

Direct Versus Indirect Colonial Rule in India: Long-Term Consequences with Special Reference in Tamil Nadu

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ABSTRACT

This paper compares economic outcomes across areas in India that were under direct British colonial rule with areas that were under indirect colonial rule. Controlling for selective annexation using a specific policy rule, I find that areas that experienced direct rule have significantly lower levels of access to schools, health centers, and roads in the postcolonial period. I find evidence that the quality of governance in the colonial period has a significant and persistent effect on postcolonial outcomes.

KEYWORDS: *The Doctrine of Lapse, the direct influence, olitically aware Indians British. Rule*

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INTRODUCTION

Whether the experience of colonial rule has had a long-term impact on economic development is a topic that has generated considerable debate. Several scholars have emphasized the negative effects of colonial rule on development; citing factors such as excessive exploitation of colonies, drain of resources, or the growth of a dependency complex. Others emphasize the positive role of colonial empires in securing peace and external defense and encouraging international trade and capital movements. Some authors also hold the view that resource endowments or area characteristics are the major determining forces of long-term outcomes and that colonial rule plays only a minor part part. I examine the colonial experience of one country, India, and compare the long-term outcomes of areas that were under direct British colonial rule with those that were under indirect colonial rule. Indirect rule in this context refers to those areas of India that were under the

administration of Indian kings rather than the British Crown; these were known as the native states or the princely states. The defense and foreign policies of these native states were completely controlled by the British during the colonial period, but they enjoyed considerable autonomy in matters of internal administration. After the end of colonial rule in 1947, all of these areas were integrated into independent India and have since been subject to a uniform administrative, legal, and political structure. The analysis in this paper therefore cannot answer the question of what outcomes would have been like in the complete absence of colonial rule, but it does illustrate the persistent effects of different degrees of colonial rule. The major issue in such a comparison is, of course, the problem of selection. It is unlikely that the British randomly annexed areas for direct colonial rule. I am able to solve the selection problem by taking advantage of a unique feature of British

annexation policy in India. Between 1848 and 1856, the British governor-general, Lord Dalhousie, implemented the notorious Doctrine of Lapse, under which he refused to recognize adopted heirs and annexed several native states where the ruler died without a natural heir. This policy enables me to use the death of a ruler without an heir in the specific period of 1848 to 1856 as an instrument for becoming part of the British Empire, and thus coming under direct colonial rule. The identifying assumption here is that the death of a ruler without an heir, in this specific period of time, is likely to be a matter of circumstance and unlikely to have a direct impact on outcomes in the postcolonial period. I find that the directly ruled British areas have significantly lower availability of public goods such as schools, health centers, and roads in the postcolonial period and are not significantly better off in terms of agricultural investments and productivity. These instrumental variable estimates, which control for selective annexation, contrast sharply with OLS results that show directly ruled British areas having significantly higher agricultural investments and productivity. This suggests strongly that the British annexed areas with the greatest agricultural potential, but did not invest as much as native states did in physical and human capital. This underinvestment is costly for development: directly ruled areas have higher levels of poverty and infant mortality in the postcolonial period. I perform several robustness checks for my instrumental variable strategy to verify that the fact of a ruler dying without a natural heir does not have an independent effect on long-term outcomes. In particular, I conduct a falsification exercise and consider deaths of rulers without natural heirs in a different period when the Doctrine of Lapse had been officially abandoned by the British (so that death.

British India and the Native States

The British Empire in the Indian subcontinent lasted nearly 200 years. Beginning in 1757, all the areas of present-day India, Pakistan, Bangladesh, and Burma were brought under British political control by the middle of the nineteenth century. Of this area, “British India” was defined as “all territories and places within Her Majesty’s dominions which are for the time being governed by Her Majesty through the Governor-General of India.”¹ The remaining areas were referred to as the “native states” or the “princely states” by the colonial government and were ruled by hereditary kings.² I will use the term native states throughout the paper. About 680 native states were recognized by the Foreign Office in 1910. Native states constituted about 45% of the total area of British India (excluding Burma and Sind) and about 23% of the total population in 1911. The map in

