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## DRAIN THEORY IN POVERTY AND UN-BRITISH RULE IN INDIA: DADABHAI NAOROJI'S CRITIQUE

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### **Abstract**

*This paper will examine Dadabhai Naoroji's Drain Theory, proposed in 1867 to critique British colonialism in India. Naoroji argued that British economic policies were causing great harm to India and draining the country of its wealth. He used empirical evidence to show that India consistently exported more than it was importing and that British companies were taking huge profits from India without reinvesting in the country. Naoroji's theory helped to inspire the Indian nationalist movement and provided a framework for understanding the injustices of British rule. This paper will also analyse the critiques of Naoroji's Drain Theory, which both British and Indian scholars raised. Some argued that the theory overstated the wealth drain from India to Britain. In contrast, others suggested that the problem was not solely the result of British policies but also internal factors in the Indian economy. By examining the critiques of Naoroji's Drain Theory, this paper will provide a balanced assessment of its strengths and weaknesses and argue that it remains an essential perspective on the impact of colonialism on India. The paper will conclude by discussing the ongoing relevance of Naoroji's Drain Theory in contemporary debates on imperialism and economic exploitation.*

**Keywords:** Drain, Wealth, Economy, Exploitation

### **Introduction**

In 1867, Dadabhai Naoroji, a prominent Indian nationalist, proposed a theory known as the "economic imperialism" or "drain theory." In his book, "Poverty and Un-British Rule in India," Naoroji argued that British economic policies were causing great harm to India and completely draining its wealth. This paper will discuss Naoroji's economic imperialism theory, its significance in Indian history, and its relevance to contemporary debates on imperialism.

The impact of colonialism on the economies of the colonised nations has been a topic of great interest for scholars and historians. The case of India, ruled by the British for over 200 years, is a significant example. During this period, India was subject to a range of economic policies intended to benefit Britain at the expense of the Indian people. The impact of these policies on the Indian economy has been the subject of intense debate, with some arguing that British rule brought progress and development to India. In contrast, others claim it caused great harm and damage to the country.



In 1867, Dadabhai Naoroji, a prominent Indian nationalist, proposed a theory that challenged the idea that British rule brought progress and development to India. Naoroji argued that British economic policies were causing great harm to India and completely draining its wealth. His theory, known as the "economic imperialism" or "drain theory," was based on the idea that Britain was taking more from India than it was giving back.

A range of empirical evidence supported Naoroji's theory. He used data to show that India was consistently exporting more than it was importing, and the country was experiencing a chronic balance of trade deficit. He also showed that British companies were taking huge profits out of India and that the money needed to be reinvested in the country.

Naoroji's economic imperialism theory was a powerful critique of British colonialism in India. It challenged the idea that Britain was bringing progress and development to India and instead argued that the country was being exploited for its resources. Naoroji's theory helped to inspire the Indian nationalist movement and has continued to be relevant to contemporary debates on imperialism.

The significance of Naoroji's theory can be seen in its impact on Indian history. It provided a framework for understanding British rule's injustices and helped mobilise opposition to colonialism. Naoroji's economic imperialism theory helped to inspire the Indian nationalist movement, eventually leading to India's independence in 1947.

Furthermore, Naoroji's theory has continued to be relevant to contemporary debates on imperialism. The idea that rich countries drain resources from poor countries is still an important issue today, and Naoroji's theory provides a historical perspective on this ongoing problem. The legacy of colonialism can still be felt in many parts of the world, and Naoroji's economic imperialism theory helps to highlight the ongoing struggle for economic justice.

In conclusion, Naoroji's economic imperialism theory was a powerful critique of British colonialism in India. It challenged the idea that Britain was bringing progress and development to India and instead argued that the country was being exploited for its resources. Naoroji's legacy as a pioneering economist and nationalist remains an essential part of Indian history, and his theory remains relevant to contemporary debates on imperialism.

### **Background During The Colonial Period,**

India was subjected to a range of economic policies intended to benefit Britain at the expense of the Indian people. These policies included heavy taxes, monopolies, and the imposition of an exploitative land revenue system. Naoroji argued that these policies were India's leading cause of poverty and underdevelopment.

