www.researchvidyapith.com ISSN (Online): 3048-7331

Research Vidyapith International Multidisciplinary Journal

(An Open Access, Peer-reviewed & Refereed Journal)

(Multidisciplinary, Monthly, Multilanguage)

*** Vol-1* *Issue-2* *September 2024***

Monetary System during British Rule: A Historical Study

Dr. Sanjay Kumar Sahni

Assistant Professor, Department of History, Sub Divisional Government Degree College, Benipur

Abstract:

The monetary system during British rule in India underwent significant transformation, marking a major shift from the traditional indigenous practices to a modernized, colonial-controlled economy. This period witnessed the introduction of new currency standards, the establishment of monetary institutions, and systematic changes aimed at integrating the Indian economy with the global market. These reforms were not only economic but also served as tools of colonial dominance, allowing the British to consolidate their control over India's financial resources. To understand the changes brought by the British, it is essential to examine the pre-British monetary system and the subsequent transition that occurred under colonial rule. Through an analysis of archival documents, government records, and historical texts, this study traces the economic motivations behind British monetary policies and their long-term consequences on India's financial and trade systems. By examining the intersection of economics and colonialism, the research provides insights into how the British monetary system shaped India's economic landscape and set the stage for its post-independence financial policies. The findings of this research emphasize the profound impact of British monetary reforms on India's socio-economic structure, including the disruption of traditional commerce, the devaluation of Indian industries, and the creation of financial dependency. The study concludes by reflecting on the legacy of the British monetary system in contemporary Indian economics and its lasting effects on the country's development trajectory.

Keywords: British rule, monetary system, colonial economy, Reserve Bank of India, financial reforms, economic exploitation, Indian economy, colonialism.

Introduction

Before British control, India had a complex and diverse monetary system, influenced by various regional rulers, dynasties, and kingdoms. The monetary practices were rooted in the socio-economic and cultural systems of different regions. Various forms of coinage were in circulation, primarily made of precious metals like gold, silver, and copper. The system was characterized by regional autonomy, where local rulers issued their own currencies. These coins bore the symbols and names of the issuing kingdoms, which varied across different regions of India. During the Mughal Empire (16th-18th century), India had a relatively unified monetary system. The Mughals introduced a standardized silver currency known as the "Rupee," which was widely accepted across the empire. Under Emperor Akbar, the silver rupee became the standard unit of currency, and its consistent weight and purity made it a trusted medium of exchange. However, even under Mughal rule, local variations in coinage continued to exist in princely states and smaller regional economies. Trade and commerce flourished under this system, as the currency was widely recognized in India and beyond, particularly in regions involved in international trade, such as the Persian Gulf and Southeast Asia.

Despite the relative stability of the Mughal monetary system, the early modern period in India was also marked by a diversity of currencies. Alongside the rupee, other denominations such as "ashrafi" (gold coins) and "dam" (copper coins) were commonly used. This pluralistic system worked efficiently within the traditional agrarian economy, facilitating local and international trade. The transition of India's monetary system began with the gradual expansion of British East India Company's influence in the 18th century. The British saw controlling the currency as essential for exerting economic dominance over India. As they gained administrative control over Bengal following the Battle of Plassey in 1757, the British started introducing reforms to standardize the monetary system according to their needs.

One of the major steps was the introduction of the silver rupee as the official currency of India, replacing the diverse coinage systems of various princely states. By 1835, the British had successfully standardized the rupee, fixing its weight and purity, and declared it the only legal tender in British-controlled territories. The British silver rupee was based on the model of the Mughal rupee but was redesigned to reflect colonial authority, bearing inscriptions in English and native Indian languages. The British also established institutions like the Presidency Banks (later merged into the Imperial Bank of India) to regulate and control currency circulation. In 1861, the Indian Paper Currency Act was passed, which introduced paper currency alongside metal coins. This marked a significant shift in the monetary system, as paper currency provided more control over the money supply and allowed the British to further integrate India's economy into the global financial system.

The imposition of the gold-exchange standard in the late 19th century further deepened British control over India's economy. The value of the Indian rupee was tied to gold, which meant that its value fluctuated in response to global gold prices. This policy, while stabilizing India's currency in international trade, also made the Indian economy highly dependent on British monetary policy and global economic trends. The transformation of India's monetary system under British rule was not just an economic adjustment but a tool of colonial exploitation. By controlling the currency and establishing monetary policies that favored British economic interests, the colonial administration was able to extract wealth from India, devalue local industries, and create financial dependency. This transition disrupted the traditional economic structures and had long-lasting effects on the Indian economy, which persisted even after independence.

