

The supply of money during the period diminished owing to (1) the outflow of bullion, and (2) to the Indian Currency Act of 1835, which resulted in the demonetization of gold and the discarding of a good deal of the silver currency.

India has always been regarded as the sink of precious metals. That was because she always had valuable merchandise to sell to other countries, but had little to buy from them, thus necessitating payment in bullion. This disturbed the minds of the financiers of the Roman Empire, and the drain of specie to India is generally regarded as one of the chief causes of Rome's downfall. Early European traders had the same experience. Sir Thomas Roe expressed it in the epigram, 'Europe bleedeth to enrich Asia'[1]. Hence the stringent regulation of the export of bullion to India from European countries. In England laws already existed against the exportation of coin and bullion, and in the time of James I, this was regarded as so heinous an offence against the country that the king found himself helpless in raising revenue by selling pardons.[2] Indeed subsequently, such bullionist ideas changed in England and in the first half of the 18th century bullion formed 75 per cent of the total imports of the Company into India. However, when the Company acquired territorial possessions in India, bullion exports to India became unnecessary, and even the Company's trade with China came to be managed with Indian bullion.

Thus the current changed. India which absorbed bullion for centuries had to disgorge part of it. This is what repeatedly happened in the past and one is even tempted to formulate a law of bullion movements. For centuries, India would absorb gold and silver; and then would come an efflux which would partly deplete the hoards. Such a rhythmic movement is observable in the bullion transactions of India from the earliest times to the present day, and it is curious to note that generally

[1] Quoted in Moreland, *From Akbar to Aurangzeb*, p. 53.
[2] See H. M. Robertson, *Rise of Economic Individualism*, (1933), p. 62.

the outflow of gold occurred when there was a shortage for it in Europe. During the 16th and 17th centuries, the flow was inward, but after 1757, the outflow commenced, and this became pronounced in the first three decades of the 19th century, but it diminished after 1840. When the Company became an important territorial power in India as a result of the battle of Plassey, it obtained large revenues from its possessions. Handsome gifts and tributes were also made by the country powers to the Company and to its servants. Several of the Company's employees made large fortunes : Bolts admits having made £90,000 in six years. The Company had also to meet large dues in England, and this it did, not only by sending merchandise but by exporting bullion and specie. Bullion from India was also transported to China for the 'investments' of the Company there, and that bullion never returned to this country. The result was that, year after year, not only bullion but coin went out of the country and the amount of currency in circulation diminished. Indeed this could have been avoided by the use of bills of exchange, and bills were known and used then in India not only by the Company, but by Indian bankers also; but owing to various circumstances, they could be used only to a limited extent.[1] From the very beginning the Company realized the economic evils of such a growing drain of coin from the country, but they were unable to remedy it for a long time.

The declining importance of India's staple exports also contributed to the efflux of bullion from the country. When the European nations first traded with India, the principal articles of Indian export trade were pepper and calico, and these two constituted the great bulk of the homeward cargo.[2] But towards the close of the 18th century, both these exports declined in quantity and value. The demand for pepper diminished because thanks to the agricultural improvements of 'Turnip' Townsend and Jethro Tull, it became possible to keep cattle during winter with the new fodder crops, and the system of killing and pickling beef and mutton in autumn thus died away, and with it the importance of pepper also passed away. As for the trade in calico, Great Britain transformed herself about the beginning of the 19th century from an importer of

[1] Parshad, *Indian Foreign Trade*, pp. 57–58.
[2] Thomas, *Mercantilism and East India Trade*, Chapter I.

cotton textiles to an exporter—and the principal exporter—of that commodity, and this was the result of the Industrial Revolution. The spinning jenny and the power loom cheapened the processes of spinning and weaving cotton in England, and enabled her to become the home of the world's cotton industry, and not only did England capture the market in Europe but soon her cheap calicoes and muslins came into India and successfully competed with the hand-made and expensive calicoes and muslins of this country. Indeed the high tariffs imposed on Indian textiles in England also hastened the decline of Indian exports, but that decline was bound to come by the superiority of the machine over the human hand.

