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'Drain of Wealth' and 'Economic Nationalism' in Colonial India (1858-1914)

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Abstract:*In the period under review Indian trade and industry were strictly under the British control. The British looked to their own interests. As a result of the colonial economy pursued by the English, Indian foreign trade increased in volume. But it was of no real benefit to India. It was the foreign traders who controlled the trade. India was reduced to an open market of foreign consumers' goods and producer of raw materials for factories in England. India lost foreign market for her own products. Her handicrafts were destroyed. Unemployed artisans and craftsmen turned to agriculture for their living. They now depended upon their family agricultural land. But that was too small to provide all. Not only that during the period of our study (1858-1914) as manufactures were crippled, agriculture overtaxed and revenues were remitted out of the country which led India to the suffering from permanent poverty and recurring famines. In that case the term 'economic nationalism' was raised by the nationalists in India who took critical positions with regard to the economic policies of the British regime in India, and suggested alleviative measures in the interests of the Indian people.*
Keywords: *Agricultural Land, British Rule, Colonial Economy, Drain of Wealth, Tribute etc.*

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Introduction

The period from 1858 to 1914 i.e. spanning the period from the suppression of the great Revolt of 1857 to the outbreak of the First World War (1914), may be called as the 'highest' phase of British colonialism over India. The primary objective of the British conquest of India from the very first stage was to gain 'Tribute' as much as possible under any circumstances.[1] After the winning of the Carnatic Wars (1747-63) and the Battle of Plassey (1757), the English East India Company started extracting the Indian people in such a way that as a result of their policy of collecting land revenue had impoverished the country so much that even Cornwallis complained that one-third of Bengal had been transformed into a ‘jungle inhabited only by wild beasts’.[2] Indian agriculture began to stagnate owing to excessive land revenue, growth of landlordism and increasing indebtedness.[3] Not only that from the very beginning of the British rule in India, the British authorities started converting large portions of tax-revenues what they collected forcefully from the conquered areas as well as tributary princes, into funds for ‘investments’. With these ‘investments’ Indian products were purchased, carried overseas and sold throughout the world. The profit from this commerce without any investment from Britain as if represented a wholesale transfer of Indian revenues to the Company’s treasures in Britain. [4] But in return i.e. what they obtained from this country as imports, the Britain did not need to export anything from India. In addition to this ‘Official-Drain’, the servants of the East India Company would engage themselves to make personal gains through the processes of obtaining ‘gifts’, bribes, extortions of various kinds, profit from local trading monopolies, and increasingly high salaries paid to them out of the revenues of India. These types of huge extraction without having to part with bullion, virtually converted the colonies like India as the source of legitimate gain for the ruling colonial country i.e. England. The term ‘mercantilist’[5]is therefore quite appropriate for this phase of colonial exploitation.[6]

The transfer of wealth from India to England experienced a crisis after 1800 because of India’s increasing inability to pay Britain through textile exports. In the meantime, Britain’s own manufactures drove out Indian textiles from foreign markets. The 1857 Revolt, however, removed the government of the East India Company over Indian and the direct British rule was started through the passing of the Government of India Act in 1858 by the British Parliament. It was formally expected that with the imposition of direct British rule will end the tendencies for enhancement of revenues in India for the profit of a ruling company as because its Directors would enjoy their positions and seek higher dividends as the shareholders of the company. But, in fact, the Act of 1858 made the future dividends of the Company because all its debts and liabilities in Great Britain were met up from the charge upon the revenues of India. Besides, the whole ever-expanding establishment under the Secretary of State for India in London was to be maintained out of Indian revenues. Other transfers of wealth from India, comprising pensions paid in England to retired officials, remittances out of Europeans’ incomes and savings in India to their families in England, or brought with them on their return home, not only continued but grew with time.

The major components of the Drain of wealth from India to England were the private remittance and the official ‘Home Charges’. A large part of the Drain comprised the transfer of incomes of European officials and private Europeans to Britain. These income arose either directly out of salaries paid by the British Government in India, or from earnings out of assets in India that were acquired by them as officials, and partly enlarged through governmental grants of lands and other concessions.[8] This ‘official’ element of the Drain consisted of a handsome part of the payments made directly by the British government in India to the Secretary of State for India in London, which bore the designation of ‘Home Charges’. The Secretary of State drew the amount normally by issuing bills in the name of ‘Council bills’ on the Government of India and send it to India to pay for. In order to understand the magnitude of drain in terms of ‘home charges’ the following statement along with a statistics is given bellow. Between 1851 and 1901 the total remitted to England as ‘home charges’ by the governing authority, excluding private remitting, multiplied sevenfold, from $2.5 million to $17.3 million, of which only $2 million represented purchases of stores. By 1913-14 it had risen to $19.4 million, of which only $ 1.5 million represented purchases of stores. [9]

