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CONCEPTUALIZATION OF THE DRAIN THEORY: ECONOMIC DEGRADATION IN BRITISH INDIA

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ABSTRACT

Given the lively debate in contemporary politics and academia about the effects of British colonialism on the Indian economy, this paper attempts to trace the development of India's economic history since the 18th century, with a particular emphasis on the drain theory of wealth and the question of deindustrialisation. To arrive at probable conclusions, it reviews a broad set of scholarly papers on this issue and evaluates the data presented by a wide variety of writers. It is discovered that the construction of the drain of wealth theory has been rigorously questioned by researchers both at home and abroad, and its set of key premises remains unproven. On the other hand, the evidence for the deindustrialisation hypothesis is found to be significant, at least for the regions of Gangetic Bihar and Bengal, during the early 19th century.

Key words: British, Colonialism, Drain of wealth, economy.

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1. INTRODUCTION

In the second part of the nineteenth century, a real dialogue and discussion on the economic ramifications of British rule in India began. Dadabhai Naoroji presented his findings to the East India Association on July 27, 1870, after painstakingly gathering data regarding the financial issues of the Indian dominion. 1 He cited five specific concerns about India's ability to generate enough to meet its needs. Four of these demands were to be measured in terms of basic subsistence living, which included food, housing, clothes, and the minimal minimum of savings to fulfil social duties and natural disasters. Aside from this, Naoroji raised the question of whether India could afford to maintain an annual outflow of around 10 million GBP year after year (Naoroji, 1870). The drain of money was caused by wasteful and mostly foreign administration, pensions for retired British officials, interest charges on capital invested in India, and military expenditures (Dasgupta, 1993; Masani, 1939). In fact, while contemplating the outflow of money from India, Dadabhai was primarily concerned with the negative impacts of Company control on the common people of India, rather than the elite, who could continue to enjoy their advantages (Islahi, 1995). In fact, Dadabhai believed that recurring famines in India were a blatant indication of the drain of riches (Islahi, 1995).

2. OBJECTIVE

- Through this article an attempt has been made to analyse the drain theory in historical perspective like it's basis of its formulation, what were the supporters of the theory arguing and how the critics tried to counter those?
- An attempt is also made to view the drain of wealth in perspective of the 'theory of unequal exchange' and its probable explanation of the drain. A conclusion is presented to summarise the discussion.

3. DISCUSSION

Though we have been known Dada bhai Nauraji as the founder of the Drain theory, but actually he was not the first proponent. A group of Marathi intellectuals, led by Bhaskar Tarkhadkar, Bhau Mahajan and Ramkrishna Vishwanath, discussed the detrimental economic consequences of British rule and found the same not to be 'divine providence' but 'the most bitter curse' (Naik, 2001). However, it was Dadabhai who put forth the most cohesive argument by collecting required data, arriving at a cogent conclusion and presenting the findings to the right people at right place—to the British population and those occupying positions of authority in Britain.Even as Dadabhai's analysis gave a potent tool in the hands of nationalists for seeking greater relaxations and devolvement of power in favour of Indians, the drain theory was not beyond criticism—both homegrown and from beyond the shores, notable critiques being Bankim Chandra Chatterjee, Justice Mahadev Govind Ranade, Morrison and so on (Dasgupta, 1993).

The notion of drain was much more benign for the nationalists like Dadabhai as against the outright plunder that was experienced during the initial days of the British rule. It had more to do with the 'home charges' that would show transfer of resources to Britain on account of military stores and equipment expenses, pension payments to civil and military officers who served in India, interest payments towards the loans raised for and deployed in India, dividends to the shareholders of the East India Company till 1857 and then interest payments once the stocks were converted into debt after the crown took over the administration from 1858 onwards, and to provide funds for the India office in London that was presided over by the Secretary of State for India (Metcalf & Metcalf, 2006; Stein, 2010). It was like resources were being transferred to Britain through excess of exports and then were disappearing in thin air without any corresponding material benefit to the colonised India. Dadabhai did the pioneering work of exposing the vanity of the British claim that it was governing India for its own good. His exposition might have lacked the rigour of a trained economist as pointed out by Dasgupta (1993), it still was cogent, rational and forceful enough for many to take it forward and make it one of the mainstays of the national movement (Chandra et al., 2012)