In this way, the character of Indian export trade, which remained fairly steady for at least a thousand years, underwent a radical change, and dwindled in quantity as well as value for sometime. The textile exports diminished after 1800, and their fall was rapid after 1820. In the last decade of the 18th century, cotton goods worth £2 millions on an average were exported to England, but in the decade 1820-30, the exports came only to £500,000 on an average and in the following decade fell below £300,000.[1] The Charter Act of 1833 gave a fillip to the importation of English textiles into India, and after that, the textile exports of India died away rapidly.

So long as the East India Company carried on trade, there was some encouragement given to Indian manufacturers, owing to its annual 'investments', but that ceased when the Company's trading rights ceased. Subsequently, there arose a growing export trade from India in primary products, but that involved a radical change in the nature and direction of Indian trade. Partly owing to this change and partly to other causes, the imports of bullion diminished for a time, and from some parts of India there was a large net exportation of bullion and specie. To facilitate the efflux of treasure, the *Government of England permitted the transportation of bullion* belonging to the Company's Governments in India in H. M.'s ships at the same rates as those paid for the transport of treasure belonging to the Crown.[2]

[1] McGregor, *Commercial Tariffs*, Digest Vol. IV, pp. 434–40.
[2] Despatch of the Court of Directors to Madras, (Finance) 10 April 1838, No. 4.

Unfortunately, we have not got accurate statistics of the export and import of bullion during the period. The figures given by authors are often based on guesswork. However, we have enough to conclude that much more bullion was exported than imported during this period. Sir George Wingate has estimated the efflux of bullion from India during the period 1800-1858 at £100 millions, and Montgomery Martin, reckoning at compound interest, computed the outflow of bullion in the period, 1800-1830, at £700 millions. Sir John Shore and M. E. Grant have not given figures but hold that the amount was large. Professors Hamilton and Dodwell consider these estimates exaggerated, but have not given any specific counter-estimates. Hamilton pushed the scepticism furthest, and Dodwell doubted 'whether he (Hamilton) allows quite enough weight to the popular belief as displayed by Shore and Grant'.[1]

IV

Supply of money—the Peculiar Features of Madras

The general view of Indian trade and bullion movements dealt with above is fully borne out by the experiences of Madras in the period, 1820-54. Nay, more. Various peculiar features of the trade of this Presidency aggravated the causes of the bullion outflow and prolonged it more than in other presidencies. We have been able to gather from Madras archives fairly adequate statistics of the trade and bullion movements of the period and we find that the outflow of bullion which commenced from the year 1825 continued almost uninterruptedly till 1850.

The special features which intensified and prolonged the outflow of bullion may now be dealt with: In the first place, during the period under survey the export trade of Madras changed drastically both in content and destination. Until about 1830, the export trade of Madras was chiefly in manufactured textiles and this went to those countries which generally paid for our goods in bullion (e.g., Straits of Malacca, West Coast of Sumatra, Manilla, Pegu, Persian

[1] *Journal of Indian Economics*, 1921-22, p. 236.

Gulf and Arabia); and those countries were the most regular source of supply of precious metals for the Madras Mint.[1] But when cheap British textiles outsold the Indian piece-goods in those countries the export trade rapidly fell away and bullion ceased to flow into the Presidency. Indeed, our export trade with China and Britain increased, but they did not send us bullion and this was partly due to the bill transactions of the Court of Directors which will be dealt with below. The following tables will bring out the change in the Export trade both in character and destination between 1824-34 and 1840-50.

STATEMENT SHOWING AVERAGE ANNUAL EXPORTS OF MERCHANDISE FROM MADRAS BETWEEN THE YEARS 1824–34 AND 1840–50

[Compiled from the Mint Master's Reports.]

Countries	1824–34 (average of 10 years)		1840–50 (average of 10 years)	
	Piecegoods Rs.	Total Rs.	Piecegoods Rs.	Total Rs.
Straits of Malacca ...	14,58,488	16,13,512	7,60,994	10,22,264
West coast of Sumatra ...	1,43,373	1,59,102	5,329	8,213
Manilla	1,70,644	1,72,899	*Nil*	*Nil*
Pegu	1,35,000	2,75,000	1,10,000	{ Little decline
Gulf of Persia, and Arabia	5,46,000	13,70,000	1,68,000	12,00,000
China	,,	6,50,000	,,	14,50,000
Great Britain ...	16,00,000	29,75,000	5,75,000	50,00,000
Bengal	2,00,000	9,00,000	4,75,000	14,75,000
Bombay	12,50,000	50,00,000	9,75,000	73,00,000
Ceylon	6,75,000	14,50,000	7,50,000	29,75,000

During this period the export trade of Madras in manufactured goods diminished by about 40 per cent while the

[1] Mint Master's Report, 16th December 1851, para 17.

export of primary products increased largely, as will be clear from the table below.

