

International Journal of Innovative Research in Science, Engineering and Technology

(An ISO 3297: 2007 Certified Organization)

Visit: www.ijirset.com

Vol. 7, Issue 6, June 2018

Drain of Wealth

Dr. Abhilasha Jaiman

Assistant Professor in History, Government Girls College, Chomu, Rajasthan, India

ABSTRACT: Every year, India continuously transfers income to England, for which it has not received sufficient amounts of material or return. Indian leaders and economists have described this as a “massive transfer of income from India to England. This was the ‘drain of wealth’ theory. The economic drain that the East India Company caused was an inevitable consequence of its administrative and economic policies. One of the main problems with the colonial government was that it was utilising Indian resources not for developing India but for the benefit of the British. If these resources had been utilised for good within India. Then they could have been invested, and the income of the people would have increased instead of being sent out of the country.

KEYWORDS: drain of wealth, England, India, British, country, Company, East India, government

INTRODUCTION

After the battle of Plassey, the drain of wealth took an outward turn as England gradually captured monopolistic control over the Indian economy. This allowed them to drain wealth from India, which they would then use to finance their own growth. Company employees gained political power, and the Company itself acquired a privileged status, which allowed them to acquire wealth through traditional ways of trade in India.[1,2]

The Company’s employees earned large incomes through their participation in internal trade. At the same time, British Free Merchants earned a great fortune through their private trade. The drain of wealth theory was interpreted as an indirect tribute that imperial Britain extracted from India. The practice continued for many years after the prohibition imposed by the Court of Directors in 1766.

Dadabhai Naoroji was an early pioneer in the study of colonialism and poverty. He was convinced that the main reason behind poverty was the colonial rule that was draining the wealth and prosperity of India. The drain of wealth was the portion of India’s wealth and economy that foreigners captured.[3,4]

Dadabhai Naoroji propounded the Drain of Wealth theory in 1867. Many researchers have further analysed and developed it, including R.P. Dutt and MG Ranade. In 1867, Dadabhai Naoroji proposed what is known as the ‘economic imperialism’ theory, in which he stated that British economic policies were completely draining India. He mentioned this theory in his book, Poverty and Un-British Rule in India, and it is also known as the ‘Drain Theory’.

He criticised that out of the revenues raised in India, approximately one-fourth of the money which is raised in India goes to England, which is the main cause of India’s poverty.

Indian leaders estimated that this amount of drain differs from person to person and from year to year.

1. RC Dutt: One-half of India’s net revenue flows out of India each year, according to R.C. Dutt. This is estimated to be around £20 million in early 20th century British currency.

International Journal of Innovative Research in Science, Engineering and Technology

(An ISO 3297: 2007 Certified Organization)

Visit: www.ijirset.com

Vol. 7, Issue 6, June 2018

2. MG Ranade: He declared that more than a third of the national income of India was taken away by the government in one form or another.
3. Dadabhai Naoroji: He claimed that approximately one-fourth of the money which is raised in India goes to England, approximately \$12 million per year.
4. William Digby: According to his calculations, the annual drainage was £30 million.

II.DISCUSSION

The drain affected the country's prospects of employment and income and its overall economic growth. When taxes paid by the people are spent in the country, the money circulates among the people, which helps grow trades, industries, and agriculture and eventually reaches the people's masses. Still, when the money is sent out of the country, it does not directly stimulate the trade industries or reach the people in any form, and it does not stimulate the local economy.[5,6]

The drain of capital to England really stripped India of its productive capital and created a shortage of capital which hindered significant industrial development. This directly impoverished India along with stultifying the process of capital formation

Dutt argues that the drain caused the impoverishment of the peasantry because it primarily flowed out of land revenue.

The wealth of India was the source of financing for the Industrial Revolution in England and is also the reason why an industrial revolution did not take place in India.

The Drain of Wealth Theory is the idea that a country's economy can be negatively affected by the outflow of valuable assets, such as money and goods, from the country. This theory is also referred to as "capital flight". This occurs when Britain decides to move out India's money and stocks to Britain, where they use it for the betterment of their country. Drain of wealth made a negative impact on the growth of India.[7,8]

The drain of wealth theory has been described as the constant flow of national wealth from India to England for which India did not get adequate economic, commercial or material return. The term economic drain refers to a portion of the national product of India which was not available for consumption of its people, but was being drained away to Britain for political reasons and India was not getting adequate economic material for it. Dadabhai Naoroji, in his book "Poverty and Un-British Rule in India," published in 1871, was the first to raise the issue of resource drain from India to England. Economists such as R.C. Dutt, Dadabhai Naoroji, and others have dubbed the British syphoning system used to drain India's resources and wealth "The Economic Drain."