While discussing drainage, Romesh Dutt stated that India, as a British colony, was a particular circumstance. Britain spent a lot of money colonising other nations, but it finished its colonisation of India, which was by far the greatest, without investing a single cent (1902, p. 399). Furthermore, regular dividends were paid out of the East India Company's income until 1833, and following the suspension of trade rights in 1833, dividends were paid out of the Company's tax receipts until 1858, when the Company itself was abolished. Thereafter, stocks were paid off by converting the interest of share- holders into an Indian debt[1] (Dutt, 1902). Further analysing the annual finances of the Company during the period 1792–93 to 1837–38, Dutt found out that out of 46 years, 14 years went into deficit (a cumulative deficit of £17 million), but the Company earned a surplus in other 32 years (cumulative surplus being a whopping

£49 million), resulting in a net surplus of £32 million and almost all of this was transferred as dividends to British shareholders (1902, pp. 399–408). How deficits, that basically resulted in such years when the Company waged wars in the country to annex newer territories, were financed? By creating India debt, burden of which would again fall on the Indian people.[2]

Later on debt would further be raised to finance productive projects such as irrigation or laying railways. An argument can be made that all the surpluses, if accumulated and kept within the country, could have gone a long way in financing such big ticket items. In fact even as India was almost always experiencing a posi- tive trade balance through the British Raj, it still was indebted. The total foreign assets were $2.8 billion (including $1.5 billion of government debt) by 1939 (Maddison, 1971). So we note that India was running positive trade balance and had capital receipts, so for balancing the balance of payments, balancing amount of money including the remittances must have been flowing outwards. Coming back to Dutt, he has further quoted Montgomery Martin, who said that a conservative estimate of drain of £2 million per annum for 50 years at the interest rate of 12 per cent (applicable going rate on India debt) accumulated to £8.4 billion (1902, p. 409)[3]

Even as the annual drain was about £2–£3 million before 1857, after transfer of power to the crown, the quantum of drain increased substantially to about £30 million per annum (Karmakar, 2004). In fact Maddison has pointed out that the drain increased still further to about £40–£50 million per annum by 1930s (1971, p. 20). Dadabhai argued that this drain was reducing savings and probable invest- ments on one hand,[4] while also reducing the existing capital stock in the country on the other.

According to Naoroji, there were several reasons of the outflow. Colonial India's military expense consumed a third of its revenue and supported maybe the world's most expensive army (Masani, 1939). This colonial army was involved in various wars even beyond its borders and all costs were duly charged to the Indian population. According to Maddison, during the First World War, when other emerging countries were lowering foreign debt, India did not, instead giving the UK two voluntary payments totaling £150 million (1971, p. 22). Importance of military expenditure is further confirmed when the data are seen. As late as in 1936, military, justice, and police and jails accounted for more than 50 per cent of government expenditure and less than 3 per cent was spent on agriculture (Maddison, 1971). Government was happier playing a watchdog rather than a nation developer. Moreover, like civil servants, military officers also sent remittances such as their savings to home country and later on, after retirement, got their pensions in Britain, which was again funded by Indian revenues (Dasgupta, 1993).

