

Chapter-2

Economic History of Bhutan

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2.1: Periodization of History

Periodization of history is essential for a logically convenient and chronologically better understanding of the past and the present. Evidence from historical literature shows that the so-called periodization is a common practice in order to distinguish between different socio-cultural, political and economic attributes under distinct chronological time periods. It is a general practice to divide the history of a country into three distinct periods- Ancient, Medieval and Modern, each period covering separate time periods. Following the same methodology, history of Bhutan is also divided into Ancient, Medieval and Modern. It is to be noted that periodization of Bhutanese history does not tally with that of other countries. It is accepted that modern Bhutan emerged in the 1960s following Jawahar Lal Nehru's visit and inception of planned development¹, while in other neighbouring countries like India it began centuries earlier.

One important phase of Bhutan's history started in 1625 when Sabdrung Namgayal unified the country and brought it under a single authority. The history of pre-Sabgrung Bhutan is full of legends and myths and no reliable or authentic documents are available for the concerned period, which has been termed as Ancient history ensued from the 5th or 6th century A.D. According to the oldest Bhutanese chronicles, no formal religion and government, administration and taxation, castism and mutual interests existed in Ancient Bhutan. Self-sufficient village communities were governed by the villages heads without any communication, market transactions and education facilities. Healing of diseases through exorcism, an extreme form of superstition was the only way of fighting diseases. Households were self-sufficient, but petty transactions were prevalent at the household level where people lived by themselves without any wider interests. Social patterns were more or less similar in the central and western Bhutan dominated by Drukpa communities².

Since the formation of dual government based on absolute theocracy in the early seventeenth century, a feudalistic social structure evolved in Bhutan. Under the theocracy, religious head of the government was

Dharma Raja himself, relying totally on Dev Raja for material prosperity. Even under the theocracy, welfare of the people was seen as a principal task of the government. Rapacity of the government officials was a major cause of human sufferings under the theocracy. As a result, Bhutan Law Code-1729 was passed for the welfare of its people through the control of official corruption and promotion of human harmony and prosperity³. This type of political system continued up to 1907 when hereditary monarchy was formed. Over the first half of the twentieth century, no remarkable socio-economic changes were noticeable under the hereditary monarchs. However, various socio-economic modernization initiatives were proposed, which were hardly achieved in the early phase of the monarchy. Pre-conditions for evolving into a take-off stage under plan development were embodied only during the second hereditary king Jigme Wangchuck (1926-1952). However, the real process of modernization and development in Bhutan commenced in the early 1960s. Thus, feudalistic socio-economic pattern and isolationism lasted in Bhutan up to 1960. This period (1625-1960 A.D.) may be recognized as the medieval period of Bhutan.

Modern Bhutan implies post 1960 Bhutan because substantial institutional, political and economic upgradation process began in this period. Bhutan's social economy has changed from a feudal, religiously inspired, isolated, barter economy to a modern, development oriented, open and money using economy. Major landmark socio-political change under modern Bhutan is the implementation of a multi-party democracy in 2008 and forthcoming membership in WTO.

2.2: Economic History of Medieval Bhutan

Since not much is known about the economic structure of ancient Bhutan, we begin our discussion with medieval Bhutan only. Major issues of this section are Bhutan's demographic profile, basic structure of the economy and nature of external trade during the medieval period.

Population

Despite the fact that South Asia is an epicentre of world population with high population density and population growth, Bhutan is a sparsely populated country. This was so in medieval period as well. Population in Bhutan was restricted by adverse geographical factors like dense mountainous forests, sub-tropical climatic conditions, landlockness, isolation from the outside world as well as economic backwardness. Frequent invasions of Tibet, immigrations from the neighbouring countries like Assam and Nepal hardly affected the population size of Medieval Bhutan. However, the immigration process is a significant factor for the change in ethnic composition of its population.

Due to the absence of systematic census, population estimation was impossible for medieval Bhutan. However, the enthronement (1747) record of Zhabdrung Jigme Dragpa I, the second Dharma Raja of Bhutan, is the sole surviving census of medieval Bhutan⁴. The Chinese estimate of population in Bhutan is another estimate of the time. The estimates of the concerned records have been shown in Table-2.1.

