

## Did the Drain theory oversimplify British colonial rule?

For well over a century, India's nationalists and political activists claimed that British-ruled India made excessive payments to Britain, calling it 'drain' or a wasted or lost national savings. The word 'drain' had a long pedigree. Edmund Burke, a fierce critic of the Company rule in Bengal, first used it. Burke's drain persisted in assessments of public finance. In 1859, W.H. Sykes called military heads of expenditure 'the chief drain upon the Indian Exchequer'.<sup>1</sup>

The idea of the drain became central to the argument that British rule kept India poor, and it persists now in global Marxist thinking about history.<sup>2</sup> This claim misrepresents facts and is based on flawed economic reasoning.

Its historical basis is twofold. First, after 1757, for a few years, the East India Company, which had the right to collect the taxes of Bengal in part or in full, used part of the money for government business (mainly war) and part for the Company's commercial transactions. The use of taxpayer money for private trade was wasteful from India's point of view. The problem with the argument is not logic, but fact. The Company's accounts were written in a manner as to make it impossible to separate the expenditure for commerce and that for government business. Many historians have commented on the problem, but the activists ignore this issue.

In the nineteenth century, the basis for the claim changed. The measure commonly used started from the balance of payments and follows Holden Furber: The 'drain... was the excess of exports from India for which there was no equivalent import.'<sup>3</sup> This definition follows in a rough way from Dadabhai Naoroji's use of the word.<sup>4</sup> The entire excess of India's exports over imports is characterised as wasteful or a drain, which is based on three types of flawed logic.

Theodore Morrison criticised the concept, saying that many of the payments were made by private investors who contributed to India's income. K.N. Chaudhuri criticised it, saying that the growth effect of balance of payments depended on the (positive) multiplier of trade vs the (negative) multiplier of political charges, and there is reason to believe the former was significantly larger.<sup>5</sup> I have criticised it, saying that the political charges included debt service and railway guarantees, both of which were associated with vital infrastructure in India,

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<sup>1</sup> Colonel (W.H.) Sykes, 'The past, present, and prospective financial condition of British India', *Journal of the Statistical Society of London*, 22(4), 1859, 455-480..

<sup>2</sup> Utsa Patnaik and Prabhat Patnaik, 'The Drain of Wealth: Colonialism before the First World War,' *Monthly Review*, 72(9), 2021.

<sup>3</sup> Holden Furber, *John Company at work*, Cambridge Mass.: Harvard University Press, 1947, 304.

<sup>4</sup> Dadabhai Naoroji, *Speeches and writings*, Madras: G.A. Natesan, 1931.

<sup>5</sup> Theodore Morrison, discussed in K.N. Chaudhuri, 'India's international economy in the nineteenth century: An historical survey', *Modern Asian Studies*, 11(1), 1968, 31-50.

contributing to the growth of productivity in trade and services —a fact supported by national income data.<sup>6</sup>

More broadly, trade surplus was balanced against payment of wages, salaries, interest, and profits, all of which corresponded to a service that contributed to investment and income growth in India. For example, nationalists dismissed the role of foreign investment in creating productive capacity in India, or Naoroji criticised interest payments on British loans, ignoring that India lacked a viable domestic capital market. Another point of resentment was the British officers' high salaries. This was somewhat justified, but its economic impact was minor. In 1870, top officials earned 100 times the per capita income, but their overpayment was just 0.03% of national income because there were so few officers.

The real failure of colonial governance lay not in spending, but in its limited ambition to earn and invest more. Though the drain theory was economically unsound, it reflected genuine frustration among educated Indians over racial discrimination and unequal opportunities in administration.

Tirthankar Roy

LSE

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<sup>6</sup> Tirthankar Roy, *How British rule changed India's economy*, London: Palgrave, 2019.