The second cause of drain of wealth was a highly expensive foreign administration. Starting from the Secretary of State for India, who headed the India Office in London, to the Viceroy and the higher echelon of the civil servants in India, everybody was treated particularly well so much so that the Indian Civil Service (ICS) became a much coveted service to get in. As per Maddison, Viceroy got a salary of £25,000 per annum, Governors got £10,000 per annum, and even a new recruit to the engineering service made £420 per annum, which was about 6 times the average wage of an Indian labourer (2006, p. 20). The high salaries were coupled with extremely comfortable sumptuary residences, summer retreats and good number of helpers (Maddison, 1971). All of this extravagance was entirely paid through taxes generated in India and yet, most of it was remitted back to England. Had the administration been driven by local persons, most of these remittances would have stayed within the country, could have helped in capital accumulation and could have been utilised productively for advancement of the nation. As per Maddison, these private remittances were about £10 million per annum during the interwar period, and as per Dadabhai's estimates, the corresponding figure for 1887 was also the same (1971, p. 21).

The third cause of drain was claims on financial assets invested in the country on behalf of British individuals and entities. Just how important was earnings from India on such instruments can be gauged by the fact that about one-sixth of earnings on capital investments, freight charges and insurance in London's Mishra and Rastogi 45 financial market originated in India (Stein, 2010). The debt could have been raised for either promoting productive activities such as laying railways or irrigation network or non-productive activities such as financing military expenditure to engage in numerous wars. Dasgupta suggests that the former was evidently beneficial, and the later was avoidable, but Dadabhai could not differentiate between the two (1993, p. 78). Even the investments in much vaunted activities such as laying railways were not beyond reproach. By the end of nineteenth century, the total investment in railways reached to about £350 million, but almost all of this was British Capital and the minimum return of 5 per cent was guaranteed first by the Company and then by the crown (Satya, 2008). Satya calls it 'private invest - ment at public risk' (2008, p. 69). All the profits generated by railways were again appropriated by the British and flowed back to London accentuating the drain. The locomotives, tracks and steel bridges were all imported from Britain and not made locally 16— in fact over 20 per cent of all locomotives manufactured in Britain were sent to India (Kulke & Rothermund, 1998). Similarly, almost all the high positions in the railways were occupied by the British. As per Stein, Indians held only about 10 per cent of the higher positions by 1921 and only about 700 locomotives were manufactured in the country by the time India got its independence in 1947 (2010, p. 248).

4. CONCLUSION

The past discussion has proved beyond doubt that a significant degree of drain took place during the British rule over India, even though there may have been difference of opinions between the supporters and the critics of the theory regarding the quantum of the drain. As the Company-rule lasted from 1764 to 1858 and then the British rule for 90 years (1858–1947), the systematic drain over such a long period had the potential to significantly alter the economic landscape of India. The British left many legacies worth appreciation such as railways, irrigation, efficient administration, abolition of sati, legalisation of widow remarriage, extinguishing Pindaris, breaking up the privileged position of aristocrats and nawabs and so on. However, one can still argue that being the ruler of the Indian subcontinent, which played such a significant role in their economic and political uprising, the British should have devoted significantly more energy and resources to developing India for mutual benefits, as was proposed by Dadabhai Naoroji, the Grand Old Man of India, time and again.

NOTES

1. This is an interesting case of a reversal of a typical convertible debenture where debt could be converted to stock. Here, stock was converted to debt—a case of prudent financial engineering!

2. Dadabhai had already presented his views on drain of wealth from India to Britain in his lecture titled 'On England's Duties to India' (Naoroji, 1870), which was delivered before the East India Association on 2 May 1867 (Naik, 2001).

3. Our own calculation of future value of an annuity of £2 million for 50 years at 12 per cent came out to £4.8 billion (£4,80,00,36,497.17 to be precise) and not £8.4 billion as reported by Montgomery. Was it probably a case of a typographic error? This amount of £4.8 billion in 1838, when using the conservative inflation rate of 4 per cent again, amounts to £4967.6 billion or £4.9 trillion (which is about four times the present Indian GDP of about $2 trillion! (or £1.27 trillion as per the current exchange rate)). This provides an inkling of the extent of drain that was taking place.

4. Akin to opportunity cost.

5. In fact the author (Morrisette) has pointed out that the Bengal famine of 1769–70 hardly received any significant coverage in Britain initially. After the news became more public, the initial reactions were whether the stock prices of the East Company would be adversely affected!

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