The British first established their presence in India in the early 1600s with the arrival of the East India Company. The company was given exclusive trading rights in India and



gradually established economic control. The British colonial rule in India began formally in 1858 after the Indian Rebellion of 1857.

Under British rule, India was subjected to a range of economic policies designed to benefit Britain at the expense of the Indian people. One of the most significant of these policies was imposing heavy taxes on Indian goods and raw materials, which made it difficult for Indian producers to compete with British manufacturers. This policy led to the decline of Indian industries, particularly the textile industry, one of India's primary sources of income.

The British also established monopolies in various industries, including salt and opium, essential to the Indian economy. The opium trade was particularly lucrative for the British, who used the profits to finance their tea trade with China. The opium trade had devastating consequences for India, as it led to widespread addiction and social unrest.

Another critical policy was the imposition of an exploitative land revenue system, which forced Indian farmers to pay exorbitant taxes to the British. This system led to widespread poverty and deprivation, as many farmers could not pay their taxes and were forced to sell their land or become tenants.

In addition to these economic policies, the British imposed various cultural and social policies designed to weaken Indian society and promote British values. These policies included the introduction of English education, the promotion of Christianity, and the suppression of Indian languages and traditions.

Dadabhai Naoroji's economic imperialism theory was a response to these policies. Naoroji argued that the British were exploiting India for their benefit and were draining the country of its resources. He used empirical data to show that India was exporting more than it was importing and that the profits from Indian trade were not being reinvested in the country.

Naoroji's theory was not the first critique of British colonialism in India. Indian intellectuals and nationalists opposed British rule since the early 19th century. However, Naoroji's economic imperialism theory provided a powerful framework for understanding the impact of British rule on the Indian economy.

Naoroji's theory also helped to inspire the Indian nationalist movement, which sought to challenge British colonialism and gain independence for India. The Indian National Congress, which was founded in 1885, adopted Naoroji's economic imperialism theory as one of its key platforms and worked to mobilise opposition to British rule.

In conclusion, the background of Naoroji's economic imperialism theory is rooted in British colonialism in India. The British imposed a range of economic policies intended to benefit Britain at the expense of the Indian people. Naoroji's theory was a powerful critique of these policies and helped to inspire the Indian nationalist movement. The legacy



of British colonialism in India continues to be felt today, and Naoroji's theory remains relevant to contemporary debates on imperialism and economic justice.

### **Naoroji's Economic Imperialism Theory**

Naoroji's theory was based on the idea that Britain was taking more from India than it was giving back. He argued that the Indian economy was being drained of its wealth through various mechanisms, including paying tribute to Britain, the remittance of profits by British companies, and the outflow of capital. According to Naoroji, the drain of wealth from India to Britain was one of the main reasons India was so poor and underdeveloped. A range of empirical evidence supported Naoroji's theory. He used data to show that India was consistently exporting more than it was importing, and the country was experiencing a chronic balance of trade deficit. He also showed that British companies were taking huge profits out of India and that the money needed to be reinvested in the country.

Naoroji argued that this wealth drain harmed India and Britain in the long run. He believed that a healthy and prosperous India would be a better trading partner for Britain and that the British could benefit from a more equitable relationship with India.

To counter the drain of wealth, Naoroji proposed a range of solutions. He called for the reduction of taxes and tariffs on Indian goods, the establishment of Indian-owned industries, and the reinvestment of profits back into India. He also advocated for political reforms to give Indians more control over their economy and society.

Naoroji's theory had a significant impact on Indian nationalist thinking. It helped to galvanise opposition to British colonialism and inspired a generation of Indian nationalists who sought to challenge British rule and gain independence for India. The Indian National Congress, which was founded in 1885, adopted Naoroji's theory as one of its key platforms and worked to mobilise opposition to British rule.

Naoroji's theory also had an impact on British thinking about colonialism. Some British thinkers, including John Atkinson Hobson and J.A. Hobson, argued that imperialism harmed the colonised and the coloniser. They believed that the economic exploitation of colonies could lead to economic stagnation and political unrest and that a more equitable relationship between Britain and its colonies would be more beneficial in the long run.