Growth of Tribute from India to England (in $ million)[10]

	1851	1901	1913-14	1933-34
Home Charges	2.5	17.3	19.4	27.5

According to a report to Parliament, out of a total expenditure charged on Indian revenues in India and England, amounting in 1889-90 to Rs 82.47 crore, as much as Rs 16.28 crore were spent in payments made to European officers and staffs. Almost all high-paid posts in government were held by Europeans. For example it is found that there was only one Indian among the 916 members of the Indian Civil Service down to 1870; and, even after much agitation, as late as 1915, only one in twenty of a cadre of 1,260 was an Indian. The holding of examinations in London and low age-bar were two effective method used to keep out Indians, besides a totally traditional British syllabus set for the examination. In other spheres, where Indians of equal caliber were available, Europeans of the same capability were recruited and paid immensely higher salaries. If we look into the following chart then it may help us to understand the above statement.

European soldiers				Indian soldiers		
Year	Number	Average pay-per month	Total pay - per year	Number	Average pay – per month	Total pay - Per year
875	4,500	s 24	Rs 18,576,000	34,000	s 6.6	Rs 10,612,800
895	6,500	s 31	Rs 24, 738,000	41,000	s 7.6	Rs 12,859,200
Increase in average emoluments per head: 29 per cent.				Increase in average emoluments per head: 15 per cent.		

Less than half of their Indian colleagues in number, European soldiers thus received, in the aggregate, nearly double the amount that the Indians received. Europeans performing the same functions had not only excessively high levels of pay compared to the Indians, but the distance between the two also tended to grow with time.[11]

The Secretary of States also received funds from India to pay the pensions of British civil officials, and the pay of such officials in service enjoying furlough (leave of absence) in Britain. These ‘Civil Charges’ amounted to Rs 3.3 crores.[12]

The Imperialism of Free Trade

As England entered upon on its Industrial Revolution, and its manufacturing industry began to look for both foreign markets and foreign sources of raw materials. Naturally, an increasingly demand was raised in the country for the introduction of Free Trade. Incidentally, the concept of free trading system was declared principally by Adam Smith (1723-90) and David Ricardo (1772-1823). The essentials of the doctrine lay in the belief that the state should not interfere in economic matters (laissez-faire, ‘let everyone be free to act,)’ or establish monopolies, or check imports by levying high, protective tariffs or tax (contrary to what the mercantilists had recommended). In such a situation, it was argued that trade would move freely, external products come easily and both raw materials and of goods of mass consumption of the country to be sold in larger quantities at home and abroad. In practice, however, as a great manufacturing country i. e. the first and, for long the premier capitalist nation of the world, England would gain greatly if other country also lifted their tariffs on imports so as to open up their markets for English goods and to export cheap raw materials in return to England. This was the rationale behind what has been called the ‘Imperialism of Free Trade’. The great preachers of Free Trade in England, Richard Cobden (1804-65) and John Bright (1811-89), might denounce the misuse of war and misrule in the colonies, yet colonial expansion turned out to be a fairly beneficial enterprise for the manufacturing and financial interests of Great Britain.[13]

A conflict of interest naturally existed between the English industrial capitalists and the East India Company over its monopoly of the commerce between England and India. As industrial capitalists grew more powerful in England, they persuaded Parliament to remove the Company’s monopoly over trade with India by the Charter Act of 1813; and the monopoly over the China trade was similarly dismantled by the Charter Act of 1833. It may be noted here that at that time continental system was declared by Napoleon Bonaparte against the British which resulted the decreasing of British foreign trade for the time being and as a result of that the British industrialist started pressuring on the British Government to open the Indian market for them that was ultimately done by the Charter act of 1813. Therefore, as a result of the end of the monopoly of the East India Company’s trade over India in 1813, the English manufactures would started entering into India and initiated a process of de-industrialization which ultimately converted India from a manufacturing country into a country of exporting raw materials (petition before Select Committee of Parliament, 1840, by E. I. Company).[14]

The Indian market was, therefore, certainly important for Lancashire, the home of British textile industry. It may be noted that the textile manufactures themselves formed a major sector of the British economy, employing in 1881 more than a tenth of the total number of ‘occupied’ persons in Britain.[15] While India was converted into an unprotected market for British consumer goods, and thus in contrast to the large size of textile products that England flooded India which may be ascertained by the following chart:

