Article

Colonial Deindustrialisation of India: A Review of Drain Theory

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Abstract

While it is quite well accepted that the British rule imposed a heavy cost on India in terms of financial and industrial losses, the economic impact of the Company rule is still far from settled. Rule of the British East India Company (BEIC), and later the crown, has the scholars divided on whether the colonial India suffered a systematic draw down of its economic resources—the so-called drain theory. While the British version underplays or denies such a drain, the nationalists suggest it was a major long-term damage. This article reviews and critiques the economic policies of the British Raj in detail to know whether there was at all a drain of resources out of India and, if yes, to what extent. It was found that while the nationalists exaggerated effects of the drain, their arguments hold significant value. Finally, drain theory is assessed in the backdrop of the theory of unequal exchange.

Keywords

Drain, nationalists, British Raj, deindustrialisation, unequal exchange

Introduction

In July 2015, Dr Shashi Tharoor presented a strong case for British induced deprivation of India, when he spoke for the motion—*This house believes Britain owes reparations to her former colonies*—at The Oxford Union, the world famous debating society (Bolton, 2015). While his speech gained an instant popularity in India, it ruffled a few feathers in UK as well to ignite defensive responses

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(BBC, 2015). While the public response across the globe shows the vibrancy of the topic even today, the common public is not alone in this excitement. The 2017 John Bates Clark Medal winner, Dave Donaldson, is credited with one of the most exciting and well-cited works on British Raj in recent years. His paper on Indian railroads of the British era showcases interesting data and draws great empirical insights (Donaldson, 2018). While the debate about the impact of the British Raj on India is still going on, we take a deeper look at the historical documents to shed some light on the drain of wealth from India through systematic deindustrialisation during British East India Company years (1757–1857) and British Raj years (1857–1947).

A proper discourse and debate on the economic repercussions of the British rule in India started in the second half of the nineteenth century. After painstakingly collecting data about financial affairs of the Indian dominion, Dadabhai Naoroji presented his finding before the East India Association on 27 July 1870.[1] He raised precisely five questions on whether India was in a situation to produce enough to satisfy its wants. Four of these wants were to be measured in terms of mere sustenance living comprising food, shelter, clothing and bare minimum saving to meet social obligations and natural calamities. Besides these, Naoroji also brought up the issue whether India could afford to sustain annual withdrawal of about 10 million sterling year after year (Naoroji, 1870). The drain of wealth was on account of having extravagant and predominantly foreign administration, pensions to retired British officials, interest charges on capital invested in India and military expenses (Dasgupta, 1993; Masani, 1939). Incidentally, while formulating his thoughts on the drain of wealth out of India, Dadabhai was majorly concerned about the evil effects of the Company rule on the common people of India and not the elite, who could still enjoy their privileges (Islahi, 1995). In fact, Dadabhai was of the opinion that recurrent famines in India were clearly a manifestation of the drain of wealth (Islahi, 1995).

The concept of drainage of wealth from colonial India, however, was not entirely novel, and Dadabhai 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.[2] 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).

This article seeks to analyse the drain theory in historical perspective—what was the 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.

Precursor to Drain of Wealth

While discussing operations of the East India Company in 'the Wealth of Nation', Adam Smith expresses surprise that how the Company was moving towards almost bankruptcy by 1773 even as it was generating handsome revenues and its servants and officials were enjoying so many fruits that a parliamentary enquiry was going on in the matter (2005, p. 614). He further termed the officials of the Company as 'plunderers of India'[3] (2005, p. 615). Being a laissez-faire evangelist, Smith might not have favoured the monopolistic rights of the East India Company over trade with India in a typical mercantilist fashion. Still, the word 'plunderer' connotes deep misgivings in his mind as regards the activities of the East India Company. We must note here that the so-called plunder could have started in the right earnest only after the battle of Plassey in 1757 (more so after the Battle of Buxar in 1764) and Smith published his magnum opus in 1776. Hence, the Company officials must have been working rather hard to invoke such a critique from the father of modern economics. In fact, in 1765 the Company was given the Diwani rights for Bengal, which brought out some civic responsibilities in addition to the right of collection of taxes (Chaudhury, 1983).[4] Instead, the Company officials played hoarders of rice and continued to collect taxes even as draught of 1770 loomed, and as a result, the draught led to a major famine, which reportedly wiped off about one-third population of Bengal (Morrisette, 2010).[5]

