Subject: History
Unit: Trade and Industry

Lesson: Trade and Industry: Drain of Wealth

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Table of contents

5.2: Trade and industry: drain of wealth

The 19th century in India was a period of intellectual reflection and debates about the impact of British rule in India particularly its role in turning India into a poor country. With the spread of nationalist ideas in the second half of the 19th century many leaders and writers asserted that one of the most important causes of the poverty of India was the drain of its wealth to England. They strongly believed that a part of India's national wealth was being exported to England by the colonial government in India for which India got no adequate material or economic returns. In other words India as a colony was paying an indirect tribute to England. Many nationalist leaders made the theory of drain the basis for their anti-colonial agitations and the theory acquired wide popularity. Predictably, the theory invited criticisms from defenders of colonial rule who argued that the idea of drain was a baseless charge as drain had been calculated erroneously ignoring the positive effects of British rule in India.

The background of the concept of drain

The concept of the 'drain of wealth' was theoretically developed and most forcefully stated in the writings of DadabhaiNaoroji and R. C. Dutt from the late 19th century. However the idea had a longer history. Soon after the commencement of the rule of East India Company in the second half of 18th century one of its officers, Alexander Dow highlighted the problem of drain in the 1770s. Other Company administrators like John Shore, Philip Francis and Lord Cornwallis also discussed some aspects of economic drain from India in the 18th century. The well known British politician Edmund Burke also developed a theory in the 1780s that was based on an understanding of drain. The renowned Indian reformer Raja Rammohun Roy was the first Indian who worked out an estimate of the amount and sources of the drain of wealth from India to England around 1830. However it was DadabhaiNaoroji who worked out the intricacies of the concept of drain of wealth beginning with a number of writings in the 1860s and culminating in his monumental work, *Poverty and Un-British rule in India* that was published in 1901. As the concept gained acceptance it was popularized by a large number of Indian nationalists, newspapers and writers like Bankim Chandra Chattopadhyaya and Rabindranath Tagore. The theory was further elaborated in William Digby's*'Prosperous' British India* (1901) and R.C. Dutt's two-volume *Economic History of India* (1902 & 1904).

Value addition: life stories
DadabhaiNaoroji
DadabhaiNaoroji (1825-1917) was a Parsi who became the first Indian professor at Elphinstone College, Bombay. In 1855 he took charge of the London office of a business firm. Thereafter he acted as a link between Englishmen interested in India and Indians active in public life. He believed

that reform of British rule in India required education of the British public and legislation. Naoroji formed the East India Association in 1866 in London and launched a paper called *Voice of India* in 1883 for this purpose. He took an active interest in British politics and in 1892 he became the first Indian to be elected to the British Parliament from an English constituency. Many Indian students stayed with him in London, including Gandhiji. As the diwan or prime minister of the princely state of Baroda and as an elected member of the Bombay Municipal Corporation he initiated many administrative and educational reforms. He presided over several sessions of the Indian National Congress and like many of his contemporary nationalists wanted an improvement and not elimination of British rule. He demanded reduction of military expenditure and Indianization of government services. However it was the theory of the drain of wealth that was the cornerstone of his critique of British rule in India. Despite being anglicized he was widely respected by both moderate and radical nationalists and came to be fondly known as the 'Grand Old Man of India'.
Source: Various

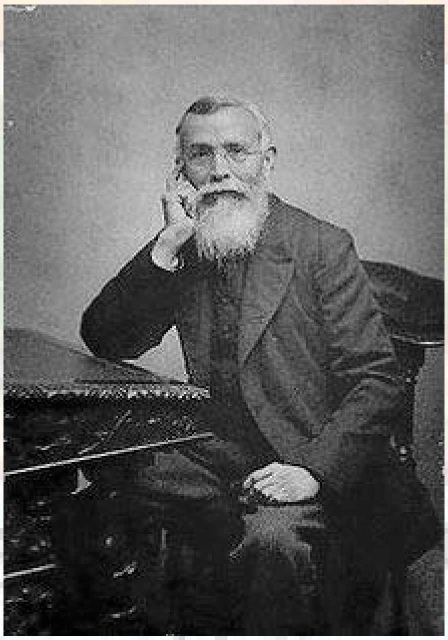

Figure 5.2.1: Dadabhai Naoroji

Source: http://en.wikipedia.org/wiki/Dadabhai_Naoroji

What constituted the drain of wealth?

