



Economic thoughts of Dadabhai Naoroji (With special reference to the theory of drain)

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Abstract

The present paper attempted to augment our understanding of the economic thought of 'Grand Old Man of India' Naoroji who was a brilliant analyst of the colonial economy and came up with the principle of economic drain in 'Poverty and Un-British Rule in India'. The paper analysed his economic thoughts on poverty, estimation of national income, and economic analysis of the drain. The article evaluates Naoroji's 'drain theory' of British imperialism in light of his first attempt to formulate a comprehensive economic critique of the Empire. The paper found that the economic ideas of Naoroji are moulded by the reality of that time and his use of data and statistics to bring home the conclusions is worthy of emulation by young economists. At some point, his analysis may be lacking sound and now established economic reasoning but with his analytical ability, he was able to show the real causes of poverty in India and provided a tool to nationalists who used it for the demand for home rule and independence from the British Empire.

Keywords: economic, 'drain theory' Naoroji's

Introduction

The drain theory is associated with Naoroji which grasp his thought on the causes of poverty in a colonial economy. From the methodological point of view, the drain theory is a coherent conceptual framework that represents Naoroji economic ideas and his evaluation of the problems of that time. The theory appeals to even a 'sophisticated student of modern economics' which is a comprehensive systematic study of how the Briton plundered India's economic wealth and devastated its industrial capabilities (Ganguli, 1965) [6]. Drain theory satisfies all the requirements of a general theory with an interconnected model having applicability when it was propounded (Brahmananda, 2001) [1]. 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) [7]. In this paper, we have made an effort to understand the main economic ideas of Naoroji with special reference to his theory of drain.

Naoroji (1825–1917) is one of the pioneers of Indian nationalism. He was an intellectual, educator, and political and social leader. Gandhiji called him 'Grand Old Man of India' and attributed his efforts to form the basis of Swaraj and remarked "Had not the Grand Old Man of Indian (Naoroji) prepared the soil, you men (Englishmen) could not have even spoken about Home Rule." (Gandhi, 1921, p.1) [5] and again remarked, "It was the respected Dadabahi who taught us that the English had sucked our life-blood" (p.2).

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 [1] and he was one of the founders of the Rahnumai Mazdayasan Sabha (Society of the Guides of the Mazdayasnan Path) [2]. He also co-founded a Gujarati fortnightly publication, the 'Rast Gofar' to clarify Zoroastrian concepts and promote Parsi social reforms

(Gupta, 1977) [10]. In 1873, Naoroji accepted the position of Diwan or prime minister for Baroda state and sought to catalyze key administrative reforms and modernizations (Patel, 2015). 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 (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.

While travelling to Europe, Dada Bhai Naoroji at the young age of 35, observed stark differences between the prosperity of rural areas of France and England and abject poverty in Indian villages and also the technological sophistication of the European cities against the backwardness of Indian cities. This motivated him to investigate the causes of Indian poverty and is the base of his economic writings. In this paper, we have identified the contours of his economic thoughts centered on his views of poverty along with its extent, measurement, causes and implications, estimation of per capita income, the mechanism and channel of extraction of wealth drained out by adopting administration, foreign trade, and taxation.

Economic Ideas of Dadabhai Naoroji

At the outset, it is important to mention that the economic ideas of Naoroji deeply are rooted in his understanding of the colossal poverty and abysmal status of Indian masses chiefly caused by wrong, oppressive, and exploitive policies of Englishmen. Naoroji considered them against the economic laws and also against the law of natural justice. Naoroji opined:

“It is not the pitiless operations of economic laws, but it is the thoughtless and pitiless action of the British policy; it is the pitiless eating of India’s substance in India, and the further pitiless drain to England; in short, it is the pitiless perversion of economic laws by the sad bleeding to which India is subjected, that is destroying India...Let natural and economic laws have their full and fair play, and India will become another England” (Naoroji 1901, p. 216) ^[17].