Table-2.1: Demographic Profile of Bhutan During the Medieval Period.

YEAR	1747	1796*	1831**
Tax paying household	27,123	40,000	60,000
Tax paying population	217,784	250,000	375,000
Total population	261,340	312,500	468,750

Source: 1747 enthronement record of Zhabgrung Jigme Dragpa-I (Adapted from J.Andrusi and K. Ura, *Journal of Bhutan Studies*, 2000). *Chinese estimate. **The estimate of 1831 has been mentioned as that of 1795. If we accept moderate growth of population, the estimate is more likely to be of 1831 when the document was written.

Table-2.1 shows that the population of Bhutan was 261,340 in the year 1747. The Chinese estimate recorded the population of Bhutan to be 312,500 in 1796 which increased to 468,750 in 1831⁵. The table vindicates that the growth rate of population was even and moderate over the period

1747-1831 and it doubled within this period. Assuming that the present area of the country was the same during that period, population density was 6/sq. km. Pemberton⁶ estimated that the population of Bhutan was 145000 at the time of his visit 1837. He himself confessed 'More minute investigation be found rather in excess'. Thus, Pemberton's estimation of Bhutan's population was a mere under estimation. He added that the density of population in the upper hills was 6/sq. miles, while it was 10/sq. miles in the duar plains. It is clearly identified that Bhutan's internal estimate, population estimates of the Chinese and that of Pemberton all are mutually consistent.

There are three dominant forces affecting the population growth of Bhutan-biological factors or in other words natural growth rate of population measured by the difference between the birth rate and the death rate, immigration from the neighbouring countries, as well as the capture of slaves from the duar plains adjacent to Bengal and Assam. According to the theories of demographic transition, growth rate of population in a pre-modern society remained low due to high birth rate accompanied by high death rate. In case of Bhutan, high death rate resulted from the lack of health care facilities resulting from extreme degree of economic backwardness as well as irresistible epidemics. Religious factors such as celibacy among the monks and the upper class government officials⁷ also curbed the growth rate of population. High birth rate was caused by the lack of education and the existing system of polygamy. Bhutan's internal forces were, therefore, suitable for moderate rate of population growth. As Bhutan moved towards modernization from the 1950s, death rate per thousand population began to fall. It has fallen from 39 in 1950 to 30.5 in 1960. During the same decade, life expectancy increased to 33.8 from 27.8 years.

Tibetans often invaded Bhutan and during their invasions, some invaders settled there permanently. Bhutanese elites were willing to marry Tibetan woman because they felt Tibetan women had some good qualities. This type of Tibetan settlements used to take place normally in the western

and northern part of Bhutan. Since the late nineteenth century, a large number of Nepalese immigrated into Bhutan⁸ for clearing forests and cultivating land. The process of Nepalese immigration continued throughout the twentieth century. The Nepalese settled mainly in the southern and south-western regions. A large number of Assamese also immigrated into Eastern Bhutan and settled there. However, population size of the country remained low due to environmental, biological and social factors.

Agriculture

Agriculture used to be the mainstay of Bhutanese people during the early seventeenth century. Rice, wheat, barley and fruits were the principal crops while animals were important product for the supply of milk, butter and flesh. However, the Bhutanese also used dried fish imported from Bengal and Assam because no fish was available domestically. Commercialization of agriculture was evidenced from the production of a large quantity of cash crops like fruits, cardamom, sugarcane and animals. The first hereditary king Ugien Wangchuk showed his firm willingness to introduce capitalistic farming system with plantation of tea in southern Bhutan. However, this policy was not successful due to the lack of required capital and rigid affinity to the traditional agricultural practices⁹.