Trade and Industry: Drain of Wealth

There were several ways in which the drain of wealth from India took place and different writers have emphasized different aspects of drain over a period of time. Several Englishmen along with Indian nationalists pointed out that the early decades of East India Company rule were marked by plunder and loot combined with illicit gains by the servants of the company. This process began immediately after the battle of Plassey and continued till the 1830s. Indian nationalists of the late 19th century did not feel the need to demonstrate this as this was reported by many officials as well as non-official Englishmen. When the Company acquired the revenues of Bengal (diwani) in 1765 this brought about a fundamental change in its finances. Before that the company along with other European trading companies had to bring bullion (precious metals, mainly gold and silver) from Europe with which they bought commodities in India for sale in Europe since they did not have much to sell in India. After it acquired the revenues of Bengal the company could purchase goods for export from Bengal from the income it received as a territorial power. Such purchases were known as 'investment'. Now the company no longer had to pay for goods bought in India with bullion. Through 'investments' it transferred income generated in India that came to be also described as 'tribute' by some, although the extent and economic significance of that tribute might be disputed. Among others the British politician Edmund Burke too regarded the 'investment' of the company as the main cause of the impoverishment of India. In addition, private individuals also transferred huge sums of money to England from India.

However after 1833 and especially after 1858 there was no obvious tribute paid by India nor was there any transfer of surplus revenue from India to Britain. So how did the nationalists explain drain for the later period? Naoroji and others stressed forcefully that drain of wealth continued even after the revolt of 1857 as imperial domination of India acquired new dimensions. Consequently other components of drain emerged that the nationalists listed. The most important constituent of drain according to them was the money sent home by Englishmen in India from their salaries, incomes and savings. There were English army men, civil and railway employees along with doctors, lawyers etc working in India. Many of them also received pensions from the Government in India that were paid to them in England. Another major source of the drain according to Indian nationalists was profit of private foreign capital invested in industry or trade in India. The other important constituent of drain was 'home charges of the government of India' which referred to the expenditure incurred by the colonial government of India in England. Home charges consisted of:

a. The expenditure of the East India Company's London establishment and dividends to its shareholders. After 1858 this was replaced by the cost of the Secretary of State's India Office.
b. Pensions and allowances to Europeans officials and army officers of the Indian Government.
c. Payment of interest on public debt, that is, the debt that India had in England including the guaranteed interest on railways.

Put simply, home charges were the price India paid in return for 'good governance' of India which invited sharp criticisms and sarcastic comments from the nationalists. Thus DadabhaiNaoroji remarked in 1886: "The short of the whole matter is, that under the present evil and unrighteous administration of Indian expenditure, the romance is the beneficence of the British Rule, the reality is the 'bleeding' of the British Rule". But what form or mechanism was used by the colonial government in India after the revolt to transfer money to England? The nationalists pointed out that the colonial government used the 'export surpluses' of India to transfer funds to Britain. The export surplus of a country consists of the excess of exports over imports. They said that India was forced to export goods to different countries which earned India foreign exchange. This was deliberately kept higher than the value of imports in the late 19th century. The excess of exports over imports generated a surplus which was then sent to England to pay for home charges etc. Subsequently modern-day economists and historians have explained the intricacies of this mechanism in greater detail as follows.

In the second half of the 19th century, as Britain increasingly became an industrial and urban society, two important features of its foreign trade emerged. It required huge quantities of agricultural goods (raw material for its industries and food for its people) that it had to import. On the other hand its manufactured goods were facing difficulties in the export markets as the developing capitalist countries of Western Europe and America imposed tariff duties on British goods to give protection to their own industries. These two features meant that Britain was facing a severe deficit in its balance of payments, that is, its export earnings were less than what it had to spend on imports. The gap between higher imports and lower exports was worrying and imperial Britain used its dominant position to force India to export raw materials and agricultural goods to other countries. India thus earned a considerable amount from its exports and in fact came to have an export surplus that was then transferred to Britain through mechanisms like home charges. In other words India became part of a complex triangular foreign trade by the end of the 19th century. It earned export surplus with countries other than Britain and that income helped reduce and settle Britain's deficit in foreign trade. In the process India emerged as a major supplier of raw materials and agricultural commodities to other countries but its own economy got impoverished as it could not utilize its export earnings for its own development. The Indian nationalists repeatedly pointed towards India's growing export surplus in the late 19th century, arguing that in reality this was drain of wealth in the name of 'free trade' that was used for Britain's financial needs.