The mismanagement by the East India Company led the British Parliament to make significant changes in how the Company was operating in India. Warren Hastings was first appointed the Governor General of Bengal in 1772 and, after the passage of the first Regulation Act in 1773, the Governor General in Council of India in 1773 (Metcalf & Metcalf, 2006). He was, however, shackled by a council comprising four persons, who were chosen by the political class in London and could veto the Governor General (Kulke & Rothermund, 1998). Interestingly, the counsel of this council frustrated Hastings to no ends and yet could not save him from undergoing an impeachment for corruption and 20 other charges 3 years after completion of his tenure in 1885 (Stein, 2010).[6] Cornwallis, who succeeded Hastings, did not want the fetters of the council. Hence, the second Regulation Act of 1784 gave Governor General greater powers. However, to check his functioning, a Board of Control was created in London that would be headed by a person who would eventually be called the Secretary of State for India (Kulke & Rothermund, 1998). A 'Board of Secrecy' was created by taking up three persons each from the Board of Control and from among the directors of the Company and the decisions of this board would supposedly be binding on the Governor General. As per Stein, Cornwallis had to take a pledge before his appointment as Governor General that he would refrain from waging a war once in India, but he still confronted and conquered Tipu Sultan for domination of South India showing that the checks and balances in the system were still not foolproof (2010, p. 207). As regards economic measures taken by Cornwallis, most noteworthy was 'Permanent Settlement' of 1793. Was it done to help improve agricultural productivity by giving landlords (zamindars) incentives for increasing crop yields when the revenues from the lands allotted to them were fixed for once and all? Kulke and Rothermund say not exactly—It had more to do with sidestepping the common refrain made by landlords about missing peasant,[7] better predictability of revenues and hence better budgeting, and perhaps most importantly, to recover from heavy financial burden because of war with Tipu Sultan (1998, p. 230).[8] Did 'Permanent Settlement' help in improving the livelihood of peasants? It is debatable. Given to the arbitrariness of Company officials in assessing and demanding land revenues, it was some sigh of relief for the landowners that they now had to pay something about which they knew in advance. In fact, Romesh Dutt hails the permanent settlement of Cornwallis as the single most important initiative for bringing prosperity and happiness to British subjects in the country (1902, p. 9). But, there are pointers to say that all was not well with this system of revenue sharing. English demanded 9/10th of collection from zamindars. These demands did not alter as per the harvesting conditions; and these contractual agreements between the Company and the zamindars were executed with full force; if some landowner reneged,[9] his rights would be annulled thenceforth (Rothermund, 1993). These tough conditions could not benefit the early zamindars and many of them were replaced by another set of zamindars, who were least interested in agriculture's development or peasants' well-being (Anonymous, 1955).[10] Rothermund notes that with the increased land revenue, the Company was now in a position to recover most of the silver it pumped previously and the same was exported to Britain leading to a situation of money scarcity and deflationary economy through the first half of the nineteenth century, which had adverse impact not only for the peasants but also for other economic agents such as the weavers (1993, p. 21). The drain had thus started in the right earnest.

Cornwallis took another decision that had extremely significant repercussions on drain of wealth in times to come. He conveniently considered the natives as responsible for all the wrongdoings that took place during the earlier regime of Hastings and fully absolved the wily Company officials.[11] On his instigation, the Regulation Act of 1793 formalised introduction of civil servants, and all the posts having pay more than a specified limit were to be filled only by persons of British origin (Metcalf & Metcalf, 2006; Mollah, 2011). This racial discrimination remained until the end of the British regime even if some concessions for natives were made later on. The salaries of these 'foreign' administrators, their attractive perks and privileges and guaranteed pensions were to be entirely funded from local revenues only. Dadabhai considered these payments, especially the pensions, as a substantial part of the drain of wealth that was happening by dissociating the natives and exclusively relying on British to fill higher positions.