During the early medieval period, two different types of farming- *Jhuming* and settled agriculture were practiced in Bhutan. Under the *Jhuming* system, plant leaves or timbers were burnt to ashes on the small sloping land or valleys due to the absence of suitable soil for cultivation. This was a temporary settlement for cultivating land only once or twice. For the time being, same pattern of settlements were made elsewhere¹⁰. In case of settled agriculture, sloping land of the mountain valleys was cut into terraces for making it suitable for cultivation of various crops. Simple implements like hoe or plough were drawn by the oxen or ponies directed by an individual. From the beginning of the 20th century, *Jhuming* was gradually replaced by settled agriculture. In this primitive type of

agricultural mechanization, a classical irrigation system was used. Pemberton¹¹ observed that hollowed trunks of timber and bamboos, supported by the cross sticks extended from villages to a distant fountain head of a mountain stream were used for irrigation purposes. Mechanization of agriculture was limited to this typical level.

There were neither any organized marketing system or transportation facilities, nor was there any public procurement or public distribution system. Crops were bartered between the households at the village level. A few weekly markets or annual fairs were the only organized markets for surplus agricultural products. Since it was subsistence agriculture, marketable surplus was very small, where the petty surplus was bartered for other commodities which were not produced domestically. During the late 18th century, commercial products like cardamom, turnips, chilies, wool, timber and animals were exported to annual fairs of neighboring countries like India and Bangladesh.

A substantial section of Bhutanese population had dual settlements- one in warm and the other in upper cold place. People owned patches of arable and grazing land both in temperate and subtropical areas¹². Regarding the institutional arrangements of land, three types of land ownership could be recognized- public, private and monastic. Huge plot of land was owned by the state and the state supported monasteries. Private ownership of land was granted to a few rural elites. These were cultivated under the share tenancy system¹³. Besides the ownership of land by the state, the monasteries and the private elites, there were community resources such as common grazing land and common forests which were property of the village communities. The villagers collectively used these common resources and used to pay taxes to the government collectively. This type of land relation in Bhutan resembles the Mahalwari land tenure system of contemporary India. Initially, government intervention on these resources was minimal, but for the time being, these resources were gradually collectivized.

In this feudal mode of production, rent was paid either in kind or in

labour where no record of cash rent was observed due to the absence of monetization of the economy. Wheat, rice, butter etc. were collected by the landlords as rents. In case of labour rent (*Chunidon*), a certain days of the week the tenants used to work in the landlord's land while rest of the days they worked in their own land allocated to them¹⁴. There was no security to tenure, where the tenants could be dismissed from the land anytime. Buying and selling of land was permitted for private land only. However, it was limited to large farmers lest they become marginalized.

There is some evidence of institutional changes in the land ownership system. Land reform measures were introduced as early as in 1625 by Sabdrung himself. In the land laws of the king, contentment of riots was taken care of. These minimal institutional changes marginally affected the existing land tenure system. The feudal mode of production continued up to 1952 when the third king Ugyen Wangchuk introduced effective land reform measures. The third king himself distributed his land to the landless people and the slaves for pioneering the land reforms¹⁵. During this period, there were important agricultural policy changes such as the liberalization of agricultural taxation and a few other institutional changes. Along with the institutional changes, technological changes were also given priority during this time. Studies were conducted for agricultural research and horticultural development.

Agricultural credit system was of exceptional character. It is difficult to distinguish the credit system into organized or unorganized categories. Although money lending was prohibited, the village headman by virtue of being wealthier and having proximity to the high level government officials, used to advance crop loans. The headmen accrued interest in kind several times in return. Theoretically, it is types of usuary with exorbitant rate of interest well practiced in most of the developing countries. Similar practice was recorded for the state and the monasteries. Through the *Jisa* mechanism, the state or the state supported monasteries lent to the cultivators, and in return collected several times more¹⁶. *Jisa* mechanism and the state lending activities may be treated as organized money lending,

under the existing theocratic socio-economic set up. As to loans advanced by the state, it is not clear whether the cash collected was a rent, tax or interest. Nevertheless, lending activities of the state and state supported monasteries can be categorized as organized credit system, while crop loans by village headman can be categorized as unorganized credit system for the prevailing bartered economic system.