AGGREGATE EXPORTS FROM MADRAS DURING THE DECENNIAL PERIODS 1824—34 and 1840—50.

Articles.	From 1824—25 to 1833—34	From 1840—41 to 1849—50
Piecegoods	619,89,315	382,73,194
Cotton and cotton wool ...	82,45,741	426,93,304
Grain	239,42,294	377,96,556
Sandalwood	23,18,755	12,29,660
Spices	86,50,691	111,68,595
Sugar	*Nil*	95,73,161
Oils	*Nil*	6,77,141
Oilseeds	*Nil*	2,44,363
Dyes, indigo, etc.	70,90,670	216,52,303
Turmeric	*Nil*	3,68,614
Coffee	3,29,043	18,44,784
Salt	17,47,514	12,66,079
Hides	3,42,830	19,14,624

Evidently the void created by the decline in manufactured goods was more than filled by the growing export trade in raw materials. This subsequently increased to much larger proportions until nearly the whole of our exports became primary products. The outflow of bullion from Madras was an inevitable result of this transition from an export trade composed chiefly of finished goods to one mainly of primary products. And naturally the transition was a painful one and it dislocated the price level and caused one of the greatest economic depressions ever known in the country.

2. It may be asked why the increased export trade with China and Great Britain did not result in an influx of bullion into the Presidency. But here we have to explain another important factor which made bullion movements unfavourable to Madras. When money was due to the Presidency from Britain or China or other countries which were Britain's

debtors, the Court of Directors settled such accounts by means of bills drawn on the Indian treasuries. The result was that bullion which ought otherwise to have found its way to India in the natural course of commerce was prevented from coming in. The first large issue of Company's bills began in 1834 but its importance rapidly increased as can be seen below:

AVERAGE VALUE OF BILLS DRAWN BY COURT OF DIRECTORS FOR THE 5 YEARS ENDING

	Rs.
1834—35	31,610
1839—40	14,31,685
1844—45	13,87,586
1849—50	39,21,580

3. There were also various political causes tending to work in the same direction. 'The employment of our troops in foreign warfare, their maintenance in time of peace beyond its frontier, and the necessary contribution of this Presidency to the general charges of the empire have constantly required the export of large sums on the public account, far in excess of the imports'.[1] For instance, Madras sent a considerable amount of specie to Malacca in 1832 for the payment of the Company's troops there; expeditions to Burma and China were also financed by sending specie from Madras.[2] Another political factor was the arrangement under which the revenues of Malabar and Canara amounting annually to Rs. 20 lacs on an average were sent directly to Bombay in the form of specie. According to a contemporary estimate the net export on Government account alone for the 30 years from 1820-21 to 1849-50 amounted nearly to Rs. 15 crores. The cumulative effect of all the factors described above was the pronounced and prolonged outflow of specie as may be seen from the following table carefully drawn up from the documents preserved in the Madras Record Office.

[1] Selections from the Records of the Madras Government. No. III of 1854, p. 82. Para 7.
[2] Despatch of the Court of Directors, 10th August, 1836. No. 11 (Finance); see also *Calcutta Review*, Vol. XVI (1851), pp. 473-74.

STATEMENT OF BULLION AND SPECIE IMPORTED INTO AND EXPORTED FROM MADRAS PRESIDENCY DURING THE YEARS 1819–20 TO 1849–50.