India’s Trade with Britain (Rs. crores)

Year	Exports to Britain (Rs. crores)	Percentage share in India’s total exports	Imports From Britain (Rs. crores)	Percentage share in India’s total imports
1849-50	7.1	38.00%	7.6	49.45%
1859-60	11.3	39.11%	26.5	65.24%
1869-70	27.6	51.58%	27.1	52.98%
1879-80	27.8	40.14%	38. 4	72.70%
1889-90	39.6	37.58%	63.4	73.15%
1899-1900	33.7	28.79%	65.5	68.03%
1909-10	52.5	27.95%	100.1	67.59%

Source: B.R. Mitchell, *International Historical Statistical Abstracts,* drawing on Indian official statistics. While British customs house figures cannot be expected to synchronize with those of India, it is remarkable that the figures from 1889-90 onwards for British exports to India should be so much lower than the official Indian records of imports from Britain. The difference is much smaller in the case of Indian exports to Britain.

The above table shows that India directly exported to Britain much less than it imported from her. Indeed, India’s imports from Britain from the late 1850s, in most years, accounted for well over two-thirds of the total value of India’s imports (including bullion).[16]

Railways

The continuous drain of wealth from India to England hastened the growth of poverty. In the last decade of the 19th century, the annual average remittance to England was 20 million pounds sterling. The majority people of India at the end of the 19th century started living below the poverty line.[17] In that context, the sacrosanct principle of *laissez-faire* was not bothered by the free traders. Though, according to the *laissez – faire* theory the state would not intervene in economic matters, but in practice, the leading English Free Traders forgot their principles whenever the interests of British capitalism were concerned, as in the case of the state – guaranteed profits on railway capital privately invested in India.[18]

In 1829, George Stephenson’s steam locomotive, *Rocket,* pulled a train over rails between Liverpool and Manchester, and inaugurated an era of railway – building in England and then throughout the world. The railways proved to be the greatest absorbent of capital in an already heavily industrialized Britain.[19]A large industry had been built around railway construction, such as manufacture of steam locomotives, railway tracks, signaling equipment, etc., and these now looked for expanding markets. Naturally enough, India offered an obvious opening. Given the support of the Free Traders and financial investors alike, the railway interests dictated their terms. They would get land free from the Government of India, which would acquire it for them at its own cost; they would get a return of 5 per cent on their capital from the Government of India, if they ran at a loss or secured inadequate profit. The railways would be entirely privately managed with only nominal governmental supervision. The railway companies could terminate their operations at six months’ notice, in which case the government would have to refund the entire amount spent by the company concerned. The government had the option to take over the ownership of the lines, provided it paid the price to the company not at a valuation of the real assets but at the current market value of the company’s shares in the London market only after 99 years.[20]

The terms of the contracts were heavily loaded against the Indian tax-payer. Since the return was guaranteed, there was no encouragement for economy or for employing Indians instead of high-paid Europeans.[21] While imposing this heavy burden on India on account of the guarantee system, the entire railway system was installed in a haphazard manner with no single plan or vision for railway construction. Lines were seemingly taken up in many cases to meet the immediate concerns of Lancashire or the army or, later on, European tea planters. This monopoly profit directed the fixation of rent and passenger rates. Indian passengers were overcharged for their miserable conditions of travel, and there was open racial apartheid with Europeans travelling in separate, less crowded train carriages.[22]

Economic Nationalism

Considering the critical positions of the early nationalists of India regarding the economic policies as well as exploitation of the British ruler in India, the term ‘economic nationalism’ was apparently used for the first time by Bipan Chandra in 1966 and suggested alleviative measures in the interests of the Indian people. The term may be owed something to the fact that a German critic of classical Free Trade namely Frederick List (1789-1846) who argued that the composition of a ‘National System of Political Economy’ must be the principal object of economic policy of any country. In 1892, Justice M.G. Ranade called for the study of ‘Indian Political Economy’, and, in 1899, he used the word ‘Indian Economics’ in the title of a published collection of his essays. He considered that India had a specific economic and social situation that could not be understood by a simple application of the theories of the orthodox ‘Free Trade’ school.