Slavery and Feudalism

It is well recognized that there are variations in different countries concerning the formation and existence of feudalistic societies depending on distinct historical conditions. The elements of feudalism emerged with slave holding where the social system was based on the holding of landed properties¹⁷. Subsistence agriculture was only means of production under the feudal land relations where a small plot of land was allotted to the peasants for their own subsistence. In return, the landlords derived substantial labour services from the peasants. Theoretically, the landlords exploited surplus labour of the peasants as rents. This was the first kind of rents exploited by the landlords. In the second form of rent, rents in kind were also combined to the labour rents. The third and final form of feudal rent was rent in cash. Although clergies were endowed with landed properties, the supreme owner of land being the King of the time.

The same mode of production structure did exist in Russia and Europe as early as in the 5th century A.D. All the attributes of feudalistic socio-political structure existed in Bhutan since the 17th century A.D.¹⁸ Slavery system was very much practiced in Bhutan since that time. The slaves were basically captives from Assam and Bengal duars brought into by the invaders and the wealthier peasants. These slaves were employed for cultivating land, cleaning the monasteries and fetching water from a distance. Under three types of existing land tenure system in Bhutan, *drap* worked freely in their master's land in lieu of a small plot of land for their own subsistence. The *minap* had their own land or cultivated land of wealthier peasants, monasteries or other elites. They were indigenous. The

Zasen were pure slaves worked only for food and cloth¹⁹. The pure slaves constituted 10 percent of total population in the medieval Bhutan.

It is said that, Sabdrung Namgyal banned this trade for strengthening the master-slave relations. There was a general tendency among the slaves to escape to nearby India. This escape was nullified with the help of a moral form of exploitation. The males were forced into a connubial union through marriage with an inferior female slave of Bhutan, while a few female slaves of Bhutan were forced into marriage with inferior Bhutanese males²⁰. The inferiority of a man or a woman was perhaps judged by the social crimes they committed. As a result, an emotional relationship used to form among the members of the 'union'. This type of moral treatment against the slaves under feudal social structure is very rare in the world history.

Slavery system continued up to 1952 until Jigme Dorji Wangchuk, the third hereditary king of Bhutan came into power. The third king was the actual pioneer of modernization of Bhutan because he abandoned traditional beliefs and wanted to change the country in all respects. Under his regime, slavery and serfdom were completely abolished and declared illegal and the slaves mandatorily set free to become normal citizens of the country²¹. The king himself appointed several members of slave origin at high level government offices. The feudal mode of production was gradually replaced by the capitalist production structure.

Industry

Bhutanese economy was principally based on agro-pastoral activities during the early 17th century. Because industrialization is a late 18th century phenomenon that first occurred in England in 1770s, industrialization was in a nascent stage not only in Bhutan but all over the world. Whatever industries in Bhutan existed during that time were small-scale and cottage industries producing pottery, simple items of iron and brass, iron-needles, bow and arrows, brass utensils, coarse cotton cloths,

coloured blankets, leather goods, woolen cloth, shoes, belts, wine etc. Spear and arrow heads were manufactured from iron. Leather was tanned from hide of the buffaloes or bullocks for the manufacture of boots, leather pouches, sword-covers and belts. Potteries used to manufacture cooking utensils sold by the vendors in the castles and houses in the mountain valleys. Pemberton observed that excellent quality paper was manufactured from a particular variety of plant *Daphne Pappufera*. This paper was of good quality, extremely tough and unliable to the insects²². Earlier, during his visit in 1627 A.D, Cacella observed that the Bhutanese were adept in arts and sculpture. The second Deb Raja himself was expert in this field. He had opened a few schools for the training of artists and sculptors²³.

Construction was the main industrial activity during the second half of the 17th century. Construction activities were limited to construction of houses, mule tracks, suspension and wooden bridges, forts and monasteries. The forts and monasteries were constructed mainly for the administrative and security purposes. During that time, existing monasteries were adorned with bullions viz. gold, silver and sculpture. The nature of construction technique was labour-intensive in which family labour was generally used for these constructions. Similar pattern of industrialization continued all over the 18th century.

