



The Drain Theory of Wealth and Dadabhai Naoroji: On Overview

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Abstract

"This essay aimed to deepen our comprehension of the economic theories of "Grand Old Man of India" Naoroji, who developed the concept of economic drain in "Poverty and Un-British Rule in India" and was a masterful colonial economist. Economic analysis of the drain, national income estimation, and his economic views on poverty were all examined in the paper. Naoroji's initial attempt to develop a thorough economic critique of British imperialism is taken into consideration when evaluating his "drain theory" of imperialism. According to the study, Naoroji's economic theories were shaped by the events of the day, and young economists should take inspiration from the way he used data and statistics to support his arguments. Though his analysis may have lacked sound and now accepted economic reasoning at one point, his analytical skills allowed him to reveal the true causes of India's poverty and gave nationalists a tool to use in their demand for a home."

Keywords: Drain Theory, Poverty, British policy, Nationalist, imperialism

1. Introduction

Naoroji is linked to the drain theory, which captures his ideas about what leads to poverty in a colonial economy. The drain theory is a logical conceptual framework that embodies Naoroji's economic theories and his assessment of the issues of the day from a methodological standpoint. Even a "sophisticated student of modern economics" will find the theory appealing because it provides a thorough and methodical analysis of how the British robbed India of its wealth and destroyed its industrial capacity. (Ganguli, Naoroji and the Mechanism of External Drain, 1965)(Ganguli. Drain theory satisfies all the requirements of a general theory with an interconnected model having applicability when it was propounded (Brahmananda, 2001). Naoroji has a full understanding of the significance of capital and the notion of capital which enables labour to produce wage-goods, capital goods, and final goods (Ganguli, 2016). In this paper, we have made an effort to understand the main economic ideas of Naoroji with special reference to his theory of drain.

One of the forerunners of Indian nationalism was Naoroji (1825–1917). He was a political, social, and intellectual leader as well as an educator. Gandhiji referred to him as the "Grand Old Man of India," credited him with laying the foundation for Swaraj, and said, "You men could not have even discussed Home Rule if the Grand Old Man of Indian (Naoroji) had not prepared the soil." (Gandhi, 1921) and again remarked, "It was the respected Dadabahi who taught us that the English had sucked our life-blood". To understand his economic thoughts, it is imperative to have a brief understanding of his biography. Naoroji was born in Navsari into a Gujarati speaking

Parsi Zoroastrian family and was educated at the Elphinstone Institute School. He has deep religious inclinations and was an athornan (Brahmananda, 2001) and he was one of the founders of the Rahnumai Mazdayasan Sabha (Society of the Guides of the Mazdayasnan Path) (Chandra, 2010). He also co-founded a Gujarati fortnightly publication, the 'Rast Goftar' to clarify Zoroastrian concepts and promote Parsi social reforms (Gupta, 1977). In 1873, Naoroji accepted the position of Diwan or prime minister for Baroda state and sought to catalyse key administrative reforms and modernizations (Chandra, 2010). Naoroji was the first Asian Member of the British House of Commons to represent the London constituency of Finsbury Central in the parliament between 1892 and 1895 (Cracknell, 2013) (Wood and Cracknell, 2013) [23]. Naoroji is also credited with the founding of the Indian National Congress, along with A.O. Hume. He also taught at Elphinstone College in Bombay after his appointment in December 1855, as Professor of Mathematics and Natural Philosophy. He presided over the 2nd session of the Indian National Congress (INC) at Calcutta in 1886, the 9th Session at Lahore in 1893, and again the 22nd Session at Calcutta in 1906. Naoroji published *Poverty and Un-British Rule in India* in 1901.

At just 35 years old, Dada Bhai Naoroji traveled throughout Europe and saw firsthand the contrast between the wealth of rural France and England and the extreme poverty of Indian villages. He also contrasted the technological sophistication of European cities with the backwardness of Indian cities. His economic writings are based on this, which inspired him to look into the reasons behind Indian poverty. The scope, measurement, causes, and consequences of poverty, as well as the estimation of per capita income and the method and channel of wealth extraction through the use of administration, international trade, and taxation, are the main topics of this paper.

