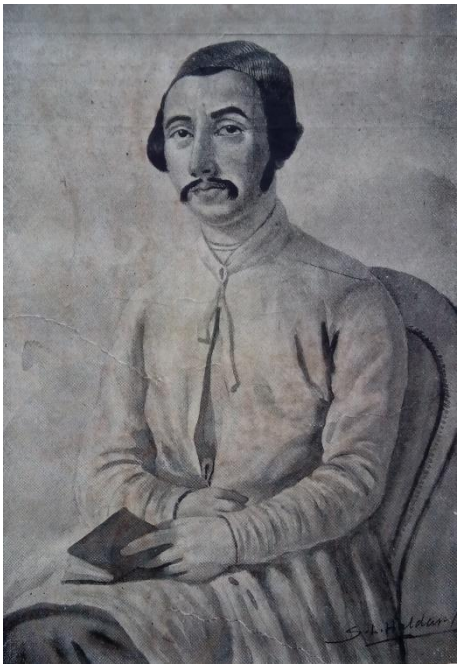
Dadabhai Naoroji: India's First Economic Reformer?

Dinyar Patel

In the summer of 1855, a thirty-year-old Dadabhai Naoroji set eyes on Europe for the first time. Like many Indian travelers of his era, Naoroji was utterly stunned by what he saw. In France, he marveled at the prosperity of its countryside and the wealth and technological sophistication of its cities. And London, the capital of the world's mightiest empire, made Naoroji's native Bombay seem in comparison like an impoverished provincial backwater. It was like "entering a new world," a place far removed from the penury, deprivation, ignorance, disease, and starvation that stalked so much of the Indian subcontinent.[1]



*A young Naoroji**

Naoroji's visit to Europe brought out the stark reality of India's comparative poverty and lack of development. It ignited the first sparks of inspiration that pushed him to investigate Indian poverty, which included the drain theory,[2] the idea that British colonialism was directly impoverishing India and bringing about mass famine. Over the next several decades, Naoroji, based in London, talked about the awful impoverishment and powerlessness of his fellow Indians. In 1894, as a member of Parliament (MP), Naoroji declared from the floor of the House of Commons that colonial policies "made the people of British India the poorest in the world."[3]

Since the late 1700s, as Naoroji acknowledged in his speeches, numerous Britons and Indians had observed a drain of wealth from the subcontinent: the steady outflow of capital and resources facilitated by colonial policies. Naoroji believed that India lost as much as one-fourth of its annual tax revenue to Britain, which crippled development through a fundamental lack of capital and whittled away the average Indian's already meager wages. But more than simply presenting hard-hitting statistics and anticolonial polemics, Naoroji's scholarship set forth ideas for India's economic development. He hoped that one day Indians would be able to enjoy the same prosperity and contentment he witnessed in Europe. The drain theory, in some critical ways, helped Naoroji become India's first proponent of modern economic reform.

The Drain of Wealth: Exposing Indian Poverty

To champion economic reform, Naoroji had to lay bare the reasons behind India's dire impoverishment. He amassed data and formulated arguments that made it impossible for imperial officials to ignore.

Beyond the direct transfer of revenue to Great Britain, Naoroji documented how the Indian exchequer was starved through excessively high interest-rate loans, especially for railway construction. He noted how Indian taxpayers paid for imperial military adventures—for example, the 1868 British expedition in Abyssinia, hardly necessary for India's defense—and other costly frontier wars waged by viceroys eager for imperial glory. There were other means through which Britain enriched itself via Indian blood and treasure. Naoroji believed that policies meant to strengthen the rupee, like closing Indian mints to the free coinage of silver and moving to a gold standard, made the average Indian pay as much as 45 percent more in taxes. Exchange policies, meanwhile, meant that the rupee lost one-fifth of its value when converted into British pounds.

