Drain of Wealth

The condition of India, its economy, its people and institutions, before the British rule is described mainly on the basis of foreign traveller’s accounts or Western sources. They show that India in no way was backward, economically or socially and even dominated the world trade by its exports. It was India’s riches that had attracted hordes of invaders for millennia before the British that made the seafarers like Columbus and Vasco de Gama seek new trade routes to it. After the British rule, the name India was made synonymous to poverty, hunger and disease, a country unable to feed its own. This change was not accidental, but an effect of deliberate British policies. In essence, India was impoverished first by plunder and tyranny, and then by unfair trade practices and later by economic exploitation.

The economic policies followed by the British led to the rapid transformation of India’s economy into a colonial economy whose nature and structure were determined by the needs of the British economy. After the establishment of British rule in India there was an enormous drain of wealth from India to Britain. This drain began in the decades following the battle of Plassey in 1757. There was a constant flow of India's wealth out of the country with no returns at all. The British officials carried home immense fortunes extracted from the Indian people. This kind of economic exploitation and the drain of Indian wealth formed the integral part of British policies. India’s foreign trade in the latter half of the 19th century, was benefitted by a few factors like the opening of the Suez Canal and the introduction of steel made steamships and the construction of railways inside the country. The nature of exports and imports also changed. Instead of the finished products of industry India now exported jute, wheat, cotton, oilseeds, tea, etc. whereas the imported the goods of European manufacture.

Economic Historians had identified three phases of British exploitation of India. This periodisation often overlaps and should not be treated as rigid blocks.

1. **Mercantile Phase (1757 up to 1813)**
   This phase was marked by direct plunder. The East India Company used it monopoly of trade which functioned through ‘investments’ of Indian revenues to buy Indian products at low rates. These goods were then exported to Europe and England. So in essence, the East India Company bought Indian products from the revenues they collected mainly from Bengal and then exported them. Taking advantage of the political power the British now could dictate the prices of the goods that they needed to export. The servants of the Company amassed enormous fortunes by engaging in the illegal trade till the time this was banned by Lord Cornwallis.

2. **Capitalist Phase/Free Trade**
   This phase coincided with the Industrial revolution in England. It was the age of Free Trade capitalist exploitation. The English manufacturers were given, a boost by the Charter of 1813. Indian markets were opened up for English imports and India became a source of raw materials. It is popularly said that this was the period when ‘the homeland of cotton was inundated with cotton from abroad’. The cotton manufacturers of
Lancashire benefitted the most and in the next ‘thirty years’ time Indian cotton industry was destroyed. The constant drain was affecting the purchasing power of the Indians and this would have blocked India as the market for English products. To resolve this, commercialization of agriculture was introduced (though this alone was not the reason for commercialization of agriculture). Laying of the railways from 1850s under Lord Dalhousie opened the interior markets of India for English products and enhanced the capacity of India as a source of raw materials for the English industries.

3. Financial Phase

This phase saw export of capital from India and also chains of British-controlled banks, export-import firms and managing agency houses. The manner in which Railways were developed is a fine example of finance imperialism.

Constituents of Financial Drain

The Indian administration was in British hands and was conducted in a manner to sub serve the interests of England. The drain mainly consisted of the following:-

1. Home Charges

Home charges refer to the expenditure incurred in England by the Secretary of State on behalf of India. Before the Revolt of 1857 the Home charges varied from 10% to 13% of the average revenues of India. After the Revolt the proportion shot up to 24% in the period 1897-1901. In 1901-02, the Home charges amounted to £ 17.36 million. During 1921-22, the Home charges sharply increased to 40% of the total revenue of the Central Government. The main constituents of Home charges were:

   a. Dividend to the shareholders of the East India Company- The Charter Act of 1833 provided for an annual dividend of £ 630,000 to be paid to the shareholders of the Company out of the Indian revenues till 1874. In 1874 the loan of £ 4.5 million was raised to redeem the stock at a premium of 100%.

   b. Interest on Public Debt rose abroad- The East Indian Company had piled up a public debt of £ 70 million to dislodge Indian rulers from their Principalities. By 1900 the public debt had risen to £ 224 million. Part of the debt was raised for productive purposes i.e., for construction of railways, irrigation facilities and public works.

   c. Civil and Military charges- These included payments towards pensions and furloughs of British officers in the civil and military departments in India, Expenses on India Office establishment in London, payments to the British war office etc. All these charges were solely due to India’s subjection to foreign rule.

   d. Store purchases in England- The Secretary of State and the Government of India purchased stores for the Military, Civil and Marine Departments in the English market. The annual average expenditure on stores varied from 10% to 12% of the Home charges (1861-1920).
2. Interest on Foreign Capital Investments
Interest and profits on private foreign capital were another important leakage from the national income stream. Finance capital entered the Indian market in the 20th century. During the inter war period the payments on this account roughly varied between Rs. 30 crores to Rs. 60 crores per annum. It must be pointed out that foreign capitalists were the least interested in industrial development of India. Rather they exploited Indian resources for their own benefit and Infact thwarted indigenous capitalist enterprise by fair and foul means.

3. Foreign Banking
Insurance and Shipping Companies: For banking, insurance and shipping services India had to make huge payments. Apart from constituting a drain on Indian resources, unrestricted activities of these foreign companies stunted the growth of Indian enterprise in these spheres.

Conclusion
In short span of 80 years (1780-1860 AD) under Colonial rule, India changed from being an exporter of processed goods for which it received payment in bullion, to being an exporter of raw materials and a buyer of manufactured goods. More specifically, in the 1750s, mostly fine cotton and silk was exported from India to markets in Europe, Asia, and Africa; by 1850s raw materials, which chiefly consisted of raw cotton, opium, and indigo, accounted for most of India's exports.

The ruthless exploitation under British colonial rule completely devastated India''s economy. India’s population was subject to frequent famines, had one of the world’s lowest life expectancies, suffered from pervasive malnutrition and was largely illiterate. As per British economist, Angus Maddison India’s share of the world income went from 27% in 1700 AD (compared to whole Europe’s share of 23%) to 3% in 1950.