During the medieval period, the Bhutanese used various bamboo made implements mainly for domestic purposes, such as the implements for clearing rice from the husk²⁴. Bamboos were also used for construction of houses, suspension bridges and construction of traditional drainage system. During his visit, Griffith also observed flour mills run by water-power. Griffith stated that flour mills were made of two horizontal stones, the upper one being fixed in a vertical piston moved round over the lower one, where misplace of grains were supervised by an individual. There is further evidence that power-driven machines were used for manufacturing activities during the early 19th century. During his visit in 1837, Pemberton²⁵ noticed the use of flour grinding mills drawn by water. Instead

of husking paddy physically, husking machines were also used for extracting rice from paddy. According to him, these husking machines were not made in Bhutan, these were imported from Kolkata. *Chung* (liquor) was produced from rice.

Weaving was another industrial activity, generally performed by the women weavers. Income of the women weavers supplemented their family income. Good quality weaving products bore high social values, which were sometimes used as a store of value like gold and diamonds²⁶. It is noteworthy that despite the establishment of Anglo-Bhutan relations since 1774, Bhutan's arts and designs were not influenced by Indian arts and designs, rather those were influenced by the arts and designs of Tibet and China²⁷.

When the industrial policy in Bhutan underwent a major change in the early 20th century, the hereditary kings aspired the establishment of modern industries. In this regard, a few surveys had been conducted, particularly for the minerals and electricity generation. However, those aspirations did not take concrete shape due to the lack of monetization of the economy, absence of capitalistic production structure, shortage of human capital, lack of technical know-how, absence of surplus production and critical affinity towards traditional social order. Therefore, industries in medieval Bhutan remained in a nascent stage. As late as the 1950s, there was not a single modern and large-scale manufacturing industry in Bhutan and, as a result, it had to depend on imports for the use of manufacturing products from neighbouring countries like India. Here lies the basic root of the country participating in international trade, particularly with Tibet in the past and India at present.

Foreign Trade

Traditionally, Bhutan maintained substantial trade relations with Bengal, Tibet, Assam, Nepal and China. Bhutan's ancient trade was observed by Ralph Fitch, an English merchant traveler²⁸, who visited

Bhutan as early as in 1584-85. During that period, the most important trading partner of Bhutan was Tibet. Principal route of that Bhutan-Tibet trade was the Chumbi Valley where the present day Nathu-la trade route is located. Bhutan imported salt, soda, wool, gold dust and silver from Tibet and exported fine silk fabrics, dyes, brass utensils etc. Similar items were also exported to Bengal. Bhutan imported dried fish, grapes, rice, cotton cloths, tobacco etc. from Bengal.

There were several trade centres in Sikkim, Bengal, Assam and Tibet which the Bhutanese attended regularly for bartering their produce. The most important centres were Titalya in Sikkim (Darjeeling at present). In Assam, these were located at Hajo, Udalguri, Khagrapara and Doimara²⁹. Rangpore and Dinajpore were the important trade centres of Bengal. All these trade centres were basically annual fairs held particularly during winter. The traders of Bhutan arrived at these trade centres along with their caravans, bartered their produce and returned in summer. In the early medieval period, although trade was based on barter system, coins were also used for the same. Trade statistics of annual fairs are reliable because those were collected by the Gumastas of the trade centres. Table-2.2 shows the Assam-Bhutan trade position during the period 1881-1885.

Table-2.2: Assam-Bhutan Trade Position During 1881-1885 (Rs.)

	Exports from Bhutan(X)				Imports to Bhutan(M)				
	Udalguri	Khagrapara	Doimara	Total	Udalguri	Khagrapara	Doimara	Total	BOT(X-M)
1881	51970	11526	8554	72050	36631	6974	1350	44955	+27095
1882	235308	36561	27057	298926	78504	16009	3357	97870	+201056
1883	74435	6461	72923	153819	43891	40568	33644	118103	+35716
1884	64689	8089	14077	86855	45153	21878	6801	73832	+13023
1885	120792	13867	8423	143082	90380	17997	6438	114815	+28267

Source: Assam Administrative Report for 1884-85 (Adapted and calculated from Smriti Das, *Assam Bhutan Trade Relations 1885-1949*, Ansah Publisher, Delhi, 2005.