Drain: various estimates and interpretations

While many Indian nationalists made the theory of drain an inseparable part of their critique of British rule, there was no consensus about the exact amount of drain. Since different methods and criteria were used at different points of time the estimates of drain also varied.

Trade and Industry: Drain of Wealth

The most passionate advocate of drain, DadabhaiNaoroji, constantly revised his estimates depending on the type of criticisms he faced. In 1867 he calculated that the drain amount came to 8 million pounds. He raised this figure to 12 million pounds in 1870. In 1876 he computed the amount of drain after leaving out interest paid on capital borrowed to build railways in India as follows:

Years	Drain (yearly average in British pounds)
1835 to 1839	5,347,000
1840 ” 1844	5,930,000
1845 ” 1849	7,760,000
1850 ” 1854	7,458,000
1855 ” 1859	7,730,000
1860 ” 1864	17,300,000
1865 ” 1869	24,600,000
1870 ” 1872	27,400,000
Source: Chandra, Bipan. 1966. *The Rise and Growth of Economic Nationalism in India*. New Dellhi: People’s Publishing House, 648.	

DadabhaiNaoroji calculated the amount of drain at Rs 25 crores a year for 1893 and Rs 51.5 crores for 1905. Other nationalists also gave their estimates. For example, according to G. V. Joshi Rs 25 crores were going out of India as drain annually in 1888. In 1901, D. E. Wacha, in his Presidential Address to the Indian National Congress stated that the amount of drain was between Rs. 30 to 40 crores a year. A more conservative estimate was provided by R. C. Dutt who put the figure at around 20 million pounds in the early years of the twentieth century. In order to convey the impact of drain in simple terms Dutt also said that about one-half of India’s net annual revenue flowed out of the country. Almost all advocates of the theory of drain believed that whatever may be the actual amount, it constituted a net transfer of capital from India. This capital loss hindered the economic development of India and was held to be the main reason for the slow growth of modern industry in India. The nationalist newspaper, the *Amrita Bazar Patrika* was also a champion of the theory of drain. From around 1870 it singled out this drain as the principal cause of the poverty of India that simultaneously contributed to the growth of wealth in Britain. The drain theory got a stamp of approval when it was officially adopted by the Indian National Congress at its Calcutta session in 1896. The drain of wealth was held responsible for the frequency of famines and growing poverty in India. According to William Digby, the per capita income of Indians for 1899 was Rs. 18 while Naoroji's calculation was Rs. 20. The colonial government disputed these figures and in 1901 Lord Curzon calculated it as Rs. 30.

Figure 5.2.2: R. C. Dutt, 1848-1909

Source: http://en.wikipedia.org/wiki/Romesh_Chunder_Dutt

Criticisms and evaluation of the drain theory

Right from the beginning the theory of drain had to face severe criticisms that can be grouped into two categories. Firstly the methodology of the calculations of drain by the nationalists was questioned. It was argued that remittance of profits on British capital invested in railways, mines, **plantations** or mills in India could not be called drain as it was after all 'developing' and 'modernizing' India. Defenders of British rule claimed that India could not develop on its own as it was backward and it was British rule that was bestowing the fruits of modern development on India. The second major criticism of the drain theory has been that it was exaggerated and somewhat crude in its analysis as export surpluses could amount to only a small part of India's national income.

The nationalists replied to these criticisms and modern historians have also examined them. According to the historian SumitSarkar, "surely DadabhaiNaoriji had a point when he argued (before the Welby Commission in 1895) that the amount being drained away represented a potential surplus which might have raised Indian income considerably invested properly inside the country". (Sarkar 1983, 27). The imperial claim of providing 'good government' that brought about the development and modernization of India is even more difficult to accept given the level of poverty that prevailed at the time of independence. Historians do concede that the calculations of drain may have been exaggerated since some nationalists had a tendency to describe all government expenditure as wasteful and regard all remittances as drain. However we must remember that the nationalists did not have the advantage of full access to statistics and tools of modern economic analysis then. Moreover, for them the theory of drain was not merely an academic exercise but part of a larger political struggle against colonial rule. The strength of the theory of drain was in its simplicity - that could be easily grasped by the common people of India. Finally, for the nationalists the most important aspect of drain was that it was the defining feature of foreign domination in India. They said that for centuries different rulers had come to India from far-off lands but they did not transfer wealth from India. The British on the other hand systematically sent wealth out of India on a sustained basis for about two centuries. This set them apart from even the most despotic rulers of India who at least kept their wealth within the country. This aspect was also emphasized by the renowned poet and thinker Rabindranath Tagore.