The East India Company was abolished in 1858 after the revolt (or mutiny as some insist on calling it) of 1857. From the era of Cornwallis, who served till 1795, to Canning (first as Governor General and then Governor General and Viceroy of the British Crown (1856–1858 and 1858–1862, respectively)), the Company kept on expanding area under its direct governance. It fought major wars with Marathas (1818) and Sikhs (1849) and also annexed Awadh in 1856 and, therefore, effectively controlled the entire country including the princely states that were subdued to have friendly but subjugated relationship with the

Company. As regards the economic performance during this period, it is seen that while agricultural production per capita almost stagnated, the biggest loser was industry. There was a chronic case of deindustrialisation during the British Raj. The contextual definition of deindustrialisation for this article is taken as 'the movement of labor out of manufacturing and into agriculture, either measured in absolute numbers (strong deindustrialisation), or as a share of total employment (weak deindustrialisation)' (Clingingsmith & Williamson, 2008). As the Company had to earn profits and pay dividends to shareholders in Britain, it used its local revenues to finance exports and hence drain of wealth occurred due to excess of export for which no imports took place (Furber, 1948 q.v. Clingingsmith & Williamson, 2004). However, this happened during the period 1772–1815. Post-1815, the exports of Indian textile declined dramatically and very quickly India became a net importer of British textile. As per an estimate, the net excess of exports over imports, that is, the net financial transfer from India to Britain, was at a high of £1,014,000 per annum during 1784–92; later on it came down to £477,000 per annum during 1808–15 before turning negative to £77,000 per annum during 1816–20 (Esteban, 2001 q.v. Clingingsmith & Williamson, 2004). The deindustrialisation was brought about by cheap textiles produced by modern factories of Lancashire in England and Indian textile industry, which did not get any tariff protection rather such imports from England were made duty-free, could not compete (Maddison, 1971). The phenomenon of deindustrialisation is shown in Figure 1.

The graph shows that industry started its sharp decline (1790s), and as its growth faltered, agricultural growth picked presumably because of labour transition from industry to agriculture. In fact, the British attempt to harm the Indian artisans in order to benefit their profits started very early on—soon after the Clive's conquest of Arcot (1751). Giving an account, James (2010) writes:

> [T]he Company was free to impose stringent conditions on internal trade which were designed to increase its profits. Within twenty years of Arcot, the Company was dictating how the weavers of southern India organised production and systematically squeezing out Indian inventors and entrepreneurs. Having been delivered from the

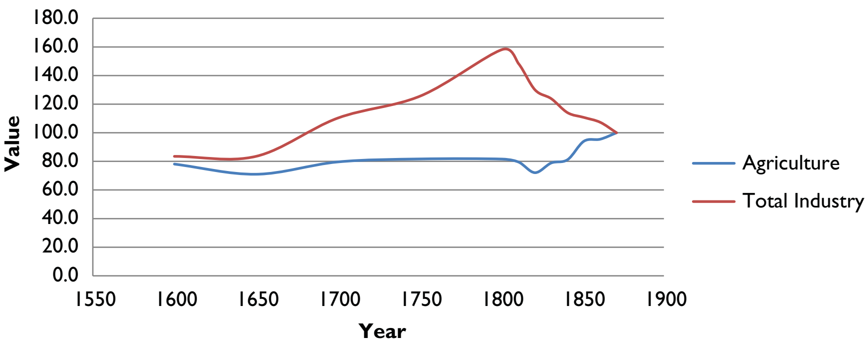

Figure 1. Growth of Agriculture versus Industry (1871=100)

Source: Adapted from data in Broadberry and Gupta (2009).

depredations of Maratha horsemen, the artisans of Karnataka found themselves at the mercy of the Company's agents.

The economic growth could be best seen by analysing the GDP growth per capita as it captures growth vis-à-vis the population to which this growth must be appropriated. The data presented in GDP per capita from 1600 (till 1871) is used to prepare the following graph (see Figure 2):

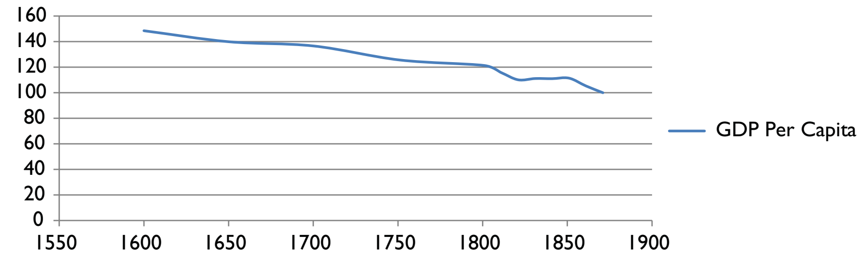

Figure 2. GDP Per Capita (1871=100)

Source: Adapted from data in Broadberry and Gupta (2009).

