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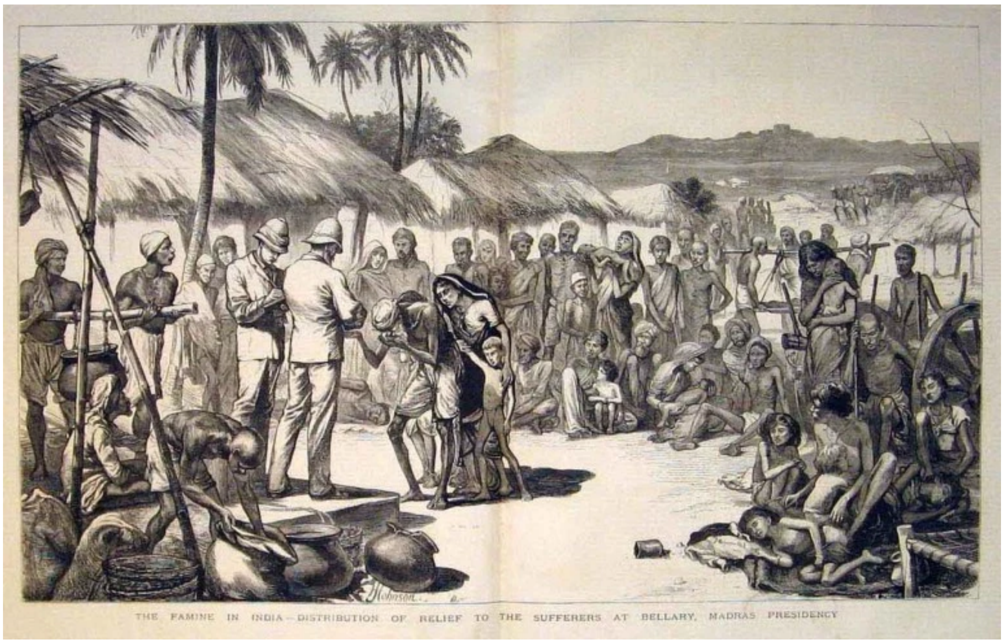
ECONOMY

The Role That Currency Played in the Great Bengal Famine of 1770

BY SASHI SIVRAMKRISHNA ON 12/12/2016 • LEAVE A COMMENT

About 250 years ago, Bengal suffered a debilitating famine under colonial rule, partially brought on by changes in the colonial currency system.



A contemporary print of the Madras famine of 1877 showing the distribution of relief in Bellary, Madras Presidency. From the Illustrated London News, (1877). Image used for representation. Credit: Wikimedia Commons

"The lack of money is the root of all evil" – Mark Twain

History, they say, repeats itself. I hope this isn't true, because history tells us of a terrifying episode some 250 years ago when the lack of currency was responsible, partly at least, for a massive famine that struck Bengal in 1770, claiming some ten million lives or a third of its entire population. Obviously, it is inappropriate, if not imprudent, to draw simplistic parallels between the situation then and the present currency shortage caused by the demonetisation of high-value rupee notes. Not only have options to hard currency and institutional environment undergone a sea of change over centuries, but in terms of impact, even the most pessimistic estimates only see a slowdown of growth rather than anything close to a famine-like situation. Nonetheless, it is interesting to recall history for a couple of reasons; first, to observe a certain commonality in the role money played in these episodes and second, at the margin, going by the several reports that have appeared in the last few days, there have been several instances of disruption, dispossession and even death.

Currency, as is commonly known, was for a long time inextricably linked to precious metals, primarily, gold and silver. For centuries, perhaps millennia, India had always received a steady inflow of these precious metals from its commodity trade surpluses with the rest of the world, which was converted into money or hoarded as jewellery and ornaments. The Romans, Venetians, Portuguese, Dutch and English were all at one point of time or another concerned over the export of their bullion and coin to India in exchange for oriental luxuries. In the seventeenth century, Surat alone is said to have received from its trade with the Persian Gulf about half million sterling per annum in specie. The export of bullion from England became the most scathing weapon in the hands of the bullionists – those who believed that wealth was defined by the amount of precious metals owned by a nation – against the East India Company. Nonetheless, as long as the Company was a mere merchant, it had little option but to conduct its trade on the basis of bullion and coin.

The Battle of Plassey and subsequent grant of *diwani* in 1765 to the East India Company changed all this. Post diwani, there was a sudden increase in the outflow of bullion from India to England, along with a sharp decline in silver exports to India. The table below gives us a quantitative picture of this dismal story. From an average of around

£500,000 annually in the mid-18th century, export of specie by the East India Company to India collapsed to a trickle between the late 1760s and 1785; it rose gradually thereafter and was especially high during 1802–3 (£1,772,085) and 1804–5 (£1,952,651) when it became necessary for Marquis Wellesley to import specie to fund the Company's aggressive territorial expansion plans in India.

Exports by the East India Company of bullion to India, 1708–1810 (in £ sterling)

Years	Bullion (£)	Average per annum(£)
1708/9 – 1733/4	12,189,147	420,315
1734/5 – 1759/60	15,239,115	586,119
1760/1 – 1765/6	842,381	140,396
1766/7 – 1771/2	968,289	161,381
1772/3 – 1775/6	72,911	18,227
1776/7 – 1784/5	156,106	17,345
1785/6 – 1792/3	4,476,207	559,525
1793/4 – 1809/10	8,988,165	528,715

CREDIT: WILLIAM MILBURN, ORIENTAL COMMERCE, 1813.