YEARS.	ON PRIVATE ACCOUNT.		ON GOVERNMENT ACCOUNT.		TOTAL.	
	Imports. Lakhs.	Exports. Lakhs.	Imports. Lakhs.	Exports. Lakhs.	Imports. Rs.	Exports. Rs.
1819–20	...	...	...	...	78,29,021	36,90,066
1820–21	...	...	...	...	43,69,643	27,28,191
1821–22	...	...	...	..	40,05,731	51,27,222
1822–23	42·80	2·72	*Nil*	27·00	42,80,641	29,72,596
1823–24	...	...		...	84,56,782	84,41,771
1824–25	44·90	4·42	23·31	79·76	68,21,445	84,18,825
1825–26	37·05	5·38	0·28	124·34	37,33,958	1,29,72,242
1826–27	32·74	8·98	11·21	50·04	43,95,076	59,02,914
1827–28	36·28	10·12	0·99	44·67	37,27,185	54,79,102
1828–29	26·31	9·91	*Nil*	47·69	26,31,476	57,60,109
1829–30	22·40	12·65	*Nil*	86·39	22,39,768	99,04,006
1830–31	20·39	7·85	*Nil*	25·70	20,39,237	33,55,028
1831–32	26·33	17·80	*Nil*	67·98	26,33,040	85,77,796
1832–33	25·43	26·93	1·44	31·88	26,86,649	58,81,220
1833–34	26·76	23·67	35·12	29·55	61,88,856	53,22,401
1834–35	33·42	11·06	*Nil*	17·59	33,42,091	28,65,642
1835–36	32·65	8·41	1·58	58·12	34,23,070	66,53,208
1836–37	33·28	8·49	12·35	48·97	45,63,525	57,46,898
1837–38	25·35	17·25	26·16	39·08	51,51,626	56,33,301
1838–39	35·28	15·66	6·52	48·74	41,80,785	64,40,920
1839–40	27·88	11·10	5·66	91·97	33,54,590	1,03,07,711
1840–41	30·32	10·02	10·00	95·40	40,32,845	1,05,41,605
1841–42	28·89	3·33	*Nil*	83·50	28,88,803	86,83,339
1842–43	28·68	2·82	*Nil*	71·19	28,68,744	74,01,161
1843–44	49·08	18·33	9·00	27·50	58,08,323	45,82,816
1844–45	65·43	7·42	*Nil*	70·40	65,43,643	77,82,901
1845–46	66·01	9·06	*Nil*	32·80	66,01,711	41,86,753
1846–47	49·60	31·30	*Nil*	29·30	49,60,828	60,60,098
1847–48	37·00	35·52	*Nil*	71·00	37,00,280	1,06,52,343
1848–49	26·75	22·38	*Nil*	77·00	26,74,852	99,38,403
1849–50	42·36	9·10	*Nil*	59·79	42,36,514	68,79,637

[Compiled from the Statements by the Collector of Customs, Madras, In Consultations dated 2nd August, 1832, and by the Reporter of External Commerce dated 23rd September, 1851, and from Reports of the Mint Committee].

The Government of Madras at the time was fully alive to the gravity of the growing efflux of bullion from India, and in 1830, commenting upon the view expressed by certain district Collectors and the Board of Revenue that the efflux of specie was a major cause of the fall of prices, the Government of Madras wrote :—

'With regard to the observations of the Board—having reference apparently to the late extensive remittances of bullion to England—on the subject of the draining of the precious metals from this country by the combined operations of its political relations with Great Britain and its external commerce, the Right Hon'ble the Governor in Council is fully sensible that the continued exportation of the precious metals from a country which does not possess sufficient trade or manufactures to recall them must be attended with impoverishing and distressing consequences. But the real question which the Supreme Government and this Government had lately to consider was whether the Company should be exposed to great difficulties at home from the want of those metals which were in the treasury here and relieving them to the full extent of their power, deprecating at the same time the repetition of that demand and endeavouring by all other means to mitigate the evil consequences of such an exportation upon the public credit and the public finance in India.'[1]

The Court of Directors have also admitted that there was a considerable net export of bullion in the thirties.[2]

Several writers have inveighed against this export of bullion on the ground that it was a drain of wealth from the country, but we are not concerned with that aspect of the matter here; nor do we think that even mercantilists will be alarmed when a country which for long periods of time imports precious metals exports a part of it subsequently. What we are concerned with is the effect of these transactions on the currency system of the country. We have to note in this connection that the treasure exported in those days consisted almost entirely of specie.[3] It is true that the imports—small as they were in quantity—were also largely specie, but as they were currencies of foreign countries, they could not get into circulation unless recoined in the local mint. And as for such recoinage we have definite evidence that the 'uncurrent coin' tendered to the mint during the period diminished considerably from year to year, although no seigniorage was charged on recoinage. The following figures taken from the Report of the Mint Master at Madras will make this clear.