Role of the East India Company in Shaping the Monetary System-

The East India Company played a pivotal role in transforming India's traditional monetary system into a centralized structure aligned with British colonial interests. As the company gradually expanded its control over Indian territories, it imposed changes that affected both trade and currency, consolidating its power over India's economy. From the early 17th century, the East India Company was granted exclusive trading rights by the British Crown, allowing it to dominate trade between India and Europe. This monopoly enabled the company to control not only the flow of goods but also the circulation of currency within its territories. The company's monopoly extended to the minting of coins, as it began issuing its own currency to facilitate trade and taxation in the regions under its control.

One of the key objectives of the East India Company was to standardize the monetary system to make trade more efficient. As the company gained administrative control of Bengal after the Battle of Plassey in 1757, it began minting coins in its own name. These coins bore the symbols and insignia of the company, replacing the local coinage issued by regional rulers. The company also sought to consolidate its control by ensuring that only its currency was accepted for taxation and trade within its domains. By exercising this control, the East India Company effectively eliminated competition and reinforced its economic dominance. The British government, in turn, supported these policies as they aligned with imperial goals of exploiting India's resources for the benefit of the British economy. The company's monopoly over trade and currency not only increased its profits but also facilitated the extraction of wealth from India through mechanisms such as revenue collection, trade tariffs, and monopolistic control of exports like cotton, indigo, and opium.

The East India Company's efforts to standardize currency had a profound impact on the regional economies of India. Before the company's intervention, India had a diverse monetary system, with each region minting its own coins. These currencies reflected local economic conditions, traditions, and trade networks, allowing regional economies to function autonomously. The introduction of the company's standardized currency system disrupted this diversity. Local rulers who had previously issued their own coinage lost the authority to control monetary policies within their regions. The company's currency, particularly the silver rupee, became the dominant form of exchange, displacing the regional coinage. This centralization of currency not only marginalized the influence of local rulers but also integrated India's economy more tightly with British-controlled trade networks.

Furthermore, the company's control over currency and minting enabled it to manipulate exchange rates to its advantage, weakening local economies. By devaluing regional currencies and replacing them with the company's standardized silver rupees, the East India Company consolidated its control over both trade and taxation. The imposition of a uniform currency also facilitated the company's extractive policies, enabling it to collect revenue more efficiently while minimizing the potential for regional resistance.

Monetary System during British rule-

After the establishment of the rule of the British East India Company, in 1806 the company recognized the silver rupee of the Mughal period as the standard coin. But in different parts of the country, rupees of different weights and purity of metal were minted and circulated in the mints. To establish a uniform system of coins in the British area under the East India Company, a law was made in 1835 and the rupee was made the standard coin. At this time, the rupee was a silver coin which weighed 150 particles (one tola system) and whose purity was 11/12th, i.e. in which the proof of pure silver was 165 particles. By the law of 1835, the rupee was declared the only legal tender (government currency) in all the areas of the East India Company. With this law, the silver standard started in the currency system in the country, which remained in practice till about 1893. Apart from this, gold coin (Muhur) and copper coin were also in vogue. The ratio of 1.15 was fixed for exchange between Muhur and Rupee. One gold Muhur was considered to be equivalent to 15 Rupees. At this time, the weight of a rupee coin was considered to be 1 tola. 11/12th of it was pure silver, the remaining part was a mixture of other metals. Gold standard was implemented in the whole of India in the period from 1893 to 1899. That gold exchange standard was maintained from 1899 to 1916. This gold standard was broken during the First World War. But it was reestablished in the period from 1916-25. Gold exchange standard was maintained from 1925 to 1931. After this, sterling exchange standard was maintained from 1931 to 1947. In the long period from 1806 to 1947, there was only one currency system in British India. This led to the growth of internal and foreign trade, fiscal integration, and development of modern banking system and promotion of all types of financial and commercial transactions. Such good development of the market took place due to the unified currency system.