Drain of Wealth Theory - Background

- According to the mercantilist theory, an economic drain occurs when gold and silver leave the country as a result of an unfavourable trade balance.
- In the 50 years preceding the Battle of Plassey, the East India Company imported bullion worth \$20 million into India to balance its exports against Indian imports.
- Following the Battle of Plassey, the situation was reversed, and the drain of wealth was directed outward as England gradually gained monopolistic control over the Indian economy.
- So, the 'drain of wealth' from India to England began after 1757 (Battle of Plassey), when the Company gained political power and the servants of the Company gained a 'privileged status' and, as a result, wealth through dastak, dastur, nazarana, and private trade.

International Journal of Innovative Research in Science, Engineering and Technology

(An ISO 3297: 2007 Certified Organization)

Visit: www.ijirset.com

Vol. 7, Issue 6, June 2018

- The British government enacted a number of measures to restrict or prohibit the importation of Indian textiles into the country.
- Aside from other measures, the British government prohibited the wearing or use of Indian silks and cotton in England in 1720, imposing a penalty on both the weaver and the seller.[9,10]

III.RESULTS

Drain of Wealth Theory - Features

- The exploitation of Indian resources was a hallmark of the colonial period.
- Britain's primary motivation for conquering India was to own a constant source of cheap raw materials to feed its own industrial base in Britain.
- Indians's income was spent on costly imports of finished goods from Britain, making Britain richer at the expense of India.
- Furthermore, the British government used Indian labour to expand its colonial base outside of India. Indians were paid less than their British counterparts to serve in the British army.
- The British Government's war and administrative expenses to manage the colonial rule in India were paid for with revenue collected from India and the export surplus generated by India's foreign trade.
- As a result, British rule drained Indian wealth to serve its own interests.

Drain of Wealth Theory – Process

- The revenues collected from India were used to pay the salaries and pensions of British civil and military officials working in India, the interest on loans taken out by the Indian government, and the profits of British capitalists in India. This was one method by which money was being sucked out of India.
- The drain manifested itself as an excess of exports over imports for which India received no economic or material benefit.[11,12]
- Remittances to England by European employees for the support of their families and the education of their children—a feature of the colonial system of government.
- Employees of the East India Company remitted savings because they preferred to invest at home.
- Remittances for the purchase of British goods desired by British employees, as well as purchases of British goods in India
- The government made purchase of stores made in Great Britain.
- Interest charges on public debt held in the Britain (which excluded interest payment on railway loans and other debts incurred for productive works).
- Private fortunes amassed by the Company's servants in the form of illegal gifts and perquisites from Indian princes and other Bengal residents.
- Employees of the company earned a lot of money by participating in the inland trade.
- The East India Company provided military assistance to the Indian Princes in their struggle for power against a rival claimant. A large portion of this money ended up in the pockets of British citizens.[13,14]
- Economic nationalists argued that the main goal of British policy in India was to turn India into a valuable market for the home country and to transform India into a supplier of cheap and secure raw material producing agrarian country.

International Journal of Innovative Research in Science, Engineering and Technology

(An ISO 3297: 2007 Certified Organization)

Visit: www.ijirset.com

Vol. 7, Issue 6, June 2018

Factors that caused External Drain

- External rule and administration in India.
- Funds and labour needed for economic development was brought by immigrants but India did not draw immigrants.
- All the civil administration and army expenses of Britain were paid by India.
- India was bearing the burden of territory building both inside and outside India.
- India was further exploited by opening the country to free trade.
- Major earners in India during British rule were foreigners. The money they earned were never invested in India.
- India was giving a huge amount to Britain through different services such as railways, roads, etc.
- The East India Company was buying products from India with that money and exporting it to Britain.[15,16]

IV.CONCLUSIONS

Drain of Wealth Theory - Consequences

- A large portion of these resources, which could have been invested in India, were taken and siphoned off to England.
- The government's massive public debt and interest payments necessitated an increase in the tax burden on the people of India, which was highly regressive in nature.
- According to Dadabhai Naoroji's estimates, the tax burden in India in 1886 was 14.3 percent of total income, which was significantly higher than the 6.93 percent in England.
- These tax proceeds were mostly used to pay off British creditors rather than for Indian social services and welfare.
- This type of drain of tax proceeds from India impoverished India's agriculture, industry, and trading activities, and was largely responsible for the country's economic stagnation in the 18th and 19th centuries.[17,18]
- The drain of wealth slowed capital formation in India because the majority of the surplus went outside the country, whereas the same portion of wealth accelerated the growth of the British economy.
- The surplus from the British economy was re-entered into India as finance capital, further draining the country's wealth.This had a huge impact on income and employment opportunities in India.
- The drain effectively depleted India's productive capital, resulting in a capital shortage that hampered industrial development.
- Although the British undertook the responsibility of maintaining law and order, centralised political and judicial administration, road, railways, etc, but the extent of draining out of resources was excessive leading to stagnation of the economy.
- Dadabhai Naoroji contended that what was being drained out was "potential surplus" that, if invested in India, could generate more economic development.