[1] *Ceded Districts Handbook*, Ed. by P. Macqueen, I.C.S., Vol. 4590, pp. 247-49. Also extract from Board's Proceedings, dated 9th Sep., 1830, paras 18-21.

[2] Despatch of the Court of Directors to Madras, dated 30th Aug., 1834 (No. 13). (Finance).

[3] The imports and exports of silver on private account were all in specie with very rare exceptions—see Board's Consultations, 25th December, 1859. On the Government account, on the other hand, all the exports had been 'wholly in specie,' as clearly pointed out in the Proceedings of the Board of Revenue, 5th January, 1860, para 3.

STATEMENT SHOWING THE AMOUNT VALUE OF MERCHANTS' BULLION AND UNCURRENT COINS, RECEIVED INTO THE MADRAS MINT FROM 1841-42 TO 1849-50.

Year.	Merchants' Gold and silver out-turn value.			Gold and Silver Uncurrent coins outturn value.			Total.		
	RS.	A	P.	RS.	A.	P.	RS.	A.	P.
1841-42 ...	7,81,951	0	11	22,53,676	6	9	30,35,630	7	8
1842-43 ...	9,39,328	2	9	8,07,270	9	8	17,46,598	12	5
1843-44 ...	11,93,612	11	11	36,17,818	7	4	48,11,431	3	3
1844-45 ...	4,00,059	15	11	22,06,815	3	6	26,06,875	3	5
1845-46 ...	5,39,034	3	8	25,51,078	11	0	30,90,112	14	8
1846-47 ...	2,11,739	9	5	55,55,400	7	8	57,67,140	1	1
1847-48 ...	1,12,676	11	0	28,90,539	8	9	30,03,216	3	9
1848-49 ...	1,77,895	12	7	12,11,847	7	7	13,89,743	4	2
1849-50 ...	2,44,319	1	7	9,46,903	8	6	11,91,222	10	1

* *Report on the Proposed abolition of the Madras Mint: App. 8 to the Report dated 11th April 1851.*

It is clear from the above table that the bullion tendered for coinage fell off considerably during the period 1841-42 to 1849-50. This was perceptible after the year 1834. The average annual amount of bullion tendered to the mint previous to the year 1834 was Rs. 32½ lakhs. It gradually declined until in 1847-48—the year of the great commercial panic and crisis—it came down so low as Rs. 1 lakh.[1]

The result was that the currency of the country became progressively inadequate to meet the local needs. The suspension of the Madras Mint aggravated this state of things in the thirties and to this fact C. R. Cotton, Special Commissioner, appointed to enquire into the financial stringency of the Presidency, attributes the distress of the time.[2] Indeed the Madras Mint was reopened under orders from the Court of Directors dated 10th May 1839 (Despatch No. 12), but as

[1] Mint Master's Report: 11th April, 1851, para 23.
[2] Cotton's Report (MSS), 1840, para 82.

above pointed out, that did not materially improve the currency situation of the Presidency.

V

Currency Legislation

It may be remarked, by the way, that the influx of gold into England must have been a matter of some convenience at the time to the Bank of England, which was then engaged in building up a gold reserve for the support of its currency system. England adopted the gold standard in 1816, and as this meant the redemption of all notes in gold, every effort was made by the Bank of England to build up a gold reserve. It was therefore natural that the Government of that country should have offered special facilities for the transportation of bullion by the East India Company.[1] This measure had its repercussions on the Indian currency system. Gold became undervalued, and the gold mohur rose from Rs. 16 to Rs. 18. This shook Indian bimetallism to its foundations and made it essential to reorganise Indian currency on a new basis. A reform on the English model was deemed unsuitable. Giving evidence before the House of Commons Committee in 1832, Mr. Horsley Palmer, Governor of the Bank of England, said: 'Gold neither does nor will circulate to any extent as current coin in India whose silver forms the actual currency and is legal tender. . . . . I should be directly opposed to an opinion of the propriety of introducing gold into India as the current coin of the realm'.