Table-2.2 above shows some interesting features of Assam- Bhutan trade for the period 1881-1885. The first and most interesting character of this trade is that Bhutan's balance of trade was positive. Total volume of trade as well as the balance of trade both show fluctuating nature. Although, no proper statistics is available for the other trading markets, available

literature shows that trade balance of the country was also positive for those other markets.

There are two alternative types of trade policies- free trade and protectionist trade. Under the protectionist trade regime, trade between two countries is restricted through the imposition of quantitative or qualitative instruments such as tariff and quota. On the other hand, neither quantitative nor qualitative restrictions are imposed under free trade regime. That Bhutan's foreign trade was highly protective during the period under review is evidenced from the fact that the Government and Government officials had exclusive power of trade. Some private elites were also granted the right of foreign trade³⁰ in lieu of a particular tax known as *gaongiri*. Foreign trade of Bhutan consisted not only of surplus products but also of some essential commodities not produced in Bhutan. Hence the trade was slightly different from the trade based on absolute or comparative advantage. Tariffs were also imposed on traded goods. Table 2.3 shows the tariff structure of Bhutan during 1909.

Table-2.3: Tariff Structure of Assam-Bhutan Trade in 1909

Bhutan's Exports		Bhutan's Imports	
Items	Tariff Rates (Rs.)	Items	Tariff Rates (Kind)
Ponies (per load)	1.00	Rice/Paddy (each mule load)	3 seers
Goat and Sheep(ditto)	0.25	Rice/Paddy (each coolie load)	2 seers
Blankets (bundles of 20-25)	0.50	Betel Nut (Each pony load)	80 betel nuts
Wax (monds)	1.00	Betel Nuts (each coolie load)	20 betel nuts
Lac (monds)	1.00	--	--
Chilies (monds)	0.25	--	--
Radishes (monds)	0.12	--	--

Source: Assam Administrative Report for 1884-85 (Adapted and calculated from Smriti Das, *Assam-Bhutan Trade Relations 1885-1949*, Ansah Publisher, Delhi, 2005.

The Indo-Bhutan Treaty of 1774 was a major landmark in the history of both Bhutan and India because the treaty commenced negotiations for bilateral economic relations in general and trade relations in particular,

which paved the way for free trade between the two countries. According to this treaty, it was mutually agreed that Indian wood cutters will not be debarred by the Bhutanese from the cutting of timbers, while the British would secure free movements of Bhutanese caravans to Rangpore³¹. However, despite a large number of negotiations, they could hardly arrive at any spatial trade agreement. The position of trade relations between the two countries showed frequent changes and these changing Anglo-Bhutan relations adversely affected the volume of trade. The long cherished intention of the British government extending India's trade with Tibet and the Far-east did not materialize.

Money Market

In an economy based on subsistence agriculture and characterized by complete isolation and backwardness, lack of transportation and communication infrastructure, near self-sufficiency at the household level and simplicity of demand for commodities, money market was completely absent in the medieval period of Bhutan's history. Neither any banking or non-banking financial institute, nor money itself was existent till 1974. However, some sort of coins was used for the transaction and other purposes since the early seventeenth century. These coins were not Bhutanese, the main source of these coins were gifts received by the Kings of Bhutan by the kings of the neighbouring countries like Ladakh and Cooch Behar.