British colonialism thus created a perfect storm. India was starved of capital, which reduced average wages. At the same time, as Naoroji demonstrated in a paper in 1876, prices rose, not because of prosperity but scarcity. He faulted railway projects for exacerbating already grim circumstances. These projects drew agricultural laborers to construction gangs, reducing local agricultural productivity. And then, once completed, this infrastructure accelerated the drain of wealth: through repayment of exorbitant railway loans, employment of large European staffs, and the more efficient transfer of Indian resources for export to Britain. The railway, that harbinger of modernity and progress that Britain supposedly bequeathed to its Indian subjects, was only worsening the chronic spiral of impoverishment. It was designed so that Indians "should slave and others eat."[4]

Between the 1860s and 1880s, Naoroji harnessed modern statistical methods to illustrate the appalling nature of Indian poverty. He tabulated the first-ever estimate of the country's annual per capita income: a shockingly meager £2 per year (in today's terms, this could be as low as £200 or Rs. 20,000). Through forceful comparisons, he demonstrated that £2 was barely enough to keep the average Indian alive, and that the Indian government spent more money to provide basic sustenance to a prisoner. "Even for such food and clothing as a criminal obtains," he declared, "there is hardly enough of

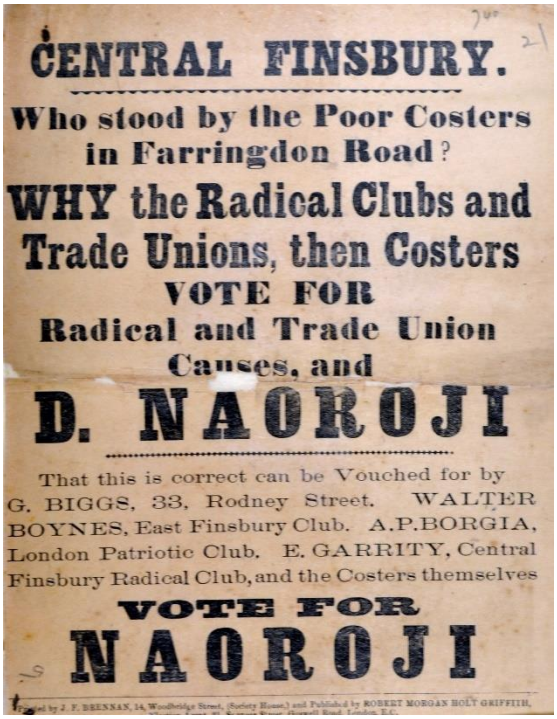
production even in a good season, leaving alone all little luxuries, all social and religious wants, all expenses of occasions of joy and sorrow, and any provision for bad season."[5]

Such grinding poverty, with the vast majority of Indians living on the precipice of starvation, explained the frequency of mass famine in the subcontinent. Naoroji asked in 1870, "Can it then be a matter of any surprise that the very first touch of famines should so easily carry away hundreds of thousands as they have done during the past twelve years?"[6]

It is no coincidence that Naoroji's investigations of the drain theory and Indian poverty coincided with a spate of famines which killed millions of Indians. With each new famine—Orissa in 1866, Madras in 1876, Bombay in 1896—his tenor became more radical. How could this carnage be stopped? Political change was a prerequisite, but so was economic development.

Toward Real Free Trade: Capitalism and India

Naoroji had a complex relationship with capitalism. As he aged, his political views became pronouncedly more socialist. During parliamentary campaigns in Britain, he denounced capitalist exploitation of labor and championed labor rights. Naoroji was a close friend of Henry Hyndman, the so-called father of British socialism: the Indian parliamentary candidate regularly spoke at meetings organized by Hyndman's Social Democratic Foundation, oftentimes linking the exploitation of British labor with Britain's colonial exploitation of India. In correspondence with an New York-based journalist, meanwhile, Naoroji discussed how wealthy American business interests were profiting from the recent Spanish-American War.


CENTRAL FINSBURY.