Accordingly, India in 1835 gave up its crude bimetallism and adopted the silver standard. There were too many kinds of rupees in circulation, and of this the Arcot Rupee was accepted as the standard coin by Act XVII of 1835. That Act also laid down that gold shall not henceforth be legal tender of payment in British India, and thus demonetized all the gold coins which hitherto passed current in the country. Indeed the bulk of the gold coins had either been hoarded or had gone out of the country, except in the Northern Circars where a considerable number of gold coins seems to have been in circulation.[2] By adopting the Arcot Rupee as the standard coin,

[1] See Despatch dated 10th April 1838.
[2] Dodwell, *Indian Journal of Economics*, 1920-22, p. 201.

Government did away with the currency confusion that then prevailed, and thus laid the foundations of a stable currency system; but the immediate result was not quite favourable. By demonetizing gold and discarding the numerous varieties of rupees, there arose a shortage of legal tender money in the country and this aggravated the fall of prices. Referring to the Act of 1835, Sir J. C. Coyajee says: 'The progress of uniformity of currency though ultimately beneficial brought much immediate and wide hardship on the people, for the withdrawal of debased currency led to a reduction of the circulating medium for a time and led to great fluctuations of prices.'[1]

Not only were the innumerable denominations of currency within British India discarded, but the Indian States and Principalities that came under British suzerainty had also to give up their coinage rights, and this meant the abolition of several mints which hitherto met local needs. Even petty poligars possessed mints of their own.

Paper currency could not make up the deficiency of the circulating medium created by the Act of 1835, for, although the Madras Bank was allowed to issue bank notes, that power was hemmed in by various restrictions in regard to cash reserves and so forth. In 1838, the maximum amount of issue was fixed and the Bank was strictly forbidden from exceeding that limit.[2] Thus the issue of notes was rigidly fixed without any reference to the currency needs of the country. In 1840, Mr. C. R. Cotton reported that a more elastic paper currency controlled by Government was essential, but that question was not taken up till 1860.[3]

Nor are we sure that a more plentiful issue of paper currency would have remedied this state of affairs at the time. Whatever may be the amount of currency coined by the Mint, unless all such currency finds its way into the pockets of the people, it would not really affect prices. In the period under survey, the Company's trade transactions and the Bill policy of the Court of Directors prevented the influx into India of all the monies due to her on trade account; and owing to the parsimonious policy pursued by the Company's Government with regard to public works in Madras, and the abolition of

[1] *The Indian Currency System* (Sir William Meyer Lectures), p. 6.
[2] Despatch of the Court of Directors, 16th May 1838, No. 8 (Finance).
[3] Cotton's Report, 20th Feb., 1840, para. 83.

the Company's textile establishments in various parts of the Presidency, all the currency coined in the country did not get into circulation. The Mint Committee of Madras estimated that although the 'corpus' of the currency was about Rs. 4 crores, more than half of it was locked up in the Government treasuries.[1]

Thus the supply of money in India during the period diminished (1) by the efflux of gold and silver and (2) by the diminution of the circulating medium in India resulting from the Act of 1835.

VI

Demand for Money

At the same time the demand for money increased chiefly by the replacement of barter by money economy and by the growth of business transactions in the country. The demand for money is measured by the extent of the use to which money is put; and when money economy expands and transactions increase, prices are bound to be affected. With the inauguration of British rule in India, the system of cash payments was introduced (a) in land revenue and (b) in other civil and military transactions. In pre-British times, the land revenue in India had been collected sometimes in cash and sometimes in kind. The East India Company insisted on collecting revenue only in cash, and this created some inconvenience to the tax-payers. Nor was time opportune for introducing such an innovation. In the District of Tanjore, a fixed money rent came into vogue during the time of the Amani rents of 1804-07 and was encouraged during the triennial lease of 1807-10. It was finally established in the course of the later Olungoo settlement. Indeed, in the beginning, no compulsion was imposed on the ryots, but Government placed various inducements before them to make the system acceptable. For instance, in 1808-10, with a view to make the Teerwai system acceptable it was decided to revive the ancient village system, for which the Mirasidars had a distinct preference. Vigorous rules were also promulgated for making it difficult for the tenants to continue the system of grain rents, and gradually

[1] Report of the Mint Master, 28th January, 1854, para 50.

the whole district conformed.[1] Similar difficulties arose in other districts also during the period when money assessments were sought to be established.