The first trace of coins in Bhutan is obtained in 1619, the time of Shabdrung Ngawang Namgyal. When the King went to Chapcha in 1619 to preach there, he was gifted with lots of silver coins by the Raja of the Cooch Behar kingdom as well as the local people. The coins were, in fact, 'Narayaneer Rupee' of that time Cooch Behar, first minted by the king Nara Narayan (1555 A.D. – 1587 A.D). As Prana Narayan (1633-1666 A.D), the king of Cooch Behar refuged to Bhutan due to the Mughal invasions during 1661-63 A.D, he carried with him some of his half-rupee coins along with his mints. On the other hand, when the Bhutanese attacked

Cooch Behar, they carried away some of the Cooch Behar mints during their return. Rhodes³² mentions that Tenzin Rabgye was enthroned as the fourth Dev Raja of Bhutan in 1680, who apparently received presents of 1000 gold and 1000 silver coins from the Rajas of Ladakh and 700 gold and 1000 silver coins from the Rajas of Cooch Behar.

In the early eighteenth century, same sorts of coins were evidenced by the available documents. During the celebration of the enthronement of Zhadrung Jigme Dragpa-I in 1747, 47000 silver coins namely *ma-tam* was given out to the government officials and the citizens of Bhutan. These coins also were the so called Narayanee Rupees³³. When Turner Visited Bhutan in 1783, he calculated that one Narayanee Rupee under circulation in Bhutan was equivalent to the value of about ten-pence or one third of a British Indian rupee. After 1815, Bhutanese Penlops minted their own coins such as *chetam* and *ma-tam*, with a little variations of earlier 'Narayanee Rupee'. Pemberton noticed the coins in 1837-38 circulated in Bhutan known as 'Deva', nominally equivalent to the value of the East-India Company's half-rupee³⁴. From Turner and Pemberton's account, one thing is clear that exchange rate of coins used in Bhutan via-a-vis British-Indian rupees had improved in the fifty years period beginning from 1783.

The government of Bhutan occasionally used to send silver in Cooch Behar for minting silver coins until the British ordered the closer of the Cooch Behar mints in 1780. In the 1860s, Tongsa penlop apparently captured some Muslim metal workers from the Cooch Behar kingdom and employed them as slaves for producing coins. Nicholas Rhodes³⁵ observed such sixty households of slave origin in the Yudgong Choling areas in the year 1998. In an atmosphere of better Anglo-Bhutan relation, Ugyen Wangchuk, the first hereditary king of Bhutan, visited Kolkata in 1906. Since then, Bhutanese coins were being struck at Kolkata mints.

It has been already shown that balance of trade for Bhutan was positive in the concerned period. Bhutan used to accept the trade balance in terms of gold, silver or coins. These silvers were also sent to the mints.

Therefore, main source of coins in Bhutan were gifts and tributes from the Rajas of Ladakh and Cooch Behar in the one hand, minting of coins from the Cooch Behar and Kolkata mints were the other important sources. Money itself is defined in terms of its functions. There was petty use of money as a medium of exchange in the domestic economy for internal transactions. The whole domestic transaction used to take place under barter system. Coins were circulated both for taking fines, for gifts and sometimes as state taxes³⁶. Coins were mainly used for conducting international transactions. Monetary policies were completely impossible to implement due to the absence of all relevant functions of money and monetary institutions like central banking and non-banking monetary institutions. Unorganized money market also used to play a passive role in economic development.

Public Sector Economy

In the medieval period, government in Bhutan was in a nascent stage with absence of proper legal and civil administration as well as state bureaucracy. State's general functions were confined to maintenance of internal and external security, law and administration, external relations and sometimes, foreign trade. Under the theocratic government and feudal mode of production structure, government had little to do with economic activities. Collection of revenue through the imposition of direct taxes, government expenditure on administration and religious institutions, engagement in international trade etc. were the principal economic activities of the government.

Main sources of government revenue were taxes, state trading, receipt of gifts, *gaongiri* as well as annual payments from the duars. It is to be noted that the state taxes collected from private traders is known as *gaongiri*. During the early seventeenth century, taxes were collected in two alternative forms-commodity taxes and the labour tax. Principal commodity taxes included taxes on different crops, animal products and various crafts from the craftsmen. Labour taxes (*chunidon*) were required for

the transportation of the taxed commodities and government's construction activities such as the construction of mule tracks, suspension bridges, monasteries etc. Taxes were imposed on the households, not on the individuals while the tax burden was heavy and unavoidable³⁷. In the mid-eighteenth century, there were 27,223 tax paying households which increased to 60,000 in 1831. In the early nineteenth century, annual revenue collection of the government was of the order of Nu. 10, 00,000.