The decline in specie imports in the last quarter of the 18th century was not because exports from India were not in demand in the West; rather, it was the right of diwani that ensured the revenues of Bengal passing into the Company's coffers. It then became possible for the Company to utilise the large annual revenue surpluses for purchasing commodities to be exported (called investments), doing away with the necessity of importing specie.

W.W. Hunter, historian and member of the Indian Civil Service, describes how revenues were channelised to investment. In Birbhum district, out of £90,000 collected through taxes and duties a net surplus of some £60,000 was employed for the purchase of silks, muslins, cotton cloths and other articles to be sold in Leadenhall Street, the headquarters of the Company. In short, the revenues of Bengal supplied the means of providing the expenditure for purchases in Bengal, reducing the net annual influx of specie to a pittance.

Hawala of another kind

In his classic work, *The Principles of Money Applied to the Present State of Bengal*, published in 1773, James Steuart cites several other reasons that further fuelled the scarcity. The relatively undervalued silver in Bengal proved a profitable source to finance the growing tea trade with China. Within a span of just three years, some £720,000 of specie was sent out of Bengal to China. The widespread corruption and plunder by the servants of the Company not only transferred the wealth of the country to these individuals but was also sent out of the country through ingenious means. These included the purchase of diamonds and the private funding of the China tea trade of the Company and even of other foreign trading companies. The French and Dutch, who would earlier bring in a large quantity of specie, were now able to borrow funds in India from Company servants to finance their trade with China. The servants looking for ways to remit their wealth were repaid by the foreign companies in Europe using the proceeds from these sales. The annual tribute paid to the Mughal Emperor in Delhi also added to the specie outflow from Bengal. Finally, the necessity to fund expenditures (including military) in the other presidencies of the Company, namely Madras and Bombay, also meant the substantial export of specie out of Bengal.

The governor of Bengal, Harry Verelst, estimated the deficiency of import of precious metals into Bengal for the years 1757–66 to be about £8 million. When other forms of remittances from Bengal were added to this, including the king's tribute, the actual outflow of specie could have touched some £13,000,000. He remarked that this was, "a sum so immense as will scarce gain credit with those who have not been at the trouble of examining the particulars". While a combination of easy money and scientific discoveries set off the industrial revolution in England in the second half of the eighteenth century, Bengal, at about the same time, receded into misery – the shortages in specie import added to the woes created by the vitiated currency system that was implemented at the beginning of the 18th century with the decline of the Mughal Empire.

The declining specie inflows into Bengal, combined with a corrupted administrative apparatus, dragged Bengal into an economic abyss and ultimately, famine. Hunter's descriptions of this catastrophe are heart wrenching:

> All through the stifling summer of 1770 the people went on dying. The husbandmen sold their cattle, they sold their implements of agriculture, they devoured their seed-grain, they sold their sons and daughters, till at length no buyer of children could be found, they ate the leaves of trees and the grass of the field and in June 1770 the Resident at the Durbar affirmed that the living were feeding on the dead. Day and night a torrent of famished and disease-stricken wretches poured into the great cities. At an early period of the year pestilence had broken out. In March we find smallpox at Moorshedabad … The streets were blocked up with promiscuous heaps of the dying and dead. Interment could not do its work quick enough even the dogs and jackals, the public scavengers of the East, became unable to accomplish their revolting work, and the multitude of mangled and festering corpses at length threatened the existence of the citizens.

There may have been several root causes for the Great Famine of Bengal. Utmost, of course, was the Company's ruthlessness in the collection of land taxes and that too in cash. But the one definitive factor which exacerbated the destruction wrought by the Bengal Famine of 1770 was the prevailing confusion in the currency system along with an absolute shortage of currency for trade and commerce. Money for day-to-day transactions became scarce. In rural Bengal, rupees alone had amounted to about two-thirds of the currency. Money became so dear that prices of all other goods slumped; the scarcity of money was accompanied by deflation. Artisans, weavers and workers were thrown out of work due to the slump in demand. The credit market collapsed beause of the creditors fearing that they would be repaid in overvalued gold. Without credit and in the absence of traders, equalising supply and demand became difficult and had a destabilising effect on the economy.

"At present the distress is so great", wrote the English inhabitants in 1769, published later in the *Calcutta Review,* "that every merchant in

Calcutta is in danger of becoming bankrupt, or running a risk of ruin by attachments on his goods." Hunter mentions that merchants deserted their trade and began "locking up their fortunes in their treasure-chests." But it is in the work of Verelst that we find a petition of the Armenian merchants settled in Calcutta, which captures the then prevailing situation, starkly, "the necessity of coin now felt in this capital, amongst the many intolerable evils arising from it, affects every individual to that degree, that the best houses, with magazines full of goods, are distressed for daily provisions and that not only a general bankruptcy is to be feared, but a real famine, in the midst of wealth and plenty." As one present-day historian, Richard Stevenson, put it, "The Famine of 1770 was a simple famine. The British had removed a large fraction of the coinage, evidently, which destroyed the mechanism of the exchange of goods. It is difficult to buy food when there is no money."

But I must mention a grimly insightful comment by the French scholar, Abbe Raynal that caught my attention while scrutinising some historical records: "all the Europeans, especially the English, were possessed of granaries, and these very granaries the famishing natives respected. Private houses were so too. There was no revolt; no murders; not the least violence prevailed. The unhappy Indians, resigned to a quiet despair, confined themselves to the request of that succour they did not obtain, and peaceably waited the relief of death."

On seeing the defenceless expression on an old woman's face when the bank announced it had run out of cash, I realised why Raynal may have thought it significant to have recorded this observation some 250 years ago.

Portions of this essay were extracted from the author's book, In Search of Stability: Economics of Money, History of the Rupee

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