This transition to money economy cannot be smooth, unless the circulating medium of the country expands according to needs. But with a rigid currency system, with a currency contracting rather than expanding, prices were bound to fall.

Under the Moghuls, both the military and civil establishments were paid chiefly in kind, and the system of giving jaghirs of land was also widely prevalent. The first steps taken by the British Government were to substitute the 'regularly paid and disciplined troops, located in military stations, for the rural militia of the native feudatories and a staff of European and native officials receiving fixed salaries in place of the former mamlatdars and revenue farmers with their followers who paid themselves by perquisites and other indirect gains, but received very trifling emoluments from the treasury of the State'.[2]

To what extent did the growth of cash payments influence the fall of prices? On this, a difference of opinion is possible. A writer in the *Bombay Quarterly Journal* in 1857 opined that the slump was entirely due to 'the extraordinary demand for money occasioned by our collecting the land assessment in cash and conveying it away from the agricultural district to our large military stations for the payment of troops located there.[3] This is an exaggerated view of the situation. No doubt, the use of cash payments did cause a great inconvenience, but a part of what Government collected as land revenue came back to the people's pockets, and to attribute the whole slump to this would be to distort facts.

The demand for money is also affected by the supply of goods exchanged and the number of transactions into which they enter. In other words, if production increases and trade expands the demand for currency will thereby increase, and that by itself will depress prices, other things remaining the same. We have therefore to see how these factors influenced the demand for money.

[1] Tanjore District Gazetteer, chap. xi, p. 172.
[2] *Bombay Quarterly Journal*, April 1857.
[3] The paper is extracted in Aiyangar's *Progress*, p. xxxiv.

In the opinion of Mr. Peddar, these factors had a powerful influence. He says in the course of a note on prices in the *Report on the Moral and Material Progress for* 1882-83:— 'After the general introduction of British rule, a heavier "duty" was thrown upon the circulating medium by the extension of trade. . . . . . With peace and settled government there was a great extension of cultivation and consequent increase of production'. Our enquiries do not confirm this view. That the first experiments in ryotwari revenue settlement were not conducive to the increase of production is now fairly admitted. The first assessments were pitched too high and when the prices fell subsequently, agriculture ceased to be paying, and many ryots gave up their holdings. Mr. Mellor, Collector of Cudappah, wrote in 1845: 'The universal complaint and request of ryots is to be allowed to reduce their farms, a convincing proof that cultivation is not profitable. Land has never been saleable. Ryots, formerly substantial and capable of laying out their capital on lands and liquidating their sirkar demand, reserving their produce until they could get a favourable price, are now sunk in debt bearing heavy interest, entirely subject to their creditors; and were it not for the aid of the Collector, through the revenue subordinates, one-half or at least one-third of the highly assessed lands would have been thrown up.'[1] So widespread was the discouragement to cultivation that Lord Harris, the Governor, wrote in 1856 that the area under cultivation in Madras was only one-fifth of the whole, and had no tendency to increase.[2] The land revenue demand in 1825-26 was for Rs. 330 lakhs, but in 1829-30, it fell to Rs. 284 lakhs, and by 1833 to Rs. 275 lakhs. The fall was so heavy that it perturbed the minds of the Court of Directors and at their instance an enquiry was made into the 'defalcation' of revenue in Madras. No doubt the fall may be due also to annual remissions of revenue, but this large remission year after year indicates that agriculture was depressed. Indeed in certain years, there must have been bumper crops, and that must have suddenly depressed prices.