Who stood by the Poor Costers in Farringdon Road?

WHY the Radical Clubs and Trade Unions, then Costers VOTE FOR Radical and Trade Union Causes, and

D. NAOROJI

That this is correct can be Vouched for by G. BIGGS, 33, Rodney Street. WALTER BOYNES, East Finsbury Club. A.P.BORGIA, London Patriotic Club. E. GARRITY, Central Finsbury Radical Club, and the Costers themselves

VOTE FOR

NAOROJI

*A flyer for Naoroji's parliamentary campaign**

Naoroji, therefore, became quite outspoken of how capitalism worked as the handmaiden of imperialism. He spoke of capitalism as "European greed," noting that in relation to the question of

Indian poverty "there is no remedy for all our evils till the fundamental evil of greed is remedied."[7] In many ways, Naoroji's views complemented those of Karl Marx and J. A. Hobson. His drain theory was applied by other critics of capitalism, ranging from European socialists to American progressives.

But there was a fundamental difference. Naoroji was an active participant in the global capitalist economy. For several decades, he operated a business firm, Dadabhai Naoroji and Co., in the City of London, which dealt with the import of Indian cotton and the export of British mill machinery to India. Equipment for Ranchhodlal Chhotalal's first cotton mill in Ahmedabad, for example, was originally purchased from Great Britain through Dadabhai Naoroji and Co. (Unfortunately, the ship that carried it sank before arriving in India.)

In the late nineteenth century, this seeming paradox—a fierce critic of capitalism deeply involved in global capitalist networks—was actually quite common. Henry Hyndman, who condemned the "infamous capitalist system" in his letters to Naoroji, was a City of London speculator with significant investments in the printing industry.[8] As a member of the Fabian Society and someone who knew both Sidney and Beatrice Webb quite well, Naoroji preferred a gradualist rather than a confrontational approach to achieving socialist change.

And so, Naoroji was an advocate of reform instead of thoroughgoing revolution. At the outset of his investigations into Indian poverty, he believed that British foreign investment could play a critical role in India's development, and that it was necessary for beneficial public works, including railways. But he eventually changed his views, noting the unfair power relations between Britain and India. He quickly realized that any foreign investment from Britain would come with terms prejudicial to India.

As such, he sought out capital and enterprising capitalists in India itself. The princely states held great promise. Wealthy merchants from princely states, he noted, controlled much of the economy in Bombay. Certain progressive rulers, such as Bhagvatsinhji in Gondal or Sayajirao in Baroda, promoted the development of their states and invested in industrial and commercial ventures. As dewan of Baroda in the 1870s, Naoroji contributed to this process, shoring up the state's finances and revising tax policies so that ordinary Indians could augment their savings. He saw with satisfaction how British employees worked under Indian supervision in Baroda, a reversal of the usual power dynamic in British India.

For all these reasons, Naoroji came to believe that Indian princely states were more prosperous than British India. Here, indigenous merchants and capitalists operated with a freer reign. Furthermore, princely states were partially buffered from the drain of wealth to Great Britain and enjoyed more equal trading relationships. These states, he declared, "naturally get back their imports equal to their exports, *plus* profits."[9]

For Naoroji, this was as close as India could practically get to that great nineteenth-century ideal: free trade. Like Adam Smith, David Ricardo, and Richard Cobden, he believed that free trade was in the interest of the average man or woman as well as the nation at large. Although a socialist, he also could identify as a free trader. "I like free trade," he told a Bombay audience in 1876. However, "free trade between England and India in a matter like this is something like a race between a starving, exhausting invalid and a strong man with horse to ride on."[10] Excessive taxes—Naoroji estimated that the tax burden placed upon an Indian was twice the amount levied upon a Briton—dramatically diminished available capital. Political pressure from Manchester industrialists, meanwhile, led the British and colonial governments to impose crippling tariffs on Indian textile goods, and this high tariff was not reciprocated for British textile goods flooding the Indian market. Instead of this decisively unfree trading relationship, Naoroji desired *real* free trade, equitable and mutually beneficial commerce between India and the world.