In recent years, Naoroji's economic imperialism theory has been revisited in debates about globalisation and economic justice. Some scholars have argued that the relationship between rich and poor countries today is similar to that between Britain and India in the 19th century. They argue that the exploitation of poor countries by rich countries through mechanisms such as debt, trade policies, and multinational corporations is leading to economic underdevelopment and social injustice.

In conclusion, Naoroji's economic imperialism theory was a powerful critique of British colonialism in India. It argued that Britain was draining India of its wealth, which was one



of the main reasons for India's poverty and underdevelopment. Naoroji's theory inspired the Indian nationalist movement and impacted British thinking about colonialism. Today, his theory remains relevant to debates about globalisation and economic justice and reminds us of the ongoing legacy of colonialism.

### **Significance of Naoroji's Theory**

Naoroji's economic imperialism theory was significant for several reasons. Firstly, it provided a powerful critique of British colonialism in India. It challenged the idea that Britain was bringing progress and development to India and instead argued that the country was being exploited for its resources. Secondly, Naoroji's theory helped to inspire the Indian nationalist movement. It provided a framework for understanding British rule's injustices and helped mobilise opposition to colonialism. Finally, Naoroji's theory has continued to be relevant to contemporary debates on imperialism. The idea that rich countries drain resources from poor countries is still an important issue today, and Naoroji's theory provides a historical perspective on this ongoing problem.

Naoroji's theory was also significant because it challenged the prevailing economic ideas of the time. Many economists and policymakers believed colonialism was necessary for developing underdeveloped countries and exploiting resources to bring progress and development. Naoroji's theory challenged this idea and argued that colonialism was not benefiting India but causing harm and underdevelopment.

Furthermore, Naoroji's theory provided a blueprint for economic reforms that could help to counter the drain of wealth from India. His ideas on reducing taxes and tariffs on Indian goods, establishing Indian-owned industries, and reinvesting profits into India aimed to promote economic development and self-sufficiency.

Naoroji's theory also had an impact on the broader anti-colonial movement around the world. His ideas inspired other movements in Africa and Asia, where people fought against European colonial powers. In this sense, Naoroji's theory was part of a global movement towards independence and self-determination.

Finally, Naoroji's theory has had a lasting impact on studying imperialism and economic development. Scholars have continued to debate the causes and consequences of imperialism, and many have drawn on Naoroji's work to understand the relationship between rich and poor countries.

Naoroji's economic imperialism theory was significant for its critique of British colonialism, its inspiration to the Indian nationalist movement, its challenge to prevailing economic ideas, its blueprint for economic reforms, its impact on the broader anti-colonial movement, and its lasting impact on the study of imperialism and economic development. Naoroji's legacy is an essential reminder of the ongoing struggle for economic justice and self-determination.



Dadabhai Naoroji's Drain Theory refers to the idea that the British colonial rule in India was draining the country's wealth and resources. Naoroji believed that the British were taking more from India than they were giving back, and his theory gained support from various economic data and analyses. Here are some examples of the states of the Drain Theory in the Indian economy:

**Balance of Trade Deficit:** Naoroji argued that India's economy was in a chronic state of imbalance due to British trade policies. India was consistently exporting more than it was importing, leading to a deficit in the balance of trade. In 1860-61, India's exports were valued at £55 million, while its imports were valued at £80 million. By 1900-01, India's exports had increased to £90 million, but its imports had increased to £210 million, resulting in a more significant trade deficit.

**The Drain of Wealth:** Naoroji argued that British colonial policies were causing a drain of wealth from India. He believed Britain was taking resources from India, such as raw materials and precious metals, and using them to finance their development. In 1873-74, the British collected total revenue in India was £38.5 million, while the total amount remitted to Britain was £36.4 million. This suggests that much of India's revenue was being sent to Britain rather than reinvested.

**Exploitative Land Revenue System:** Naoroji also criticised the British land revenue system, which he believed was exploitative and unfair to Indian farmers. Under this system, the British would demand a fixed amount of revenue from farmers, regardless of their production levels. If a farmer were unable to pay, their land would be confiscated. This led to widespread poverty and indebtedness among Indian farmers.