Value addition: what the sources say
Rabindranath on drain
Commenting on the times that brought European traders to India Tagore wrote that it was an age when “legions of adventurers scattered over foreign lands to trade, but behind the display of their wares they raised empires... At that time India was renowned for her immense wealth, a subject repeatedly referred to by foreign historians in those days… subsequently king and trader met in India and in this fateful moment began the hacking of a tree of wealth – an oft-repeated but discordant tale. But yet it will not do to smother in utter oblivion. India had her wealth, but if we forget by what it means to be transported beyond the seas, a basic fact of modern history will elude us”
Source: Sinha, Sasadhar. 1960. *Rabindranath Tagore*, *Letters from Russia* (translated from Bengali). Calcutta: Visva-Bharati, 97-99.

5.2 Summary

- The concept of the drain of wealth from India was developed by some nationalist leaders and writers from the late 19th century. DadabhaiNaoroji was a very passionate advocate of the idea which he elaborated in his numerous speeches and writings. The idea received support from many other nationalist writers like R. C. Dutt, newspapers like the *Amrita Bazar Patrika* and was officially adopted by the Indian National Congress.

Trade and Industry: Drain of Wealth

- The supporters of the drain theory argued that after the battle of Plassey large amounts of money was taken out by the East India Company. The plunder and drain of India's wealth was also noted by a number of Englishmen in India and politicians in Britain.

- The nationalists stressed that the drain of wealth continued after the revolt of 1857 when the rule of the East India Company was replaced by the rule of the British Crown. Drain had many components: the payment of salaries and pensions to employees of the colonial government in India who also transferred part of their savings and profits to Britain; India also paid 'home charges' that is, payment for the administration of India that included the cost of the administrative establishment in Britain for India. The British justified it by describing it as charges for providing 'good government' to a backward India.

- Some advocates of the drain theory also included the interest paid on capital borrowed in Britain for the building of railways etc in India. Critics said that this could not be regarded as drain as this capital was invested for the development and modernization of India. Hence different estimates of drain were given by nationalists depending on what was included in its computation.

- In the last decades of the 19th century India became part of a triangular foreign trade. It was forced to export agricultural goods and raw materials for industries to the developing countries other than Britain. India thus earned a forced export surplus as its exports exceeded imports. This export surplus was then transferred to Britain to finance the deficit in Britain's balance of trade. According to the nationalists this constituted a form of drain.

- Despite varying estimates of drain all nationalists argued that a part of the national income of India went out to Britain that could be potentially invested for development within India. Transfer of wealth from India showed that British rule essentially remained foreign.

- Drain of wealth from India to Britain may have been incorrectly calculated or exaggerated at times but the idea had a strong political appeal. The concept of drain gained popularity during the national movement due to its simplicity and emotional content also. The nationalists made it a part of their overall critique of colonial rule and held the drain of wealth from India responsible for the growth of poverty in India.

5.2: Exercises

Essay questions

1) Outline the history of the idea of the drain of wealth from India to Britain.

2) Critically evaluate DadabhaiNaoroji's method of the calculation of drain.

3) What constituted 'home charges'? Can they be regarded as drain of wealth from India?

4) Explain the mechanism of the triangular trade and the generation of export surpluses for India from the late 19th century.

5) In your opinion what were the weaknesses (if any) of the nationalists' theory of drain?

Objective questions

Question Number	Type of question	LOD
1	True or False	1

Question

a) DadabhaiNaoroji was a leading proponent of the theory of drain of wealth. b) The Indian National Congress never accepted the idea of drain of wealth from India. c) India had export surpluses in the late 19th century.

d) The nationalists said that drain of wealth stopped from India after the revolt of 1857.

