International Research Journal of Management, IT & Social Sciences
Available online at https://sloap.org/journals/index.php/irjmis/
Vol. 3 No. 3, March 2016, pages: 65~72
ISSN: 2395-7492
https://sloap.org/journals/index.php/irjmis/article/view/355

The Meaning and Methods of Drain of Wealth in Colonial India

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Article history:

Received: 10 December 2015
Accepted: 30 January 2016
Published: 31 March 2016

Keywords:

Colonialism;
Diwani rights;
East India company;
Industrial revolution;
Plassey battle;

Abstract

Among all the national movements in colonial countries, the Indian national movement (1885-1947) was the most deeply and firmly rooted in understanding the nature and character of colonial economic domination and exploitation. Its early leaders, known as the moderates, were the first in the 19th century to develop an economic critique of colonialism. The constant flow of wealth from real return has been described by Indian nationalist and economists as the drain of India to England for which India did not get an adequate economic, commercial or match from India. They made it clear that the colonial government was utilizing Indian resources, both natural and human, as land revenue, agriculture and industry not for developing India but for the industrial development and extension in Britain. The drain of wealth was interpreted as an indirect tribute extracted by imperial Britain from India year after year. According to the nationalist calculations, this chain amounted to one-half of the government revenues more than the entire land revenue collection and over one-third of India's total savings. The Drain of Wealth theory was systemically initiated by Dadabhai Naoroji in 1867 and further analyzed and developed by R. P. Dutt, M. G Ranade, etc. Their focal point of critique of colonialism was the drain theory. They pointed out that a large part of India's capital and wealth was being transferred or drained to Britain in the form of salaries and pensions of British civil and military officials working in India, interests on loans taken by the Indian government, profits of the British capitalists in India and the home charges or expenses of the Indian Government in Britain.

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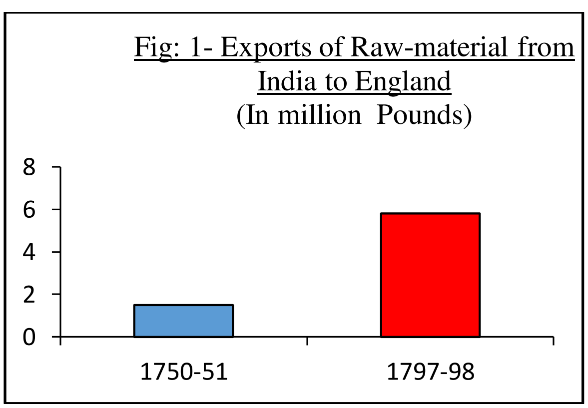
1. Introduction

From 1600 to 1757 the East India Company's role in India was that of a trading corporation which brought goods and precious metals in India and exchanged them for Indian goods like textiles and spices (Desai, 1982; Nanda, 2003). The company accumulated enormous profit from the sale of Indian goods abroad. However, after the Battle of Plessey (1757), the pattern of the company's commercial relations with India underwent a qualitative change. Henceforth, the company used its political control over Bengal to acquire monopolistic control over Indian trade through legal and illegal practices (Bowen, 2002). The Company's servants began to carry home immense fortunes extorted from Indian rulers, zamindary, merchants and common people.

In the mercantilist concept, an economic drain takes place if gold and silver flowed out of the country as a consequence of an adverse balance of trade (Gadgil, 1929; Bose, 1994). In the fifty years before the battle of Plessey, the East India Company had imported bullion worth £ 20 million into India to balance the exports over imports from India (North, 2005). To control this scenario the British government adopted a series of measures to restrict or prohibit the imports of Indian textiles into England. Apart from other measures, in 1720 the British government forbade the wear or use of Indian silk and calico in England on pain of a penalty on the weaver and the seller (Kumar, 1982).

After Plessey, the East India Company extended its territorial aggression in India and began to administer territories and acquired control over the surplus revenues of India. The Company gained recurring surplus which accrued from profits from oppressive land revenue policy, profits from its trade resulting from monopolistic control over Indian markets, exactions made by the Company's officials, etc. This entire surplus was used by Company as 'investment' i.e. for making purchases of exportable items in India and elsewhere (Naoroji, 1901; Roy, 2013). Against the exports of goods made out of this investment, India did not get anything in return. This is how there began the Drain of Wealth which was nothing but a unilateral transfer of fund. The Early nationalist leaders made this point central to their economic criticism of the British colonialism. In 1765, the Company acquired the *Diwani* (Dual Government) of Bengal and thus gained control over both political and economic infrastructure. The Company soon directly organized the drain. It began to purchases what were known as investments. Through these investments, the revenue of Bengal was sent to England in a direct manner. Thus, the Company invested no money from Britain for its trade in India. It invested only Indian money in its trade and drew huge profits out of it. All that profit went to Britain. Besides, heavy oppression of the Indians by several means, company with a view to increase its resources, collected maximum revenue from the peasants, kept the monopoly of salt trade to itself and sold it at 1,200 to 2,000 per cent profit and also sold Indian opium to China at heavy profits (Fuller, 1922; Baden-Powell, 1894). In fact, the Company took all possible measures to extort the wealth of India and sent it to Britain in different forms.