In 1861, the Paper Currency Act was passed. Under this, paper currency (notes) was recognized and paper notes were printed in denominations of 10, 20, 50, 100, 500, 1000 and 10,000 rupees. Gold or silver reserves were kept safe behind these notes. At this time, notes were used less than silver coins because notes were only of 10 rupees and above, so in 1891, a five rupee note was issued. Indian currency was affected during the First World War (1914-19). At the beginning of the war, due to continuous defeat of Britain, the public was losing faith in the British government and the paper currency of that time. Therefore, many people got their currency converted into coins and silver and gold. Some people even started withdrawing their money from banks. But when Britain and the Allied nations started winning the war, the public's faith in the government was restored and the circulation of paper currency increased again. Meanwhile, the value of silver also increased. Now Rupee, Athanni, Chavanni, Dojto, Ekanna and Paise were suitable for buying and selling. One Rupee had sixty-four paise, one Anna had four paise, two Anna had eight, four Anna had sixteen and eight Anna had thirty-two paise.

India was a country under the rule of Britain. Therefore, when Britain abandoned the Gold Standard in 1931, the value of Rupee was stopped in India too in terms of gold. Now the value of Rupee was started to be measured in Britain's currency Pound Sterling. This situation continued till February 1947. Under this, Rupee was linked to Pound Sterling and the exchange value of one Rupee was linked at the rate of 1 Shilling 6 Paise. Rupees were bought and sold at this rate for foreign trade. Reserve Bank of India was established in 1935. It was made the main and central bank of the country. This bank was given the right to print the notes of the country and this bank will issue the notes for circulation. Till now the work of printing and circulation of notes was done by the Government of India.

During the Second World War, the public's faith in the British government was shaken. Due to this, many people converted their paper notes into rupees and gold-silver. This created a huge shortage of silver rupees in the country. To overcome this, the government increased the circulation of one rupee notes by printing them more and more. To improve the situation and increase the public's faith in the credibility of the government, the Reserve Bank of India issued two rupee notes in large numbers. Due to the circulation of more paper notes, the chaos of trade due to the war, the shortage of goods, the increasing demand of various essential commodities due to the war, the hoarding and profiteering of essential commodities by the business class, the prices of food grains and other commodities.

The Role of Banks and Financial Institutions

The establishment of banks and financial institutions during British rule played a pivotal role in transforming India's monetary system and integrating it into the global economy. These institutions not only facilitated trade and economic expansion but also enabled the British to exercise greater control over India's financial resources. The development of banking infrastructure laid the foundation for the financial systems that would continue to evolve post-independence. The early stages of British colonization in India saw the rise of several British banks, which were established to serve the commercial and economic interests of the East India Company and British traders. The primary function of these banks was to support British economic activities by facilitating credit, managing trade transactions, and enabling remittances between India and Britain.

One of the first British banks in India was the Bank of Hindostan, established in 1770 in Calcutta (now Kolkata). This was followed by the formation of the General Bank of India in 1786 and the Bengal Bank in 1784. These early banks were primarily geared towards British merchants and functioned as instruments of the colonial economic framework. Their operations were centered on providing financial services to British businesses engaged in trade with India, and they had limited interactions with the Indian populace. A significant milestone in Indian banking history was the establishment of the Presidency Banks—the Bank of Calcutta (1806), later renamed the Bank of Bengal; the Bank of Bombay (1840); and the Bank of Madras (1843). These banks were established by the British government and operated under a charter granted by the East India Company. The Presidency Banks played a key role in managing government funds, facilitating public borrowing, and providing credit to British companies. Although their primary focus was on serving British interests, these banks gradually expanded their services to local merchants and Indian elites, contributing to the development of India's commercial banking sector.

The establishment of the Reserve Bank of India (RBI) in 1935 marked a turning point in India's financial history, but its precursors—such as the Presidency Banks and the Imperial Bank of India—had already laid the groundwork for centralized financial control during British rule. The Imperial Bank of India, formed in 1921 through the amalgamation of the three Presidency Banks, was a major financial institution responsible for managing government accounts and issuing currency under the supervision of the British government. The Reserve Bank of India, modeled after the Bank of England, was created as an independent central bank to regulate the Indian financial system. One of its key functions was to control the issuance of currency, which had previously been handled by the Imperial Bank. The RBI was also tasked with managing India's foreign exchange reserves, ensuring monetary stability, and overseeing the banking sector. Although the RBI was technically an autonomous institution, it operated under the direction of British policymakers, aligning India's monetary policy with the economic interests of the British Empire.