To the nationalists, the fact that the British government in India disregarded the interests of Indians made it imperative that Indians should have a larger say in the affairs of government. It was the particular merit of the nationalists that they directed their attention primarily to the poverty of the mass of the Indian people. The ‘Grand Old Man’ of Indian nationalism, Dadabhai Naoroji, as early as 1873 in his research work, ‘Poverty of India’, and then, in 1883, in his ‘Condition of India’, showed from official statistics to what low levels Indian production per capita had fallen. By the very little of his work, *Poverty and Un-British Rule in India* (1901), he underlined his argument that poverty was growing as a result of British rule and their excessive exploitation of the Indian people. Though, Williams Digby in his ‘*Prosperous’ British India,* published in the same year (1901), tried his best to give considerable ammunition to the nationalists with the help of his collected material from restricted official publications. However, R. C. Dutt, the grate nationalist historian emphatically asserted that if, as in India, ‘manufactures were crippled, agriculture overtaxed and a third of the revenues remitted out of the country, any nation on the earth would suffer from permanent poverty and recurring famines.’

Conclusion

Finally, there was one single purpose of all the railway administrations (private, ‘state’ or princely) were to be solidly British. According to a report placed before Parliament in 1892, all the 105 top officers in the railway companies in India drawing over Rs 10,000 a year were Europeans; of those who drew between Rs 5,000 and 10,000 there were 248 Europeans, eight (8) Eurasians and just two (2) ‘natives. All supervisory and technical personnel, including ticket checkers, drivers and plate-layers, were Europeans. Such employment of Europeans not only increased running costs, owing to their high salaries, but also encouraged racial discrimination against Indian customers of the railways on the part of the all white staff.[23]

From the above discussion it is found that the drain of wealth from India to England mainly consists of two elements which were stated by Dadabhai Naoroji as under, ‘first, that arising from the remittances by the European officials of their savings, and for their expenditure in England for their various wants both there and in India; from pensions and salaries paid in England; and from Government expenditure in England and India. And the second, that arising from similar remittances by non-official Europeans. As the drain prevents India from making any capital, the British by bringing back the capital which they have drained from India itself, secure a monopoly of almost all trade and important industries, and thereby further exploit and drain India, the source of the evil being the official drain.’[24] Similarly, as like as Dadabhai Naoroji, another important critic among nationalists was Gopal Krishna Gokhale who before the Royal Commission on the Military and Civil Expenditure in India, 1895, criticizing the nature of drain of wealth from India to England stated as under: “ …The financial loss entailed by this practical monopoly by Europeans of the higher branches of the services in India is not represented by salaries only. There are besides heavy pension and furlough charges, more than three and a half million sterling being paid to Europeans in England for the purpose in 1890. The excessive costliness of the foreign agency is not, however, its only evil.[25] There is another evil, which, if anything, is even greater. A kind of dwarfing or stunning of the Indian race is going on under the present system. We must live all the days of our life in an atmosphere of inferiority, and the tallest of us must bend in order that the exigencies of the existing system may be satisfied.”

Notes & References

1. Irfan Habib, *A People’s History of India , Volume 28, Indian Economy 1858-1914,* New Delhi: Tulika Books, fifth edition 2016, p. 23. Also see R. Palme Dutt, India To-day, People’s Publishing House, Bombay, 1947, p. 110.

2. R.C. Majumdar, et.al., *An Advanced History of India,* Delhi: Macmillan, Reprint (twentieth impression), 2004, *p. 318*.
3. Ibid., p. 321.
4. Irfan Habib, op. cit., p. 23.
5. Note: Mercantilism is a economic theory and practice by which government used their economics to augment state power at the expense of other countries. Government sought to ensure that exports exceeded imports and to accumulate wealth in the form of bullion. The theory of Mercantilism was common in Europe from the 16th to 18th century. It was basically the economic counterpart of political absolutism.
6. Irfan Habib, op. cit., p. 23.
7. Ibid., p. 25.
8. Ibid., p. 27.
9. R. Palme Dutt, *India To-day,* Bombay:People’s Publishing House, 1947, p. 110.
10. Ibid., p. 111.
11. Irfan Habib, op. cit., p. 27.
12. Ibid., p. 29.
13. Ibid., p. 30.
14. Ibid., p. 31.
15. Ibid., p. 34.
16. Ibid., p. 35.
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18. Irfan Habib, op. cit., p. 148.
19. Ibid., p. 35.
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21. Ibid., p. 37.
22. Ibid., p. 38.
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24.Dadabhai Naoroji, *Poverty and Un-British Rule in India,* London, 1901; reprint, Delhi, 1962, p. 34.
25. Quoted by R. C. Dutt, *Economic History of India in the Victorian Age,* seventh edition, London, 1950, pp. 573-74; also see, Irfan Habib, op.cit., p.148. & Nationalist criticisms of

the Drain are summarized by Bipan Chandra in *The Rise and Growth of Economic Nationalism in India,* New Delhi, 1969, Chapter XIII.