This graph shows that a modest growth in agriculture and upsurge and then the downfall of industry resulted in a secularly declining per capita GDP during the period 1600–71. Hence, any increase in agriculture and industry was overwhelmed by the growth in population. This decline had already started after disintegration of the Great Mughals, but disturbing fact is that the British did not do anything to arrest the decline of economic activities.

There may be an argument that the deteriorating economic conditions were not unique to India; rather, it was a global problem. This notion is dispelled when economic performance of the coloniser and the colonised is seen together:

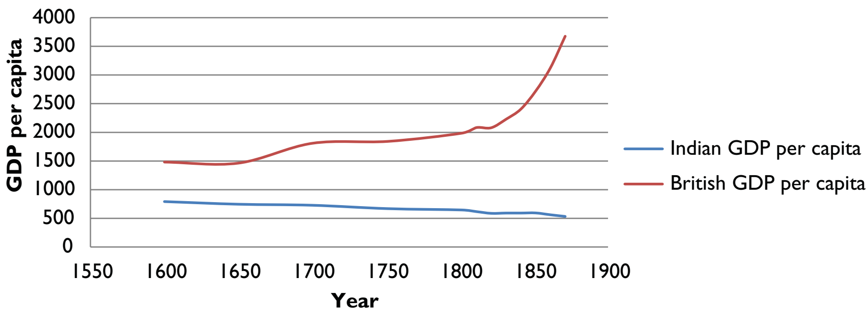

Figure 3. Per Capita GDP of India and Great Britain (in 1990 international dollars)

Source: Adapted from data in Broadberry and Gupta (2009).

The graph (see Figure 3) clearly shows that even as Britain started off with better per capita GDP statistics, the gap between Britain and India widened, and widened at increasing rate after colonisation.

Conceptualisation of Drain

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 drain, Romesh Dutt specified that India, as a colony for the Britain, was a special case. Britain spent significant amounts while colonising other countries, but completed its colonisation of India, which was by far the largest of them, without spending a single shilling (1902, p. 399). On top of that, regular dividends were paid through revenues generated by the East India Company till 1833, and after abolition of trading rights in 1833, dividends were paid out of the tax revenues generated by the Company till 1858, when the Company itself was abolished. Thereafter, stocks were paid off by converting the interest of shareholders into an Indian debt[12] (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.[13]

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 positive 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)[14]

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 investments on one hand,[15] while also reducing the existing capital stock in the country on the other.

As per Naoroji, there were certain causes of the drain. The military expenditure of the colonial India was absorbing a third of its revenues and was supporting perhaps the costliest army in the world (Masani, 1939). This colonial army was involved in various wars—even beyond its shores and all the expenses so incurred were duly charged on Indian population. As per Maddison, during the First World War, when most of the developing countries were reducing foreign debt, India did not do that and instead gave two voluntary contributions totalling £150 million to the UK (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 60 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 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 investment 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).

Critique of the Drain

Maddison has presented three interesting scenarios to ignite the counterfactual thinking as regards if British had not come to India, what could have happened. First scenario is having indigenous rulers and no foreign coloniser, where given the social milieu of that time, especially after disintegration of the Mughal Empire, major civil wars would have taken place and the country might have disintegrated; second scenario is of colonisation, but not by British, but by another nation such as France, Portugal or Spain—in this case, the situation would not have been very different from what was experienced with British colonisation; and third, which Maddison calls 'most intriguing', is British colonisation to begin with, but its ending much sooner than lasting for two centuries. He suggests that much better results could have been obtained through smaller drain, better tariff protection, more technical training and so on in this scenario (1971, p. 2).

This argument is akin to saying that India was a sinking ship, and had Britain not shown up on the horizon, chances were rather high that the ship could have disappeared altogether—only thing is that the British overstayed with the ship. Was the ship really going to sink? What was the intention of the saviour, if it really was one? Could it be termed sympathetic to Indian cause as many would like posterity to believe? Review of literature suggests otherwise. Even as Maddison found a few holes in the arguments of the nationalists regarding the drain (such as debt service on loan raised for putting up railways, some expenditure on important imports appeared quite legitimate expenditures and so on), he also agrees that 'we can legitimately consider service charges on non-productive debt, pensions, and furlough payments as a balance of payment drain due to colonialism' (1971, pp. 20–21).