*The multi-hyphenate Naoroji**

As Naoroji steadily embraced more radical positions and dropped any pretenses of imperial loyalty, he began to define India's future relationship with Britain purely in terms of equal trade. He argued that Britons could "find their true benefit in trade with a prosperous and vast people" rather than perpetuate India's colonial bondage.

"To *trade* with India, and not to *plunder* India"—this was the Indo-British relationship Naoroji wanted in the future.[11]

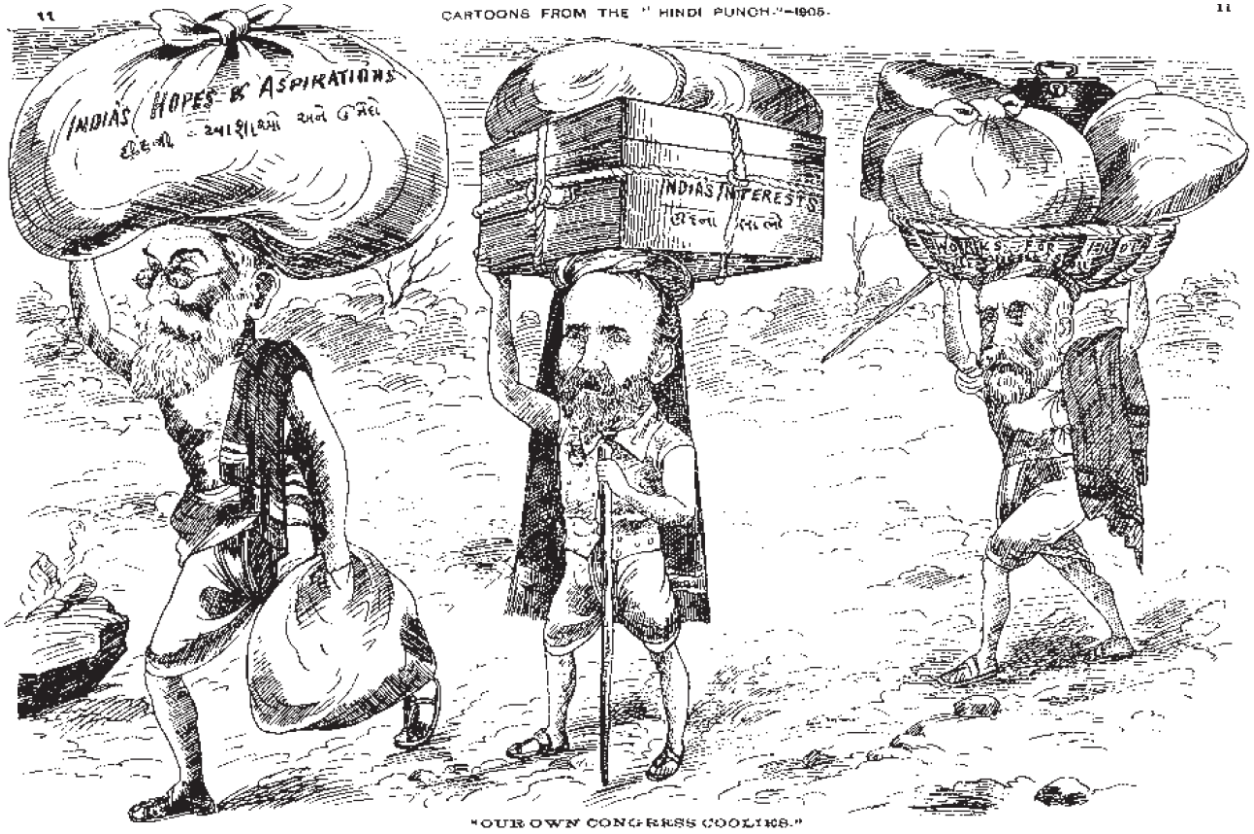
Back to the Drain: Reform and Education

Dadabhai Naoroji began searching for ways to turn a colonial Indian economy into a robust modern economy. As a counterpart to the drain theory, he introduced the powerful idea of a "moral drain." Indians' lack of professional and educational experience, he explained, resulted in a paucity of human capital. Britons did not simply control the political reins of India; they also ran its most powerful companies, staffed technical positions, and monopolized educational opportunities. "A three-fold wrong is inflicted upon us," Naoroji declared before the Calcutta Congress in 1906, "depriving us of wealth, work, and wisdom . . . in short, [of everything] worth living for."[12] Thus, Indians could not build up their own storehouses of knowledge and experience. "All the talent and nobility of intellect and soul, which nature gives to every country," he noted elsewhere, "is to India a lost treasure."[13]

How could India recover this lost treasure? Naoroji sketched out a few ideas. He continued to promote the accumulation and deployment of indigenous capital. When Jamsetji N. Tata sought foreign capital for his iron and steel works, Naoroji urged him to reconsider and instead look to the princely states for financing. Naoroji also became a human resources manager of sorts, taking an active role in employing European talent under Indian supervision. This was particularly the case for Indian-owned cotton mills, where he recommended and selected European technicians to be dispatched, facilitating the transfer of knowledge and skills to Indians.

Although Naoroji was certainly not a proponent of autarky, he believed that colonialism necessitated some degree of economic self-reliance. As early as 1876, he articulated the need for something like swadeshi (economic self-reliance). He felt Indians had been "blind to [their] own national interests and necessities" by allowing the drain to continue, instead of supporting, encouraging, and preserving "in every possible way, every talent, trade, industry, art, or profession among the natives."