figure 1 shows the geographical distribution of native states. We see that native states were present in all parts of India, with somewhat higher concentrations in the western and central parts of the country. Native states varied considerably in all dimensions. Some consisted of only a few villages, while the largest native state, Hyderabad, had an area of 98,000 square miles. They had varying degrees of legal autonomy, from “first-class states,” which had maximum legal powers (including that of the death penalty over their own subjects, though not over British subjects), to “third-class states,” which could only try civil cases involving small sums of money. Native states also varied considerably with regard to their systems of administration and revenue collection, their currency, legal codes, law enforcement, and justice systems. Over time, some states adopted the legal codes and currency prevailing in British India. The British usually did not force them to do so but waited instead for “the willing cooperation of the Native princes.” The majority of rulers were Hindu kings, though there were several Muslim and Sikh rulers as well.

British Policy toward the Native States

The British did not bring the whole Indian subcontinent under direct colonial rule mainly because of a major policy change in the nineteenth century. After the Sepoy mutiny of 1857, the British stopped all further annexation of native states into the British Empire. British policy toward the native states underwent considerable changes over time, from the policy of the ring fence (1765–1818), to that of subordinate isolation (1818–1858), to that of nonannexation with the right of intervention (1858–1947). territories were also ceded or granted to the British by native rulers, usually for nonpayment of debts or tribute.

Subordinate Isolation

In 1817–1818, after winning a series of battles in central India, the British emerged as the dominant political power in the subcontinent. The East India Company now followed the policy of subordinate isolation: all native states were made politically subordinate to the British and accepted the British as the “paramount power” in India. They could not declare war, establish relations with other states, or employ Europeans without explicit British permission. Many of them signed treaties with the British that regulated the size of their armed forces, and several native states had British forces stationed within their territory. Most of the native states also had annual tribute obligations to the British government (or in some cases to another native state): for the native states in our data set, the tribute varied from 0 to 28% of state revenue. However, they were

allowed considerable autonomy in internal matters unless they had specific treaty provisions. Between 1818 and 1848, the East India Company continued annexing territory by various means. The pace of British annexation picked up considerably after Lord Dalhousie became governor-general in 1848. In addition to fighting the second Sikh war in Punjab, Lord Dalhousie also annexed areas by taking over territories due to nonpayment of debts (Berar), accusing the native rulers of “misrule” (Oudh), and, most controversial, refusing to recognize adoptions and annexing areas where the native ruler died without a natural heir (the so-called policy of lapse).

End of Annexation

In 1857, Indian soldiers in the British army mutinied against their officers. The causes of this Sepoy mutiny are not very clear, and historians disagree as to whether it was a planned war of independence against British power or an uncoordinated uprising of soldiers who felt a threat to their religion and traditional practices or simply a mutiny by soldiers who wanted increased pay and greater career opportunities. After some initial reverses, the British rallied and were able to suppress the mutiny by the end of 1858. After this major shock to British power, the administration of India was taken over by the British Crown from the East India Company in 1858. Many native states had aided the British during the mutiny by supplying troops and equipment or by defending the Europeans within their territory. As a recognition of this, plans of further annexation were given up, with the queen’s proclamation of 1858 stating specifically, “We desire no extension of our present territorial possessions.” Thus, the areas that had not been annexed until 1858 continued to be native states until the end of British rule in 1947. Although the British gave up outright annexation of territory, they reserved the right to intervene in the internal affairs of native states “to set right such serious abuses in a Native Government as may threaten any part of the country with anarchy or disturbance.” They exercised this right in several native states, often by deposing the ruler and installing another in his place (usually a son, brother, cousin, or adopted heir) or by appointing a British administrator or council of regency for some time before allowing the king to take up ruling powers again.

Native States in Independent India

When the British left India in 1947, all native states signed treaties of accession to the newly independent nations of India or Pakistan, sometimes under the threat of military action. By 1950, all of the native states within the borders of India had been integrated

into independent India and were subject to the same administrative, legal, and political systems as those of the erstwhile British Indian areas. The rulers of these states were no longer sovereign rulers, but many of them continued to play an active role in the politics of post-independence India. They were granted annual incomes, referred to as privy purses, by the Indian government as partial compensation for their loss of state revenue, but this privilege, along with all other princely honors, was discontinued in 1971.

Does the Period of Annexation Matter?