While discussing the reasons that why per capita income in India grew only at 0.12 per cent[17] between 1820 and 1950, even as £286 million of British capital, comprising 18 per cent of total capital raised in London and invested in its various colonies and second only to investment in Canada in terms of total proportion of distribution of the British colonial capital investment, was invested in India between 1865 and 1914, Ferguson studied the likely causes (2003, p. 21). He referred to all the four issues raised by the nationalists such as Dadabhai, namely, British deindustrialised India by first protecting Lancashire Mills from Indian imports and then promoting them to sell in India; British taxation was not only excessive but regressive as well; they 'drained' Indian resources and also tweaked the exchange rates to their advantage; and finally, the British hardly did anything to prevent famines that were primarily caused by British policies (2003, pp. 21–22). Ferguson has referred to Tirthankar Roy in countering all the points raised by the nationalists. Let us analyse them one by one.

It has been suggested that the fall of the textile industry, by far the biggest industry of that time in India, was probably unavoidable and was not dependent on who were the rulers. Moreover, the workers displaced in the textile sector would have got employed in newer sectors being developed (Roy, 2000 q.v. Ferguson, 2003). Similar points have been raised by Clingingsmith and Williamson, who said that India deindustrialised in two epochs—first between 1750 and 1810, when the deindustrialisation took place mainly because of disintegration of the Mughal Empire, which led to higher tax burden on agriculture as many disintegrated kingdoms needed more money to wade through uncertain times and raise armies. This, in turn, led to increase in prices of agricultural produce and as the industrial workers were already living at the level of subsistence, their nominal wages also rose causing a loss in export competitiveness vis-à-vis British textile manufacture even before factory production started there in full swing (2004, p. 24). As regards the period 1810–60, the relative prices of British textile kept on decreasing because of technological advances in production as well as transportation, which meant that even as grain prices in India stabilised under the colonial rule, the relative price of imported textile fell rather too drastically for the Indian textile industry to cope. As a result, by the end of 1860, India had turned a net importer of textile (2005, p. 25). Bankim Chandra also made similar observations regarding artisans and remarked that it was rather good that textile was available at low prices, and the artisans should look for alternate employment (Dasgupta, 1993).

The inevitability of the decline of the Indian industry, however, is not certain because there were virtually no attempts to develop indigenous industry and no fillip to train the native artisans to acquire newer skills to compete in new market place. Later on, when industries began setting up, most of them such as tea plantations, jute, railways and so on were owned by the British citizen only. The agrarian economy continued to grow not only in size absolutely but also relative to industry and gradually over 75 per cent of the population became dependent on agriculture by the end of nineteenth century (Stein, 2010). The censuses of 1881 and 1931 also point towards that, even as the proportion of people engaged in agriculture increase by 28 per cent between these periods, there was actually a decline of 8 per cent in the proportion of people engaged in the non-agriculture sector during this period (Stein, 2010). This is entirely in contrast to what was happening in the world outside, which was generally getting more and more industrialised. This gives ample evidence towards deindustrialisation. Hence, even if it is accepted that the fall of Indian industry had become unavoidable, the colonial government must share the blame to the extent that Indian industry did not receive any alternates to survive and rather was discriminated against by imposition of duties on Indian exports and facilitation of British imports. It was also blunted through unfavourable exchange rates and was given step-motherly treatment by having British to exploit whatever little industrial progress was made in the country. It is rather ironical but helpful to note that the first Mills to produce textile in India established during the 1860s were opened in Bombay and Ahmedabad, where the British influence was rather limited and not as stifling as in Eastern India. Ferguson further says that the Indian textile industry started to get protection from the Lancashire Mills by 1920s (2003, p. 22). This in fact proves the point that the Indian industries needed protection right from the beginning till they became competitive on their own and it was probably too little—too late as Indian exports to China were to dissipate in a matter of just 10–15 years. Moreover, Maddison pointed out that the Indian government did never protect the Indian textile industry against the Lancashire, but raised tariff protection with alacrity as soon as import from Japanese textile became a threat in early twentieth century (1971, p. 1), again showing preferential treatment for English industry in the clearest possible way.