Dadabhai Naoroji pointed out that the drain took the form of an excess of India's exports over its imports for which India got no return. As per the findings, the export of raw material from India to Britain went up from £ 1.5 million in 1750-51 to £ 5.8 million in 1797-98. At the same time, British industrial imports rose rapidly. Imports of British cotton goods alone increased from £1,100,000 in 1813 to £ 6,300,000 in 1856 (see fig. 1 & 2).



Source: a) Naoroji, D. (1901). *Poverty and Un-British Rule in India*. London: Swan Sonnenschein & Co. Ltd. 52-67.
b) Chatterji, B. (1992). *Trade, Tariffs, and Empire: Lancashire and British policy in India 1919-1939.* Delhi/New York: Oxford University Press. 231-33.

It is a proven fact that the weavers of Bengal were forced to sell their products at a cheaper and dictated price, even at a loss. The company eliminated its rival traders, both Indian and foreign, and prevented them from offering higher wages or prices to the Bengal handicraftsmen (Das, 1991; Ghosh, 1944). The servants of the company monopolized the sale of raw cotton and made the Bengal weaver pay exorbitant prices for it.

The Industrial Revolution in British completely transformed Britain's economy and its economic relations with India (Stokes, 1959; Chaudhuri, 1971). During the second half of the 18th century and the first few decades of the 19th century, Britain underwent profound social and economic transformation and British industry developed and expanded rapidly on the basis of modern machines and capitalism. In 1769, the British industrialists compelled the company by law to export raw material for the industries of London every year amounting to over £ 3.80,000 even though it suffered a loss on the transaction. In 1793, they forced the company to grant them the use of 3,000 tons of its shipping every year to carry their goods (Sen. 1982).

The free trade imposed on India was, however, one-sided. While the doors of India were thrown wide open to foreign goods at the same time Indian products which could still compete with British products were subjected to heavy import duties on entry into Britain. The British had not taken Indian goods on fair and equal terms even at the stage when their industries had achieved technological superiority over Indian handicrafts (Hartwell, 1971). Duties in Britain on several categories on Indian goods continued to be high till their export to Britain virtually ceased. For example, Indian sugar had to pay on entry into Britain a duty that was over three times its cost process. In some cases, duties in England went up as high as 400 percent (Gordon, 1978). As a result of such prohibitive import duties, Indian exports to foreign countries felt rapidly. R. C. Dutt pointed in 1901 that, "The effort of the Parliamentary Select committee of 1812 was to discover how they (Indian manufactures) could be replaced by British manufactures, and how British industries could be promoted at the expenses of Indian industries."

2. Research Methods

2.1 Methodology

An elaborative research methodology was used to investigate and interpret the impact of British rule on Indian economic structure from the second half of the eighteenth century. The researcher has relied both on primary sources as well as secondary sources for collection of data. Primary data has been gathered from archival records; whereas secondary data is based on analysis and discussions.

2.2 Objectives of the study

The paper focuses on the economic condition of India in the British regime. This study portrays the theory of drain of wealth from India during the 19th-20th century. It shows how the drain theory incorporated all the threads of the nationalist critique of colonialism. The paper depicts the drain of wealth as the constant flow of wealth from India to England for which India did not get an adequate economic, commercial or material return. Indeed, the drain theory was comprehensive, inter-related and integrated economic analysis of India as a colony of England.