Places that came under direct British rule are likely to be systematically different from places that did not. This is likely to be of greater significance for early annexations, since they were mainly annexed by conquest, for which the British had to expend considerable resources. As a first step toward controlling for this selectivity in annexation, I compare areas that were annexed by the British toward the end of the annexation period with those that were never annexed. In this period, many of the annexations were not by conquest, and hence the selection bias is likely to be smaller than in the full sample. I find that the directly ruled areas no longer have any significant agricultural advantages and continue to have slightly lower levels of public goods provision. This suggests that selection bias is likely to be a major confounding factor. I now construct instrumental variable estimates as a more precise way to control for the selectivity in annexation.

Doctrine of Lapse

Lord Dalhousie, governor-general of India from 1848 to 1856, articulated an unusual policy of annexation in 1848: “I hold that on all occasions where heirs natural shall fail, the territory should be made to lapse and adoption should not be permitted, excepting in those cases in which some strong political reason may render it expedient to depart from this general rule.” He used this policy to annex several states where Indian rulers died without a natural heir. Eight native states (comprising twenty modern districts) had rulers die without a natural heir during the governorship of Lord Dalhousie. Of these, four native states (Satara, Sambalpur, Jhansi, and Nagpur), comprising sixteen districts, were successfully annexed. The other four did not become part of the British Empire due to various reasons: the annexation of Ajaigarh was reversed by Dalhousie’s successor, Lord Canning; the annexation of Karauli was disallowed by the East India Company’s court of directors; Orcha was allowed to adopt an heir because of a prior agreement; and in Chhatarpur, a nephew of the king, was allowed to succeed.¹⁵ We should note that in each of these cases, Lord Dalhousie recommended

applying the policy of lapse, so the fact that these areas were ultimately not annexed was not a result of Dalhousie's selectively applying the policy of lapse but of factors beyond his control. Lord Dalhousie's policy was in contrast to the policies followed by several earlier British administrators who recognized adoptions by native rulers. In fact, rulers dying without natural heirs was not an unusual occurrence during this century. For instance, table 5 shows that in the period 1835 to 1847 (immediately before Dalhousie came to India), fifteen rulers died without natural heirs, but only one of these states was annexed. This meant that Dalhousie's policy was an unexpected event for the native states; not surprisingly, it was extremely unpopular among the native rulers. This policy was withdrawn when the British Crown took over the administration in 1858; in fact, official documents guaranteeing British recognition of adopted heirs were sent out to native rulers to reassure them against any future doctrines of lapse. This lends greater validity to our identifying assumption that the policy of lapse provides an exogenous determinant of British annexation, since the death of a ruler without a natural heir in the specific period 1848 to 1856 is likely to be a matter of circumstance rather than caused by systematic factors that might also affect long-term outcomes.

Conclusion

In this paper, I use an unusual feature of British annexation policy to compare long-run outcomes of areas in India that were under direct British colonial rule with areas ruled by local kings under the indirect political control of the British. The annexation of areas where the local ruler died without a natural heir provides an exogenous determinant of whether an area came under direct British rule and therefore controls effectively for the selectivity in colonial annexation policy. The instrumental variable results indicate that directly ruled areas lag behind the availability of public goods such as schools, health facilities, and roads in the postcolonial period, with adverse consequences for development outcomes such as poverty and infant mortality rates. The study highlights three key features relevant to understanding the impacts of history. First, colonial annexation policy was indeed very selective and tended to focus on areas with higher agricultural potential. This needs to be kept in mind for any future research on the impact of colonial policies and institutions. Second, indicators of the quality of governance in the colonial period have persistent effects on long-term outcomes. In particular, the effect of direct versus indirect rule depends crucially on the incentives that local administrators faced. For India, the indirect rule exercised by landlords within

the British Empire leads to worse outcomes, while the indirect rule exercised by hereditary kings results in better outcomes. The key difference is that kings were explicitly subject to being removed in cases of gross misrule, while landlords did not have this institutional constraint. Third, the impact of colonial period governance becomes more muted over the longer term in the fact of explicit postcolonial policies designed to equalize access to schools, health centers, and roads. It is therefore possible to undo the effects of historical circumstances, though the results in this paper indicate that this process can take several decades.

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