As regards taxes being excessive and regressive, Ferguson has again referred to Roy saying that the burden of land tax fell from about 10 per cent of net output in the 1850s to just 5 per cent of the net output by 1930s (Roy, 2000 q.v. Ferguson, 2003). Can we then say that the nationalists were wrong in claiming that the taxes were both excessive and regressive? We need to note a few things—the British had a minimal government in India and though the land revenue accounted for about half of the income for the government in 1858, the rest being collected through taxes on opium,[18] salt (which was perhaps the most regressive form of taxation—salt was essential for all and poorer persons paid higher percentage of their income on consuming it), income taxes and stamp duty,[19] and by 1930s, land revenues accounted for only about a quarter of governments income and were ably replaced by customs and income taxes (Stein, 2010). A testimony to the same is the increasing home charges paid to the parent country. The restrictive nature of taxes for a common citizenry of India has already been described in some detail in this article. Hence, the taxes were excessive as well as regressive cannot be denied, at least for a significant period of the British rule in India.

As regards the 'drain', Ferguson says that the estimates of the nationalists were on the higher side, it was rather benign, being just about 0.9–1.3 per cent of the national income per year during 1868–30s (2003, p. 22). He further said that many items of home charges were, in fact, charges for such services that could not have been provided for by India to itself. Morrison also said that India got good administration, peace, security from foreign aggression, which it could not have provided to itself (Morrison, 1911 q.v. Dasgupta, 1993).[20] As per Maddison, who also adjusted the claims made by the nationalists, the drain was about 1.5 per cent of the national income of the undivided India between 1921 and 1938 and was probably higher before (1971, p. 21). Hence, there is ambiguity about the quantum, but even if a very modest growth rate of 1.5 per cent of national income is assumed to have been drained, it means extremely significant loss of resources for India. In fact, we took a preliminary analysis to measure the likely impact. In our simplified economy, we took the starting year as 1 and had a base year total income of just 100 units. This income was allowed to grow at the population growth rate of 2 per cent (leaving the per capita income at almost constant level as experienced by the colonial India). We took the discounting rate at a conservative 4 per cent only. A resource shift, that is, the drain of 1.5 per cent, was effected every year for 190 years (the colonial rule period). The total future value of all the drains at the 190th year was 29.85 (i.e., 2985%) times the income of 190th year. Even at the 'drain rate' of 0.9 per cent given as the lower limit by Ferguson, the future value of all the drains is 17.91 times the income in the 190th year. Hence, the losses, however moderate, can become extremely significant in a very long run, especially if they are systematically effected for long enough as happened in the case of British India.

As regards the resources drawn for providing administrative services to India, it is difficult to quantify any value to such services and hence is not commented upon though the moral aspect of the same has already been touched upon previously in the article. As regards famines, it is said that famines were a part of the Indian environment and reduced to a great extent as the British integrated the country together; the famine of 1943 of Bengal was essentially the result of the breakdown of British administration after the Second World War (Ferguson, 2003).[21] The effect of British administration during the famine of Bengal in 1769–70 has already been discussed. It is also noteworthy that even as the great Bengal famine took place in 1943, famines never happened after 1947 when India became independent even though the democratic government that took over also faced many notable crises.

Unequal Exchange

It will be interesting to see the colonial context of India in view of the theory of unequal exchange, whose genesis could be traced back to the theory of comparative advantage propounded by David Ricardo (Foster & Holleman, 2014). As per Ricardo's example, even as Portugal had an absolute advantage in the production of both wine and cloth over England, it was still beneficial for Portugal to produce wine and for England to produce cloth, as Portugal was comparatively more efficient in producing wine than cloth and then engage in trade. Ricardo, however, did not consider the value to be transferred in trade as per the cost of production or the prices of different products in trade; rather, it depended on the forces of supply and demand. Commentators like Marx saw a fallacy there.

Looking at the mechanism of generation of surplus value in the Marxian system, it is pertinent to note that even as product prices in different markets tend to equalise, they vary a lot when value of labour power is concerned. Wealthy imperialists had better wage rates than in a colony such as India. As the value of labour power was lower in India and the prices were equalised, more surplus value of labour was produced in India. As per Marx, if one of the countries engaging in trade has higher labour productivity (e.g., Imperialist Britain) compared to the other (e.g., Colonial India) then, through free trade, it would tend to appropriate more surplus value of labour. This would cause a transfer of value from the latter to the former, that is, from less capital intensive country to higher capital intensive country having higher labour productivity resulting in unequal exchange (Foster & Holleman, 2014). Foster and Holleman have quoted Marx as saying, '…three days labour of one country can be exchanged against one of another country…in this case, the richer country exploits the poorer one, even where the latter one gains by the exchange…' (Marx, 1971 q.v. 2014, p. 202). Later on the theory of unequal exchange was developed further by economists such as Bauer, Emmanuel, Sweezy, Amin and so on and became a potent tool to explain the exploitation by colonisers of colonies, by developed countries of developing and underdeveloped countries, and by multinational companies of weaker economies where they had significant presence (Brolin, 2006). Coming back to India during the British colony days, almost all the conditions of a free bilateral trade were present. Britain was already a capitalist country with significant labour productivity edge over the Indian labour productivity and it used to export to India capital-intensive goods such as factory-made textiles having low surplus labour and import from India raw material such as cotton having high degree of surplus labour. As per the theory of unequal exchange, even when a fair trade was entered into, the surplus value of Indian labour was getting transferred to the British economy through unequal exchange, however unknowingly, causing another kind of drain that the nationalists did not talk or agitate about.