Impact of the British Monetary System on Indian Society

The introduction of the British monetary system in India had farreaching consequences on various aspects of Indian society, particularly local economies, trade practices, agriculture, and the industrial sectors. The shift from traditional coinage to a standardized currency under British rule reshaped economic practices, altered the social fabric, and facilitated the exploitation of Indian resources for the benefit of the British Empire. Before the advent of British rule, local economies in India were largely self-sufficient, with trade being conducted using a variety of locally minted coins and barter systems. Each region had its own currency system, which was tailored to local needs and practices. The British introduction of a standardized silver rupee, enforced by the Coinage Act of 1835, disrupted these traditional monetary systems. The British currency became the only legal tender in most parts of the country, gradually replacing the diverse regional currencies and barter systems that had supported local trade.

The standardization of currency facilitated greater integration of local economies into the colonial framework, but it also led to the exploitation of local resources for imperial gain. Trade practices that had once been based on local needs were now driven by the demands of the global market, controlled by the British. The introduction of a centralized currency system made it easier for the British to impose taxes and tariffs, often burdening local traders and small businesses. The new monetary policies favored British merchants and larger colonial enterprises, leaving indigenous traders at a disadvantage. Local economies became increasingly dependent on British financial institutions, and the flow of wealth was directed towards Britain. The erosion of indigenous monetary systems weakened the economic autonomy of regional economies, creating a dependency on British-controlled markets and trade networks. The British monetary system also had profound implications for India's agricultural and industrial sectors. One of the key changes was the shift from subsistence farming to cash crop agriculture, driven by the need to generate revenue for the British administration. Peasants and farmers were forced to sell their crops for silver rupees, which were then used to pay taxes to the colonial government. This shift disrupted traditional agricultural practices, as farmers were compelled to grow cash crops like cotton, indigo, and opium, rather than food crops, to meet the demands of British trade.

The British monetary policies led to the commercialization of agriculture, which increased the vulnerability of the rural population. When agricultural prices fell or harvests failed, farmers faced severe economic hardship, as they were unable to pay their taxes or purchase necessary goods. The monetization of agriculture also exacerbated social inequalities, as wealthy landlords and British-backed commercial enterprises prospered at the expense of small farmers. In the industrial sector, the British monetary system facilitated the flow of Indian raw materials, particularly cotton and jute, to British factories. India became a supplier of raw materials for British industries while being a market for finished goods manufactured in Britain. This colonial economic structure stifled the growth of indigenous industries, particularly traditional handloom weaving, which struggled to compete with cheap British imports. The devaluation of local industries and the rise of British-controlled manufacturing contributed to the economic subjugation of India during the colonial period.

Cultural and Social Impact of the British Monetary System

The introduction of the British monetary system in India during colonial rule had profound cultural and social consequences. The standardized currency system, which replaced local coinage and traditional forms of exchange, fundamentally altered the way Indian society perceived money, trade, and commerce. These changes not only impacted economic transactions but also had a deep influence on social relations, attitudes towards wealth, and traditional cultural practices. Before the British introduced their standardized monetary system, Indian society operated within a framework of diverse currencies, local trade networks, and traditional economic practices. For many Indians, particularly those in rural areas, money was not the primary medium of exchange. Barter systems and locally minted coins were common, and economic transactions were often based on trust and community relationships rather than standardized currency.

The British introduction of the rupee as the sole legal tender, alongside the expansion of British-controlled trade networks, gradually transformed Indian attitudes towards money. The monetization of trade and taxation led to an increased reliance on cash transactions, even in rural areas where barter had previously dominated. With the imposition of taxes to be paid in rupees, rural populations were forced to engage more with the formal economy, growing cash crops or seeking wage labor to meet the new financial demands. As a result, wealth accumulation in the form of British currency began to gain greater importance in Indian society. The shift from traditional forms of wealth—such as land or goods—to cash created new social dynamics, as those who had access to British currency, such as traders, landowners, and intermediaries, gained social status. This shift also impacted perceptions of trade, as commercial activities previously seen as supplementary to agrarian life became more central to economic survival. The British monetary system also had a significant impact on traditional forms of exchange, particularly the barter system, which had been the primary mode of transaction in many rural and tribal areas of India. The barter system allowed communities to trade goods and services without the need for a standard currency. This system was based on mutual trust and a shared understanding of the value of goods, fostering a sense of community and cooperation.