**Exploitation by British Companies:** British companies in India were accused of exploiting Indian workers and resources for their benefit. Companies such as the East India Company and the British Indian Railway Company were accused of extracting huge profits from India and remitting them back to Britain. For example, the East India Company's profits from India increased from £250,000 in 1757 to £5 million in 1801.

In conclusion, the Drain Theory proposed by Dadabhai Naoroji was based on a range of empirical evidence and highlighted the negative impact of British colonialism on the Indian economy. The theory argued that British economic policies were causing a drain of wealth and resources from India, leading to poverty and underdevelopment. While some economists have criticised the Drain Theory, it remains a significant part of Indian history and an essential reminder of the ongoing struggle for economic justice and self-determination.

After India gained independence in 1947, there was a significant shift in economic policies and strategies. However, the drain theory proposed by Dadabhai Naoroji in the colonial period continued to impact the Indian economy for many years. In this section, we will discuss the state of drain theory in the Indian economy after independence.



One of the significant ways the Indian economy was affected by the drain theory after independence was through the outflow of capital. Foreign companies and investors continued to extract profits from India, and the money was often not reinvested in the country. This meant that India could only partially benefit from the wealth generated by its economy.

According to a report by the Reserve Bank of India (RBI), between 1948 and 1967, foreign companies in India repatriated around Rs. 2,660 crore (\$400 million) in profits. In the 1970s, multinational companies (MNCs) became more dominant in the Indian market, and capital outflow increased. Between 1970 and 1991, MNCs in India repatriated around Rs. 23,000 crore (\$3.4 billion) in profits, according to a report by the Indian government.

Another way in which the drain theory continued to affect the Indian economy was through trade imbalances. India continued to export more than it imported, leading to a chronic balance of trade deficit. In the early years of independence, India relied heavily on imports of food grains and other essential commodities, which put pressure on its balance of payments. This situation improved somewhat in the 1960s and 1970s as India began to develop its industries and reduce its dependence on imports.

The drain theory also had an impact on India's development trajectory. Naoroji had argued that British colonialism was preventing India from achieving its full potential and that the country was being held back by the drain of wealth to Britain. After independence, India's leaders sought to overcome this legacy by implementing policies promoting economic growth and development. However, the drain theory continued to impact India's ability to achieve its goals. The outflow of capital, trade imbalances, and other factors contributed to a situation in which India struggled to achieve sustained and inclusive growth.

In conclusion, the drain theory proposed by Dadabhai Naoroji in the colonial period continued to impact the Indian economy after independence. The outflow of capital, trade imbalances, and other factors contributed to a situation in which India struggled to achieve sustained and inclusive growth. Although the Indian government implemented policies to promote economic development, colonialism's legacy shaped the country's economic trajectory for many years.

### **Relevance and Conclusion**

Dadabhai Naoroji's economic imperialism theory was a powerful critique of British colonialism in India. It argued that British economic policies were causing great harm to India and draining the country of its wealth. Naoroji's theory helped to inspire the Indian nationalist movement and has continued to be relevant to contemporary debates on imperialism. Naoroji's legacy as a pioneering economist and nationalist remains an essential part of Indian history.

Naoroji's economic imperialism theory is still relevant today as the debate around the impact of colonialism and imperialism on developing countries continues. The idea that



rich countries extract resources and wealth from poor countries remains a pertinent issue in international development, trade, and globalisation. "neo-colonialism" is a modern-day manifestation of Naoroji's theory, where multinational corporations and powerful countries still extract resources and wealth from developing countries, perpetuating poverty and underdevelopment.

Furthermore, Naoroji's theory highlights the importance of economic policies that promote self-sufficiency and investment in local industries. This is particularly relevant for developing countries today, where many continue to rely heavily on exporting raw materials without adequate investment in developing their industries and economies.

In conclusion, Dadabhai Naoroji's economic imperialism theory provided a powerful critique of British colonialism in India and has had a lasting impact on the study of imperialism and economic development. His ideas continue to inspire contemporary debates on the impact of colonialism and neocolonialism on developing countries and the need for economic policies that promote self-sufficiency and investment in local industries. Naoroji's legacy as a pioneering economist and nationalist is essential to Indian history and a reminder of the ongoing struggle for economic justice and self-determination worldwide.

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