During the mid-eighteenth century, taxes were similarly being collected both in cash and in kind. Taxes in kind were being commuted to cash tax during that time. This type of tax commuting, from kind to cash, reduced state revenue. Since taxes were imposed on household rather than on individual and the burden of tax was heavy, there was a general tendency to combine two or more households into one for the evasion of taxes³⁸. Different other tactics were also followed by the households for the same purpose. For example, because rice was taxed unhusked, the households used to mix up chaff with the actual kernel of grains³⁹. As a result, various tax laws were passed by the kings and these laws were exercised for the nullification of these tax evasions. However, Jigme Wangchuk, the second hereditary king of Bhutan had tried to make the tax structure more equitable and less burdensome.

It is also evident that different tax structures prevailed in different parts of the country. Charles Bell observed that the Tibetans and Bhutanese paid taxes in kind while Nepalese in the southern Bhutan paid in cash. This was so because southern Bhutan was more monetized than the northern parts of the country where the Bhutanese and Tibetans generally inhabited. Due to cash requirements of the government, cash taxes were preferred to the 'kind' tax despite the reduction in total tax revenue collected in cash. Not only various tax structures, there were various tax authorities as well. This type of tax structure continued throughout the entire period of medieval Bhutan without any major tax reforms. Major landmark tax reforms in Bhutan were implemented as late as in 1954 when all types of kind taxes were converted to cash tax and

labour taxes were completely abolished⁴⁰.

Proportionate to the small size of revenue collection, public expenditure was also small. Almost the entire funds collected as revenue were spent for the dignity of the royal courts and monasteries. Main functions of the state were to support religious orders pursuing dance, drama, secular philosophy, meditation, pharmacology, astrology, astronomy, poetry and painting. Functions of a welfare state like development of infrastructure, provision of public goods, promotion of modern education and health facilities, equitable distribution of income etc. were actually non-existent in medieval Bhutan⁴¹. These, in fact, reflect the case of government failure according to the theories of economic development.

Alternative development strategies such as the role of the communities in development resulted from the case of government and market failure. A group of people tied by mutual trust based on intense personal interactions is called a community⁴². The role of the communities in development was successful in Bhutan due either to their interdependence between the households and cooperation among the villagers or their common interest and Buddhist beliefs. Bhutan's communal resources like common pasture and grazing lands, common forests, mule tracts, drinking water system, village flour mills, community halls, suspension bridges all were managed by village communities through household work-share. Customary laws governed by the village headman provided guidelines for work-share and sharing of products from these common resources⁴³. However, gradual government legislations, over time, converted these community resources into open ended resources. Since then, role of the communities in development activities became weakened and in place of communities, local public goods were created by the state's labour taxes.

2.3: Conclusion

Theocratic government continued in Bhutan throughout the medieval

period. The feudal economy of entire medieval Bhutan was characterized by extreme degree of isolation without any infrastructural, communication and transportation facilities. Physical labour and animals were the only means of transportation run along the mule tracks and suspension bridges. There were no metalled roads, motorized vehicles, supply of electricity, postal and tele-communication system connecting the country internally and with the outside world. The country was self-sufficient in food grains production, every family having sufficient land, pigs, poultry and fruit trees, a small surplus being exported for salt and other essential articles from the neighbouring countries. Social amenities like education was limited to religious level while medical and health facilities were confined to the superstitious traditional practitioners. The whole medieval economy of Bhutan was based on barter system with complete absence of any monetary institution and monetary policy. Pre-modern government of medieval Bhutan used to spend whole of its resources for the dignity of the royal courts and the religious institutions. Government expenditure on secular development was negligible. Self-sufficient rural communities used to build up their common resources on a self-help and cooperative basis. Under such situation, the quality of human lives remained critically low with the incidence of extreme poverty and underdevelopment. There was no significant trace of development in course of the three centuries of medieval period in Bhutan.

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