1. On the estimation of Income

Naoroji pointed out that unless whole information about the average annual income per head and the requirements of the labourer (Hanjela, p.911) was supplied every year, it was useless to make the unsounded statement that India was progressing. He emphasized:

“Let there be a return in detail, correctly calculated, made every year of the total annual income of all British India, per head of population, and of the requirements of a labourer to live in working health, and not as a starved beast of burden. Unless such complete and accurate information is given every year in detail, it is idle and useless to make mere unfounded assertions that India is prospering.” (Nuoroji, 1893, p.17)

Naoroji was not satisfied with the official estimates of India's national income during British rule. He was against the inclusion of profits from the railway, Income of professional classes, government stock, house property, trade profit, income from government or private service (salaries), non-agricultural income, etc. (Gopalakrishnan, 1959). Naoroji maintained that a large movement of goods on railways would not increase the value of goods from the point of view of national income as it does not add to the existing wealth of the country. Similarly, he argued that the salary income, income from internal trade, or interest income from government bonds is the income that is already included in agriculture and manufacturing. Therefore, a higher or a lower value in any of these groups is only a transference between the citizens and not an augmentation of the income of the country.

He was in favour of the inclusion of income from foreign trade. According to Naoroji the income of a country consists of two parts, that is (1) The internal total annual material production of the country (agricultural, manufactures, mines, and fisheries) and (2) The external annual profits of foreign trade.

As mentioned above, Naoroji was a trained mathematician and has a remarkable sense of statistics. He turned his focus on the calculation of national income to get an idea of per capita national income. The method of estimation for national income estimation was not a perfect one, but he perfectly laid bare the anatomy of Indian poverty seen with his conception of ‘economic drain’ (Ganguli, 2016) ^[7]. 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 ^[3] whereas the basic requirement of an ordinary labourer estimated by him was Rs.34. More problematic was the distribution of Income among citizens ^[4] as the high and middle classes have a larger share while the lower strata of the society did not get even subsistence income.

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, 1893, 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) ^[2].

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 (p.12) which stated that: “*I assert that the abject poverty of the average cultivator of this district is beyond the belief of anyone who has not seen it. He is simply a slave to the soil, to the zemindar, to the usurer, and to Government*” (Naoroji, 1888, p.44) ^[16]. Naoroji brought the abject poverty of the average Indian to the fore. Again citing Lord Mayo's speech in the legislative council wherein it was admitted that the comparative poverty of India is much more than the many other countries of the same magnitude and importance. Furthermore, it was also acknowledged that the real cause of these ‘crushing or oppressive’, burdens upon India was due to the impolicy and injustice of the rulers (Naoroji, 1888, p.45) ^[16].

Naoroji not only highlighted the extent of poverty of an average Indian but also attempted to understand the underlying causes and their impact on poverty. Commenting on the causes of the poverty, Naoroji stated:

“The chief cause of India's poverty, misery, and all material evils, is the exhaustion of its previous wealth, the continuously increasing 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 chiefly caused by the British rule.” (Naoroji, 1901, p.141) ^[17].

Naoroji also highlighted the wrong methodology for calculating and reporting the average productivity of crops on which the estimates of average income and taxes are based. These high taxes based on wrong assumptions are further leading to poverty. Lamenting on the utter poverty of India, Naoroji asked: “*How can they expect people to manage to live, under such circumstances, without continuously sinking into poverty?*” (Naoroji, 1901, p.186) ^[17].

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, 1888, p.79) ^[16]. While describing the extent of poverty, uneven treatment of the Indian masses and drain of wealth Naoroji exhorted that there are *two Indias* and the first of them is prosperous India and the second one is poverty-stricken India which he describes in the following words.

“The second India is the India of the Indians the poverty-stricken India. This India, “bled” and exploited in every way of their wealth, of their services, of their land, labour, and all resources by the foreigners, helpless and voiceless, governed by the arbitrary law and argument of force, and with injustice and unrighteousness this India of the Indians becomes the “poorest” country in the world, after one hundred and fifty years of British rule, to the disgrace of the

British name. The greater the drain, the greater the impoverishment, resulting in all the scourges of war, famine and pestilence.” (Naoroji, 1901, p.384)^[17]

The economist in Naoroji required him to ask some valid questions on the production and distribution of income and wealth which formed the basis of his analysis of the poverty of India and its chief cause (drain of wealth). The fundamental question, according to him, was to know “*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*” (Naoroji, 1888, p.166)^[16].