2. Idea of Economy and Dadabhai Naoroji

First and foremost, it is crucial to note that Naoroji's economic theories are firmly based on his comprehension of the extreme poverty and miserable condition of the Indian populace, which are primarily the result of misguided, repressive, and exploitative English policies. Naoroji believed that they were in violation of both the law of natural justice and the laws of economics. The pathetic perversion of economic laws by the sad bleeding to which India is subject is what is destroying India, according to Naoroji. It is not the pathetic operations of economic laws, but rather the heedless and pathetic action of British policy; it is the pathetic eating of India's substance in India and the further pathetic drain to England. If natural and economic laws are allowed to operate freely, India will turn into another England. (Naoroji, 1901)

2.1. Income Estimation

Naoroji pointed out that unless whole information about the average annual income per head and the requirements of the labourer (Hajela, 2008) was supplied every year, it was useless to make the unsounded statement that India was progressing. He emphasized: "Every year, a detailed, accurately calculated report of the total annual income of British India, per capita, and the necessities for a worker to live in good health rather than as a starving beast of burden should be made. ". It is pointless and ineffective to make merely baseless claims that India is thriving unless such comprehensive and accurate information is provided annually in detail. "(Naoroji, 1901, p. 17)

The official estimates of India's national income during British rule did not satisfy Naoroji. He opposed including railway profits, professional class income, government stock, real estate, trade profit, government

or private service income (salaries), non- agricultural income, etc. (Gopalakrishnan, 1959). According to Naoroji, a significant volume of freight on railroads would not raise the value of goods from the perspective of national income since it would not contribute to the nation's already existing wealth. In a similar vein, he maintained that the income from internal trade, salaries, or government bond interest is already included in manufacturing and agriculture. As a result, a higher or lower value in any of these groups only represents a transference between the citizens and does not increase the nation's income.

He supported the inclusion of foreign trade revenue. The internal total annual material production of the nation (agricultural, manufacturing, mining, and fisheries) and the external annual profits of foreign trade make up a nation's income, according to Naoroji. As previously stated, Naoroji possesses an exceptional understanding of statistics and was a trained mathematician. To get a sense of the national income per capita, he shifted his attention to the national income calculation. Although the national income estimation method was not flawless, his concept of "economic drain" effectively exposed the structure of Indian poverty. (Ganguli, Naoroji, Gokhle and Gandhi as Exponents of National Economic Thought., 2016). Basing his estimates on the official data, Naoroji computed the per capita income for the years 1867-70. He found that the per capita income was Rs.20 (Desai, 2007) whereas the basic requirement of an ordinary labourer estimated by him was Rs.34. More problematic was the distribution of Income among citizens (Dutt, 2018) as the high and middle classes have a larger share while the lower strata of the society did not get even subsistence income.

2.2. On Poverty

Speaking at the Lahore session of INC in 1893 Naoroji remarked- "The greatest question before you, the question of all questions is the poverty of India the government ought to deal boldly and broadly with it" (Naoroji, 1901, p. 16). Naoroji viewed economic problems in the framework of the abject poverty of the masses. Naoroji was the first who systematically concluded that internal factors were not the major causes of poverty in India, but poverty was due to colonial rule which was draining India's wealth and prosperity. He noted that the drain of wealth was that part of India's wealth and economy that was not available to Indians (Chandra, 2010).

Naoroji has taken various estimates made by British officers and independent people to strengthen his case for depicting the poverty of India by highlighting these studies. For example, citing Halsey's report on the assessment of Cawnpore reported in Bombay Gazette Summary of 21st June 1872 which stated that:- "I contend that anyone who has not witnessed the extreme poverty of the typical cultivator in this district cannot believe it. He is merely a slave to the government, the usurer, the zamindar, and the soil." (Naoroji, 1901, p. 44). Naoroji raised awareness of the extreme poverty experienced by the typical Indian. Referring once more to Lord Mayo's speech before the legislative council, it was acknowledged that India's comparative poverty is significantly higher than that of many other nations of comparable size and significance. Furthermore, the impolitic and injustice of the rulers were recognized as the true cause of these "crushing or oppressive" burdens on India. (Naoroji, 1901, p. 45)

In addition to highlighting the level of poverty experienced by the typical Indian, Naoroji made an effort to comprehend the root causes and how they affect poverty. "The main causes of India's poverty, misery, and all material evils are the depletion of its former wealth, the steadily growing exhausting and weakening drain from its annual production by the very excessive expenditure on the European portion of all its services, and the burden

of a large amount a year to be paid to foreign countries for interest on the public debt, which is primarily caused by British rule," Naoroji said in response to questions about the reason for poverty. " (Naoroji, 1901, p. 141).