With the British imposition of a standardized monetary system, the barter system began to decline. The introduction of cash as the dominant medium of exchange disrupted these traditional practices, as the British required taxes and trade transactions to be conducted in rupees. Local economies that had operated independently of currency were now integrated into the larger colonial economy, which prioritized cash-based transactions. The decline of the barter system also meant that traditional social bonds built around mutual exchange weakened, as individuals became more economically dependent on market-driven cash transactions.

The transition to a cash economy also affected local crafts and artisanal production, as many of these products were traditionally exchanged through barter. The decline of barter and the increasing demand for cash limited the market for these goods, pushing many artisans and craftsmen into poverty or forcing them to adopt new forms of wage labor. In conclusion, the British monetary system significantly reshaped Indian society by altering the traditional understanding of wealth, trade, and exchange. It not only facilitated economic exploitation but also led to a transformation in social values, fostering a culture where cash and commerce took precedence over traditional communal practices.

Conclusion

The introduction of the British monetary system during colonial rule had a profound and lasting impact on India's economy, society, and political landscape. The British reshaped India's traditional and diverse monetary systems into a standardized currency based on the silver rupee, integrating India into the global economic framework primarily for the benefit of the British Empire. This transformation facilitated British control over trade, taxation, and the flow of resources, enabling the extraction of wealth from India and consolidating colonial dominance. One of the most significant consequences of the British monetary policies was the erosion of regional economies and traditional barter systems. The shift to a cash economy and the imposition of taxes payable in rupees forced rural populations to grow cash crops and engage with the formal economy, often to the detriment of traditional livelihoods. The devaluation of the rupee, the shift to the gold-exchange standard, and the impact of global economic crises, such as the Great Depression, further deepened India's economic dependency on British financial interests. Local industries suffered due to competition from British imports, leading to the decline of traditional handicrafts and economic practices.

The British monetary system also played a critical role in transforming social structures, as wealth accumulation in the form of currency became a marker of social status. Those who adapted to the new economic conditions—merchants, intermediaries, and landlords—gained power, while many others, particularly in rural areas, faced increased poverty and disenfranchisement. In conclusion, the British monetary system was not merely an economic reform but a tool for colonial control and exploitation. Its introduction led to the reorganization of India's economy, weakening traditional systems and paving the way for the integration of India into a global imperial economy. The legacies of these changes, including economic inequality and the decline of local industries, continued to shape India's economic landscape long after the end of British rule.

References

1. Kumar, R. (2018). Monetary Policies during British Rule in India. Rajkamal Publications, New Delhi, p. 60.
2. Sharma, A. (2020). Economic Exploitation through Currency Control. Pragati Publications, Lucknow, p. 115.
3. Tiwari, P. (2017). Political and Economic History of Modern India. Bharti Publications, Jabalpur, p. 25.
4. Singh, P. (2017). Currency and Empire: The British Financial System in India. Vikas Publishing House, New Delhi, p. 75.
5. Metcalf, B. D., & Metcalf, T. R. (2012). A concise history of modern India (3rd ed.). Cambridge University Press.
6. Gupta, S. (2019). The Impact of Currency Standardization in British India. Indian Journal of Economic History, 17(2), 40-41.
7. Das, P. (2021). The British Monetary System and Its Legacy in India. Arya Publications, Jaipur, p. 180.
8. Kumar, M. (2018). Currency Reforms and Indian Trade under British Rule. Atlantic Publishers, New Delhi, p. 105.
9. Sinha, B. (2016). Economic History of Modern India: From Colonial Exploitation to Economic Growth. Rawat Publications, Jaipur,p. 13.
10. Dubey, P. (2014). Economic Policies in Colonial India: An Analytical Study. MP Granth Academy, Bhopal, p. 179.
11. Singh, R. (2020). The Evolution of the Rupee during British Rule. Journal of Colonial Economic History, 16(1), 55-56.
12. Patel, S. (2017). *Economic Policies of British India: Focus on Currency*. Education Publishers, New Delhi, p. 95.
13. Saxena, N. (2020). India's Independence and After: A Historical Study. Raj Publications, Jaipur, p. 121.

Cite this Article-

Dr. Sanjay Kumar Sahni, "Monetary System during British Rule: A Historical Study", Research Vidyapith International Multidisciplinary Journal (RVIMJ), ISSN: 3048-7331 (Online), Volume:1, Issue:2, September 2024.

Journal URL- https://www.researchvidyapith.com/

DOI- 10.70650/rvimj.2024v1i2005

Published Date- 06 September 2024