3. Results and Analysis

Discussion

From 1757 onwards English East India Company consolidated its political and economic possessions and India experienced the bitterness of colonialism. The British came to India as commercial traders, but unstable political circumstances made them the supreme masters. After the battle of Plessey, the English East India Company had succeeded in establishing its authority over the major producing regions of India and afterward the colonial government directly introduced the era of exploitation of both natural and human resources of India (Dutt, 1906; Dutt, 1950). From the latter half of the eighteenth century, the phenomenon of the drain of wealth directly facilitated the Industrial Revolution in England. In Bengal, the British merchants became supreme in the whole of inland and export trade. The silk and cotton cottage industries began to decline in India as the raw material was transferred to the industries of

England (Gupta, 1940). Industrial Revolution placed England in a position of great advantage, but at the same time, India was reduced to the position of disadvantage and demolition. The British started exporting the raw materials of India and in exchange imported factory based goods from England (Misra, 1942; Hunter, 2005). The East India Company followed the unilateral policy in trade procedure which resulted in the positive balance of trade in favour of England. For example, in 1837 the export of British cotton goods to India was more than 5,40,00,000 yards whereas in 1824 it was hardly 10,00,000 yards (Neale, 1962).

Dadabhai Naoroji, the grand old man of India, was the first who systemically concluded that internal factors were not the major reasons of poverty in India but poverty was caused by the colonial rule that was draining the wealth and prosperity of India. He spoke that the drain of wealth was the portion of India's wealth and economy that was not available to Indians (Chandra, 1966; Bhattacharya, 1987). This theory was further analyzed and developed by Rajni Pam Dutt, Mahadev Govind Ranade, etc.

In 1867, Dadabhai Naoroji put forward the Drain of Wealth theory in which he stated that Britain was completely draining India. He mentioned this theory in his book *Poverty and Un-British Rule in India*. He put forward the idea that Britain was draining and bleeding India. Further, in his book, he stated the loss of 200-300 million pounds of revenue to Britain as the drain of wealth. Dadabhai Naoroji considered it as a major evil of British in India. Naoroji observed in 1880 that:

> *"It is not the pitiless operations of economic laws, but it is thoughtless and pitiless action of the British policy; it is pitiless eating of India's substance in India and further pitiless drain to England, in short, it is pitiless perversion of Economic Laws by the sad bleeding to which India is subjected, that is destroying India."*

After Dadabhai Naoroji, R. C. Dutt vividly explained this unilateral flow of wealth from India. He in his book, *Economic History of India,* wrote that, "*Taxation raised by a king is like the moisture sucked up by the sun, to be returned to earth as fertilizing rain, but the moisture raised from the Indian soil now descends as fertilizing rain largely on other lands, not on India."* M. G Ranade also talked about the drain of wealth and saw the need for heavy industry for the economic progress of India (Chopra, 1973). Discussing the drain theory, John Sullivan, President Madras Revenue Board wrote, *"Our system acts very much like a sponge, drawing up all the good things from the banks of the Ganges, and squeezing them down on the banks of the Thames."*

Channels of drain theory

After acquiring a monopolistic position in the political fabric in India, the British rule carved out various channels to drain the enormous wealth and other resources of India. Among these channels, the major one was the Home charges (Stephenson, 1916). Home charges refer to the expenditure incurred in England by the Secretary of State on behalf of India. Before the Revolt of 1857, the home charges varied from 10% to 13% of the average revenues of India. After the revolt, the proportion shot up to 24% in the period 1897-1901. In 1901-02, the home charges amounted to £ 17.36 million (Bagchi, 1970). During 1921-22, these charges sharply increased to 40% of the total revenue of the British Government (see fig. 3). The main constituent of home charges was the dividend to the shareholders of the East India Company.

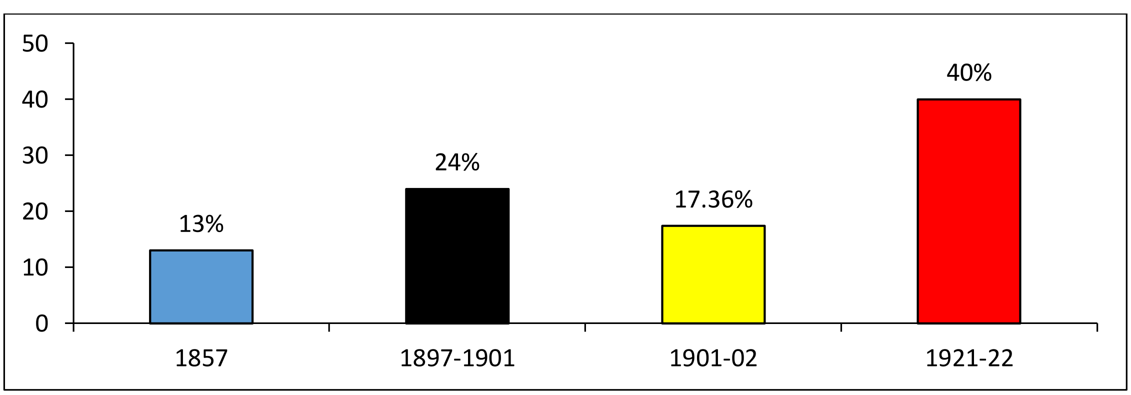


Figure 3. Expenditure on Home Charges and the Total Revenue of British Government (In Percentage)