Naoroji also drew attention to the incorrect methodology used to determine and report crop productivity averages, which serve as the foundation for estimates of average income and taxes. Poverty is being made worse by these exorbitant taxes that are based on incorrect assumptions. Naoroji bemoaned India's extreme poverty and questioned, "How can they expect people to manage to live, under such circumstances, without continuously sinking into poverty?". (Naoroji, 1901, p. 186). He even questioned the false and immoral position of Englishmen and their policy of fulfilling "their duty, or the promises and engagements made by them" (Naoroji, 1901, p. 79). "Naoroji exhorted that there are two Indias: the prosperous India and the impoverished India, which he characterizes in the following words, while detailing the extent of poverty, the unequal treatment of the Indian masses, and the drain of wealth. "The poor, impoverished India is the second India, the India of the Indians.". After 150 years of British rule, this India of Indians is "bled" and exploited in every manner by foreigners, who also take advantage of their wealth, services, land, labour, and all other resources. They are left voiceless and defenceless, governed by arbitrary laws and the use of force, and with injustice and unrighteousness, they become the "poorest" country in the world, to the shame of the British name. The scourges of war, famine, and plague result from economic hardship, which increases with the drain. " (Naoroji, 1901, p. 386)

The economist at Naoroji made him pose some insightful queries about the creation and allocation of wealth and income, which served as the foundation for his study of India's poverty and its main contributor (drain of wealth). He asserted that understanding "how and by whom, directly or indirectly, the income is actually produced, and how and by whom, and through what channels, this income is distributed among the whole people" was the key question. (Naoroji, 1901, p. 166).

2.3. Drain through the taxation

An Indian's tax burden (15 percent) was nearly twice that of an Englishman (8 percent), according to Naoroji, who also believed that this was significantly depleting India's capital stock. Debilitating tariffs on textile products from India came next. Naoroji (Naoroji, 1901, p. 531) added that closing the mints to fortify the rupee and switching to a gold standard resulted in a 45 percent increase in taxes for the average Indian, while also raising official salaries and the value of other goods by the same amount. In reference to the exodus of capital due to unfair and excessive taxation, Naoroji said that the British are reducing India's capital and labour for reproduction annually through the tax channels of the drain and making the tax burden even more oppressive. Naoroji (Naoroji, 1901) in his 'Poverty of India' estimated revenue as a percentage of income and 'per capita tax' as a ratio of 'per capita income' to highlight the excessive tax burden on the average Indian as compared to England and other countries. His understanding of the tax burden, ability to pay, and measurement is demonstrated by his comments on taxes, which are reproduced below. "The abundance, or lack thereof, of the mean should be used to gauge one's ability to bear a burden either easily or to be crushed by it, not the percentage of taxes. or revenue from which to pay it. When you are abundant, you can easily give a large percentage; when you are sufficient, the same burden may be bearable or somewhat reduced; but when you are insufficient, any burden is a great deal of privation. " (Naoroji, 1901, p. 53)

Additionally, he said elsewhere: "It must be especially remembered that, although a ton may not be a burden to an elephant, a few pounds will crush a child; that the English nation may be able to pay £2 10s per head with its average income of £30 per head, while, to the Indian nation, 6s out of 40s may be quite unbearable and crushing." The amount of taxes paid should not be used to gauge a person's ability to handle a burden or be crushed by it; rather, it should be based on the amount of money available to pay for it. " (Naoroji, 1901, p. 53)

Since England only pays about 8.5 percent of its national income in taxes, he discovered that India must pay about 15 percent of its income in taxes, which is nearly twice as much as England's tax rate for the poor. Additionally, India's per capita income was only one-thirteenth that of England, which is insufficient to cover even the necessities for Indians. (Naoroji, 1901, p. 53)

3. Drain Theory

In his book "Poverty and Un-British Rule in India," Naoroji attempted to quantify the extent and effects of the drain as well as identify its causes. Naoroji (1901) [17] identified moral and material depletion. He described it as a significant and draining annual burden from India brought on by the overrepresentation of European workers. (Naoroji, 1901, p. 123). Approximately one-fourth of the money collected in India, he said, is sent to England. The Indian government was also forced to impose significant home charges as reparations on the people of England due to the political, administrative, and commercial ties between the two countries. The Home Charge covered annuities for irrigation and railroad projects, interest on public loans obtained from England, and payments to British workers in India in the form of salaries and pensions.