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.

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Notes

1. 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).
2. In fact, the paper 'Wants and Means of India' was read before the East India Association on 27 July 1870, and the meeting was presided by Sir Charles Trevelyan, who had been a civil servant in India, worked for the British treasury, then worked as a Governor of Madras and finally became the Finance Minister in India (Masani, 1939). Incidentally Sir Charles accepted most of the arguments presented by Dadabhai, while rejecting his conception of drain, which was perhaps Dadabhai's most important argument!
3. Emphasis added
4. Lord Clive, the Hero of almost all the early conquests of the East India Company—in fact he was compared with Napoleon for his warcraft by an overly adoring Macaulay in one of his essays, was given the brief to check corruption among the company officials. He himself ended up being charged for misappropriating £234,000 of company's plunder in Britain and finally took his own life in 1774 (Stein, 2010). The sum of £234,000 is a significant amount of money considering that the annual charges being paid by the company to British government were £400,000 only. Considering inflation rate of just 4 per cent, this money amounts to £3.48 billion today.
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!
6. Ultimately, like Clive, Hastings was also exonerated of all charges. As per Stein, the impeachment proceedings of Hastings led by Edmund Burke became one of the most entertaining events of London during that period (2010, p. 207).
7. After the famine of 1770, less number of peasants were available for cultivation and landlords often made excuses that they could not get enough number of peasants to produce enough and hence would not be able to pay as per the demands. English administrators, of course, could not check the veracity of such claims (Kulke & Rothermund, 1998).
8. Here is a very interesting point—if permanent settlement was panacea for so many ills that were plaguing the English administration so far, then why it did not press from the same in South India after victory over Tipu and let the existing system of collecting taxes directly from peasants continue? Tipu Sultan had, in fact, created a rather efficient system of collecting taxes directly from the tillers (peasants) and not through the landlords.
9. As the demand had to be deposited before the sunset of the due date, this was also termed as sunset law.
10. The ill effects of permanent settlement were realized later on. Many commissions were set up to correct it. Finally, Floud Commission in 1940 suggested abolishing it (Anonymous, 1955).

11. Cornwallis is said to have remarked, 'Every native of Hindostan, I verily believe, is corrupt' (q.v. Metcalf & Metcalf, 2006).
12. 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!
13. The exact debt burden on India was £26,947,000 as on 30 April 1836 (Dutt, 1902).
14. 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.
15. Akin to opportunity cost.
16. One facility to manufacture locomotive was established in Bombay and the first one was manufactured in 1865. But no fillip was given to local manufacturing, which could have had wide ramifications through multiplier effect (Stein, 2010).
17. This is startling given to the fact that Canada, Australia and New Zealand, also colonies of Britain, were among the highest growing economies in the world in terms of per capita GDP growth during 1820–1950; even Africa grew its GDP per capita at 0.55 per cent per annum, which is over four times the Indian growth during the same period (Ferguson, 2003)! In fact, this was another grouse of the nationalists that British actively discriminated against India in comparison with its other colonies.
18. Opium trade was state-sponsored and provided for almost 15 per cent of government's revenues by 1830s (Metcalf & Metcalf, 2006). One can certainly argue against its legitimately on moral grounds.
19. These taxes, that is, stamp duty, customs, excise, income tax, salt tax and so on, were unknown to the Indian before advent of the British rule.
20. Some other commentators brought out other virtues of the British rule such as unifying different sets of people into a nation state (Narang, 2012, p.192).
21. Incidentally, Ferguson suggests that the low per capita growth of India was due to less intervention of the British (2003, p. 25).

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