3. On Taxation

Naoroji estimated that the tax burden placed upon an Indian (15 percent) was almost twice the amount levied upon an Englishman (8 percent) and this was considerably draining the stock of available capital in India. This was followed by crippling tariffs on Indian textile goods. Naoroji (1901, p.531)^[17] also noted that closing the mints to strengthen the rupee and moving to a gold standard forced the average Indian to pay 45 percent more taxation and at the same time it increased the salary of the officials and value of other products to the same extent (45 percent). Referring to the flight of capital through excessive and unjust taxation, Naoroji remarked that through tax channels of the drain they (Britishers) are diminishing India’s capital and labour for reproduction every year, and reinforcing the burden of taxation by making it more and more crushing.

Naoroji (1888)^[16] 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 remarks on taxation reproduced below shows his understanding of the burden of taxation, capacity to pay and its measurement.

“The capacity to bear a burden with ease, or to be crushed by it, is not to be measured by the percentage of taxation, but by the abundance, or otherwise, of the mean..; or income to pay it from. From abundance you may give large percentage with ease; from sufficiency, the same burden may just be bearable, or some diminution may make it so; but from insufficiency, any burden is so much privation.” Naoroji (1888, p.53)^[16]

And at another place he remarked:

“It must, moreover, be particularly borne in mind that, while a ton may not be any burden to an elephant, a few pounds will crush a child; that the English nation may, from its average income of £30 a head, be able to pay £2 10s per head, while, to the Indian nation, 6s out of 40s may be quite unbearable and crushing. The capacity to bear a burden with ease, or to be crushed by it, is not to be measured by the percentage of taxation, but by the abundance, or otherwise, of the means or income to pay it from.” (Naoroji, 1888, p.53)^[16]

He found that the percentage of taxation to income for poor India much more than England, nearly double, while England pays only about 8.5 percent of its national income as taxes whereas India has to pay around 15 percent of its income as taxes. On top of it, the per-capita income of India was one-thirteenth of per capita income of England which in itself is insufficient for even the ordinary wants of the people of India (Naoroji, 1888, p.53)^[16].

Drain Theory

Naoroji in his book ‘Poverty and un-British Rule in India’ tried to find out the causes of the drain and attempted to measure the extent and consequences of the drain. Naoroji (1901)^[17] pointed at both material and moral drain. He referred to it as a heavy and exhausting annual drain from India caused by the disproportionate employment of Europeans (p. 123). He claimed that around one-fourth of the money which is collected in India goes to England. The Political, administrative and commercial relations between India and England also necessitated the Government of India to make heavy reparations to the people of England in the form of Home Charges. The Home Charge included interest on public loans raised from England, annuities for railway and irrigation works, and payments in the form of salaries and pensions paid to British employees working in India.

Desai (2007)^[3] observed that the withdrawal of money from India was made through a combination of salaries and pensions paid in Sterling, as well as materials purchased in London and interest charges for East India Company investments. Naoroji started with the understanding of the national income formation and poverty and concluded that it is the income generation process itself which is leaving the masses of the population at a static poverty level, that is, a high level of destitution. To prove the historical impoverishment of the subcontinent, Naoroji used the colonial ruler's own data to map the Indian net profit along with the various ventures being undertaken by the British Raj. He identified six major factors which made the drain possible. These are:

1. Raj was a colonial economy governed by remote control and not a representational one.
2. The money and labor 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 (1901)^[17] 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.” (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.

Discussions and Conclusions

Naoroji provided the pattern for economic thought in modern India with his economic thinking. His emphasis on capital accumulation and national income circulation indicates that he had been greatly influenced by the physiocrats. He was the first Indian to calculate per capita

and national income. He believed economic phenomena had moral, social, and political components. The inductive method pre-dominated his economic analysis and his main ideas revolve around the drain theory. In his book 'Poverty and un-British Rule in India', Naoroji examined the causes, extent, and consequences of the drain. Through his rigorous analysis, he presented a true picture of the Indian economy, the massive drain of its resources, and the consequent abject poverty of its masses. As per Naoroji's estimation, the drain of resources was the major and only cause of India's poverty. Naoroji has brought statistics into politics and turned price rises, wages, taxation, tariffs, agricultural production, industrial production, foreign trade data, and currency exchange rates into political discourse.

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