According to Desai (Desai, 2007) the money that was taken out of India was a combination of interest charges for investments made by the East India Company, materials bought in London, and salaries and pensions paid in sterling. Beginning with an understanding of poverty and national income formation, Naoroji came to the conclusion that the process of generating income is what is keeping the majority of people in a state of static poverty, or extreme destitution. Naoroji mapped the Indian net profit and the different projects the British Raj was working on using data from the colonial ruler to demonstrate the subcontinent's

historical poverty. He determined that the drain was made possible by six key factors. These are:

1. Raj was a colonial economy governed by remote control and not a representational one.
2. The money and labour needed for economic development were brought in by immigrants but India did not attract immigrants. Consequently, it has failed to attract capital and labour for economic development.
3. India was encumbered with an expensive civil administration wherein major and minor expenses of the British army and its civil infrastructure was borne by India and not supported by taxes from the Englishmen. Moreover, Indians were paid less than their British counterparts to serve in the British army.
4. India's resources were looted in the name of free foreign trade. The system of British administration not only took away the whole profit of foreign trade to England but also took away a part of the annual production of the country.
5. India was used as a strategic base of operations that bore the burden of empire-building, not only in India but also beyond its borders. The war and administrative expenses of the British government for the management of colonial rule in India were paid for with the revenue collected from India and the export surplus generated by India's foreign trade. India was giving an enormous sum to Britain through various services like railways, roads,

etc.

6. Proceeds of taxation and loans were used for the employment of the Englishmen as income earners. Most of their income was spent back home in England which worsen the existing tremendous loss of capital. Naoroji calculated that these six major factors resulted in a yearly loss of approximately £30- 40 million with only £250,000's worth of capital injected back into India per annum. Now let us understand the mechanism and process of material drain from India. The major portion of the drain is in the form of the revenues collected from India which were used to pay the salaries and pensions of British civil and military employees working in India, the interest on loans taken out by the Indian government, and the profits of Briton entrepreneurs in India. Private fortunes amassed by the Company's servants in the form of illegal gifts and perquisites from Indian princes and other Bengal residents and a major portion of it ended in England. Moreover, employees of the East India Company remitted savings because they preferred to invest at home and the remittances were also sent to England for the maintenance of their families back home. Naoroji (Naoroji, 1901) remarked:

“This drain consists of two elements first, that arising from the remittances by 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 almost a monopoly of all trade and important industries, and thereby; further exploit and drain India, the source of the evil being the official drain.” (Naoroji, 1901, p. 3)

Another important channel of drain was foreign trade. The drain manifested itself as an excess of exports over imports for which India received no economic or material benefit. The Raj government in India, instead of purchasing their stores from India, purchased stores made in Great Britain. Through internal trade also the employees of the company earned a lot of money and which are also sent back home to England. Drain of wealth was also made through the interest charges on public debt held in Britain. 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.

Taxation was part of the mechanism of the 'drain', both internal and external. The government's colossal public debt and interest payments led to an increase in the tax burden on the people of India, which was of extremely regressive nature. According to Naoroji's estimates, the tax burden in India in 1886 was 14.3 percent of total income, much higher than England's 6.93 percent. These tax incomes were mostly used to repay British creditors rather than for Indian social services and welfare. These tax proceeds from India undermined India's agriculture, industry, and trading activities, and resulted in country's economic stagnation. Naoroji argued that what was being drained was a "potential surplus" which, if invested in India, could lead to greater economic growth. Naoroji was of the view that the extraction of resources led to the loss of capital rather than the loss of wealth. The drain resulted in a sharp reduction in productive capital, thereby reducing the amount of investible resources in the country.

4. Conclusions

With his economic theories, Naoroji established the framework for contemporary Indian economic philosophy. He had been heavily inspired by the physiocrats, as evidenced by his emphasis on capital accumulation and the

circulation of national revenue. He was the first Indian to figure the national income and per capita. He thought there were political, social, and moral aspects to economic processes. His primary concepts centre on the drain theory, and his economic analysis was mostly based on the inductive technique. Naoroji studied the causes, scope, and effects of the outflow in his book "Poverty and Un-British Rule in India." He provided a realistic picture of the Indian economy, its enormous resource depletion, and the ensuing extreme poverty of its people through his thorough research. Naoroji believed that the primary and sole cause of poverty in India was the depletion of resources. Price increases, wages, taxes, tariffs, industrial and agricultural output, records of international commerce, and currency exchange rates are just a few of the figures that Naoroji has introduced into politics.

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