Source: Dutt, R. C. (1950). *The Economic History of India under Early British Rule*. Routledge: Trubner's Oriental Series. 103-11

Apart from the Home charges, another instrument of drain theory was the interest on public debt rose from abroad. The East Indian Company had piled up a public debt to dislodge Indian rulers from their principalities. By 1900, the public debt had risen to £ 224 million. A minute part of the debt was raised for productive purposes i.e., for construction of railways, irrigation facilities and public works (Rao, 1988; Kumar & Mehrotra, 2008).

Thirdly, the wealth of India was drained in form of payments towards pensions and furloughs of British officers in the civil and military departments in India, expenses on India Office (Secretary of State for India) establishment in London, payments to the British war office, etc. All these charges were solely due to India's subjection to foreign rule. The Secretary of State and the Government of India purchased stores for the Military, Civil and Marine Departments in the English market. The annual average expenditure on stores varied from 10% to 12% of the Home charges between in 1861 – 1920.

Fourthly, Council Bills boosted the concept of drain through which money was transferred to England (Egerton, 1904). Council Bills are best explained by quoting from Sir John Strachey's lectures given in 1888, *'The Secretary of State draws bills on the Government treasury in India, and it is mainly through these bills, which are paid in India out of the public revenues, that the merchant obtains the money that he requires in India and the Secretary of State the money that he requires in England."*

Fifthly, interest and profits on private foreign capital were another important leakages from the national income stream. Finance capital entered the Indian market in the 20th century. Foreign capitalists were least interested in the industrial development of India. Rather they exploited Indian resources for their own benefit and in-fact thwarted indigenous capitalist enterprise by fair and foul means (Das, 1959). Dadabhai Naroji termed foreign capital as an unmitigated evil, which not only exploited but impoverished India. He saw foreign capital to be representing despoliation and exploitation of Indian resources. He wrote that *"Instead of encouraging and augmenting Indian capital, foreign capital replaced and suppressed it, led to the drain of capital from India and further strengthened the British hold over the Indian economy."*

Lastly, for banking, insurance, and shipping services India had to make huge payments (Balachandran, 2003). Apart from constituting a drain on Indian resources, unrestricted activities of these foreign companies stunted the growth of Indian enterprise in these spheres.

4. Conclusion

The drain by taking the form of excess of exports over imports led to the progressive decline and ruin of India's economic structure. The British administrators pointed with pride to the rapid growth of India's foreign trade and rapid construction of railways as instruments of India's development as well as proof of its growing prosperity. However, because of their negative impact on indigenous industries, foreign trade and railways represented not economic development but instruments of colonization and underdevelopment of the economy. What mattered in case of foreign trade was not its volume but its pattern or nature of goods internationally exchanged and their impact on Indian industry and agriculture. This pattern had undergone drastic changes during the 19th century, the bias being overwhelmingly towards the export of raw materials and the import of manufactured goods. By formulating the drain theory the early nationalists were successful to challenge the economic essence of imperialism. They called it the economic hegemony of alien rulers over India. Dadabhai Naoroji gave several factors that caused external drain. These are: Home charges refer to the interest on public debt raised in England at comparatively higher rates; expenditure incurred in England by the Secretary of State on behalf of India; Annuities on account of railway and irrigation works; Indian office expenses including pensions to retired officials who had worked in India or England, pensions to army and naval officials, etc.

The corrosion of faith in the British rule inevitably spread to the political field. In course of time, the nationalist leaders linked nearly every important question with the politically subordinated status of the country. Step by step, they began to draw the conclusion that since the British administration was only the handmade to the task of exploitation, pro-Indian and developmental policies would be followed only by a regime in which Indians had control over political power.

 ISSN: 2395-7492

Conflict of interest statement and funding sources
The author(s) declared that (s)he/they have no competing interest. The study was financed by author correspondence.

Statement of authorship
The author(s) have a responsibility for the conception and design of the study. The author(s) have approved the final article.

Acknowledgments
The author would like to thank the reviewer for their consideration to the further process of the peer review. The author as well as thanks to the editor for their support, valuable time, and advice. Last but not least, the author thanks all researcher for their contribution as the references to the present article.

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