Correct Answer / Option(s)	a) True b) False c) True d) False

Justification/ Feedback for the correct answer

a): It was DadabhaiNaoriji, a prominent early nationalist who developed the theory of drain giving factual evidence for it and made it part of his overall critique of colonial rule. b): The Indian National Congress accepted this theory and adopted it officially in 1896. c): In the second half of the nineteenth century India as a colony of the British was exporting raw materials and other goods to different countries of the world earning foreign exchange providing India with export surpluses. d): Indian nationalists pointed out that since this surplus was transferred to Britain, 'drain of wealth' continued from India in this form even after 1857.

Resource/Hints/Feedback for the wrong answer

a), b), c) and d): The early nationalists like DadabhaiNaoriji and the Indian National Congress were strong advocates of the theory of the 'drain of wealth' from India. They argued that India's export surpluses earned after the revolt of 1857 were transferred to Britain draining the colony's wealth.

Reviewer's Comment:

Question Number	Type of question	LOD
2	Match the following	2

Trade and Industry: Drain of Wealth

Question

Match the following: a) *Poverty and Un-British Rule in India* — i) A nationalist newspaper b) Edmund Burke — ii) Currency of Britain c) *AmritaBazarPatrika* — iii) DadabhaiNaoroji d) Pound — iv) A British politician

Correct Answer / Option(s)	a) and iii) b) and iv) c) and i) d) and ii)

Justification/ Feedback for the correct answer

a): DadabhaiNaoriji, an early nationalist, also known as the 'Grand Old man of India', wrote *Poverty and Un-British Rule in India*.

b): Edmund Burke was a famous eighteenth century British politician known for his critical views on the activities of East India Company in India.

c): *AmritaBazarPatrika* was a newspaper published from Calcutta (now Kolkata) known for supporting nationalist causes.

d): The 'pound' is the currency of Britain.

Resource/Hints/Feedback for the wrong answer

Other combinations are false.

Reviewer's Comment:

Question Number	Type of question	LOD

Trade and Industry: Drain of Wealth

3	Multiple choice question	3

Question

1) The nationalists argued that drain of wealth from India had: (a) made Britain rich (b) made Britain poor (c) made India rich (d) weakened colonial control of India 2) "Home Charges" were: (a) paid by India to the United States of America (b) paid by Britain to India (c) paid by India to Britain (d) paid by the government of India to the nationalists. 3) The idea of drain: (a) had no history before DadabhaiNaoroji (b) received support from some Britishers also (c) was fully accepted by the colonial government (d) was rejected by the Indian National Congress 4) Drain of wealth happened: (a) only from Bengal (b) only after 1857 (c) from India to Britain (d) from Britain to India 5) During the colonial period India's export surpluses were used to settle the trade deficit of: (a) Germany (b) Japan (c) China (d) Britain

Correct Answer / Option(s)	1) and a) 2) and c) 3) and b) 4) and c) 5) and d)

Justification / Feedback for the correct answer

a): The nationalists emphasized that part of Britain's wealth was based on the drain of wealth that occurred from India to Britain. b): After the revolt of 1857 when British crown took over the administration of India from the East India Company, India was made to pay "home charges" to Britain in return for providing 'good government' in India. c): The idea of drain of wealth was referred to by several British politicians (like Edmund Burke) who were critical of the policies of East India Company in India. d): This drain of wealth was a one-way process, that is, from India to Britain.

e): Britain used the exports surpluses earned by India to settle its own balance of payment deficits with other countries in the later decades of the nineteenth century.

Resource/Hints/Feedback for the wrong answer

a), b), c), d) and e): Drain of wealth did not happen only from Bengal but from the whole of India to Britain. Obviously it contributed to Britain's prosperity and certainly made India poorer. Although DadabhaiNaoriji developed the theory of the drain of wealth from India it had been talked about since the late eighteenth century. It was India that paid "Home Charges" to Britain since India was its colony. Britain also used its dominant position in India to transfer India's export earnings to settle its own deficits or gap in foreign trade (the difference between higher imports and lesser exports) with other countries of the world.

Reviewer's Comment:

5.2 Glossary

Tariff protection: protection of trade by duties on imports

Plantation: an estate or a farm used for growing rubber, tea, cotton or sugar etc. for sale

5.2 Further readings

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