While production was thus slackening, population went on increasing. The population of the Presidency was estimated

[1] Letter to the Board, 25th July, In Consultations, 7th December, 1846.
[2] J. M. Ludlow: *British India*, Vol. II, p. 42.

at 13.5 millions in 1822, but rose to 22 millions by 1851, in spite of the famine and mortality due to epidemics in the thirties. This necessitated importation of rice, and at that time imports came from Arakan, which then enjoyed special facilities for the production and exportation, grain. These imports came to an annual value of about 9.5 lakhs between 1834 and 1844, and were largest during the years 1836-42.[1] These imports seem to have influenced prices considerably. The greatest fall of prices occurred immediately after years of large importation. For instance, grain worth nearly Rs. 19 lakhs was imported in 1840-41 and in the following year the index number of prices fell from 74 to 56.

Nor was there during the period any considerable expansion of trade, whether external or internal. The stagnation of internal trade was the dominant characteristic of the time, and this was due to the lack of roads and other means of communication, and to the numerous impediments to free movement of trade, in the form of inland duties.[2] There were very few 'made' roads in the country, and therefore wheeled transport could not have developed. During the summer, communications were easy enough for men, but during winter, it was impeded by swamps and unbridged rivers. Even where there were roads and bridges, communication was impeded by the vexatious exactions of tax-collectors, which were particularly oppressive in Madras, where the inland duties were farmed out by Government.[3] Cotton states in his report that 'the trade of India had been depressed and all classes of the people harassed and discouraged by our mode of taxing the inland traffic'.[4]

As for external trade, it had even a more melancholy tale to narrate. When pepper and calico were in great demand abroad, export trade flourished, but with the loss of external markets in those, trade languished and the weavers lost their employment and some became agricultural labourers or mendicants. In the 18th century, Indian ships plied between the coastal ports and carried on a brisk trade. Masulipatam, Negapatam, Tuticorin and Cochin were then important ports,

[1] Official Memorandum from the Collector of Sea Customs, Madras, 8th July, 1845, Enclosure No. 1.

[2] Transit Duties (Sayer) were abolished by 1844.

[3] Hamilton, *Trade Relations between India and England*, p. 219.

[4] Cotton's Report (MSS.), 1840, para 76.

but with the establishment of British dominion, India came under the Navigation Acts, and therefore indigenous enterprise in trade and shipping had a setback.

At least upto about 1840, foreign trade remained depressed and this caused loud complaints from the Court of Directors in London. Customs revenue was most affected, as is clear from the following figures[1] :—

Year	*Land Customs*	*Sea Customs*
1828-29	Rs. 41,89,703	Rs. 10,55,917
1833-34	Rs. 33,97,200	Rs. 6,80,523

Since 1840, the foreign trade seems to have somewhat recovered, but the slowness of the recovery is clear from the fact that the total export trade only increased by Rs. 50 lakhs between 1834 and 1850. Bengal and Bombay fared much better in this respect.

VII

Conclusion

We will now bring together the different aspects of the problem. A general fall of prices must be due *either* to the diminution of the circulating medium, *or* to the increase of the demand for that circulating medium, i.e., an increase of the transactions to be performed by that medium, or to both. In the present case, we know (1) that the circulating medium diminished in quantity during the period 1820-1850, (2) that the available circulating medium had more duties to discharge, seeing that cash payments had increased and that external trade had expanded to some extent. Both influences were working simultaneously, and that led to the steep and prolonged fall of prices, but the more potent cause was on the supply side. Owing to various causes detailed above, there arose an inadequacy of currency in the country, and this resulted in one of the greatest depressions in the economic history of India.

After 1850, these tendencies changed. The discovery of gold mines in California and Australia resulted in an unprecedented supply of the yellow metal, and pushed up prices in the world's markets to great heights. This gave a great

[1] Despatch, 30th August, 1837, (Finance) paras. 4 and 7.

impetus to productive activity in India as well as in other countries. The construction of railways, the opening of plantations and the establishment of industries financed by British capital in India brought into the country much money from outside, and the growing demand for Indian jute and coffee and tea in Europe made bullion to flow once again in the direction of India. The cotton famine in Lancashire in the sixties gave India an opportunity to expand her exports beyond all proportions and the opening of the Suez Canal further strengthened that opportunity. From 1854, prices went on rising, and not even the Great Depression of Europe in 1873-96 affected India, thanks to the steady fall in the exchange value of the rupee during that period.

PRINTED AT THE DIOCESAN PRESS, MADRAS—1933. C10088.