The Theory of Wealth Drain was developed by Indian nationalist thinkers primarily to analyze the root causes of poverty in India. The drain, as defined by nationalists, was the transfer of wealth and commodities from India to England without the former receiving any economic, commercial, or material returns. As a result, the Drain in Indian terms inevitably took the form of an excess of export over import. The Drain of Wealth was commonly referred to as "a phenomenon of colonial rule." [19,20]

International Journal of Innovative Research in Science, Engineering and Technology

(An ISO 3297: 2007 Certified Organization)

Visit: www.ijirset.com

Vol. 7, Issue 6, June 2018

REFERENCES

1. Mukherjee, Sumita. "Narrow-majority' and 'Bow-and-agree': Public Attitudes Towards the Elections of the First Asian MPs in Britain, Dadabhai Naoroji and Mancherjee Merwanjee Bhowanagree, 1885–1906" (PDF). *Journal of the Oxford University History Society* (2 (Michaelmas 2004)).
2. ^ Chisholm, Hugh, ed. (1911). "Naoroji, Dadabhai". *Encyclopædia Britannica*. Vol. 17 (11th ed.). Cambridge University Press. p. 167.
3. ^ b Nanda, B. R. (2015) [1977], Gokhale: The Indian Moderates and the British Raj, Legacy Series, Princeton University Press, p. 58, ISBN 978-1-4008-7049-3
4. ^ "Dadabhai Naoroji Awards presented for the first time – GOV.UK". www.gov.uk. Retrieved 1 June 2015.
5. ^ "India Post Honors Dadabhai Naoroji With Stamp – Parsi Times". *Parsi Times*. 6 January 2015. Retrieved 19 May 2015.
6. ^ "India Post Issued Stamp on Dadabhai Naoroji". *Phila-Mirror*. 29 December 2015. Retrieved 19 May 2015.
7. ^ Hiro, Dilip (2015). *The Longest August: The Unflinching Rivalry Between India and Pakistan*. Nation Books. p. 9. ISBN 9781568585031. Retrieved 9 December 2015.
8. ^ Bharucha, Nilufer E. (2000). "Imagining the Parsi Diaspora: Narratives on the wings of fire". In Crane, Ralph J.; Mohanram, Radhika (eds.). *Shifting Continents/Colliding Cultures: Diaspora Writing of the Indian Subcontinent*. Amsterdam: Rodopi. p. 62. ISBN 978-9042012615. Retrieved 13 January 2015.
9. ^ Mistry, Sanjay (2007) "Naorojiin, Dadabhai" in Dabydeen, David et al. eds. *The Oxford Companion of Black British History*. Oxford: Oxford University Press. pp. 336–337; ISBN 9780199238941
10. ^ Hinnells, John R. (28 April 2005). *The Zoroastrian Diaspora: Religion and Migration*. Oxford: OUP. p. 388. ISBN 978-0-19-826759-1. Retrieved 19 May 2015.
11. ^ Fourteenth Annual General Meeting of the British Indian Association, 14 February 1866, pg. 22.
12. ^ Sequeira, Dolly Ellen (2014). *Raj, S. Irudaya (ed.). Total History & Civics 10*. Delhi: Morning Star.
13. ^ Peters, K. J. (29 May 1946). "Indian Patchwork Is Made of Many Colours". *Aberdeen Journal*. Retrieved 2 December 2014 – via [British Newspaper Archive](http://BritishNewspaperArchive.com).(subscription required)
14. ^ "From the archive, 26 July 1892: Britain's first Asian MP elected". *The Guardian*. 26 July 2013. Retrieved 2 May 2015.
15. ^ Sultan, Nazmul S. (2014). "Moral Empire and the Global Meaning of Gandhi's Anti-imperialism". *The Review of Politics*. 84 (4): 545–569. doi:10.1017/S0034670522000560. ISSN 0034-6705. S2CID 252029430.
16. ^ "Millionaire's daughter arrested". *Portsmouth Evening News*. 21 August 1930. Retrieved 2 December 2014 – via [British Newspaper Archive](http://BritishNewspaperArchive.com).(subscription required)
17. ^ Kozicki, Richard P.; Ganguli, B. N. (1967). "Reviewed work: Dadabhai Naoroji and the Drain Theory., B. N. Ganguli". *The Journal of Asian Studies*. 26 (4): 728–729. doi:10.2307/2051282. JSTOR 2051282. S2CID 161370569.
18. ^ Visana, Vikram (September 2016). "Vernacular Liberalism, Capitalism, and Anti-Imperialism in the Political Thought of Dadabhai Naoroji". *The Historical Journal*. 59 (3): 775–797. doi:10.1017/S0018246X15000230. ISSN 0018-246X. S2CID 155747116.
19. ^ Raychaudhuri G.S. (1966). "On Some Estimates of National Income Indian Economy 1858–1947". *Economic and Political Weekly*. 1 (16): 673–679. JSTOR 4357298.
20. ^ Ganguli, B.N. (1965). "Dadabhai Naoroji and the Mechanism of 'External Drain'". *The Indian Economic & Social History Review*. 2 (2): 85–102. doi:10.1177/001946466400200201. S2CID 145180903.