[14] (To be clear, Naoroji did not endorse a boycott of foreign goods.) By the dawn of the Swadeshi Movement in the early twentieth century, Naoroji upset some moderates in the Congress with his enthusiastic support. "'Swadeshi' is a forced necessity for India in its unnatural economic muddle," he said at the

1906 Calcutta Congress.[15] One of the first tasks he undertook upon returning to India for the 1906 Congress session was to inaugurate a swadeshi emporium in Bombay.



*Cartoon from the Hindi Punch of Naoroji (left), Allan Octavian Hume (center), and William Wedderburn (right) as "Congress coolies." Naoroji, Hume, and Wedderburn were recognized as the guiding forces of the Congress during its first two decades.**

But swadeshi was not enough to tackle the moral drain. India needed to augment its human capital through improved educational opportunities. Naoroji therefore was one of the earliest proponents of state-supported free, universal education. He demanded this as early as 1882, noting how both poverty and ignorance hindered progress and development. "Wretched as [India] is materially," he stated, "still more wretched is she educationally."[16] This was an intensely personal cause for him: as a child in the 1830s, the Bombay Native Education Society, one of India's first attempts at state education, had lifted him out of poverty and provided him with free primary and secondary education.

Naoroji championed all forms of education. He was a pioneer of female education and helped organize Bombay's first network of Indian girls' schools in the 1840s and 1850s. A staunch supporter of women's rights in both India and the United Kingdom, he argued that "woman had as much right to exercise and enjoy all the rights, privileges, and duties of this world as man."[17] Thus, Naoroji ensured

that women in his family were highly educated and entered the workforce. His daughter and granddaughter studied medicine in Great Britain and became doctors in India, and his two other granddaughters graduated from Oxford and the Sorbonne.

Like several other early nationalists, Naoroji advocated expanding higher educational opportunities for Indians, which he believed would facilitate the growth of industry and commerce. In the 1880s, he helped raise an endowment for what would become the Victoria Jubilee Technical Institute (VJTI). Institutes like VJTI, nationalists hoped, could impart scientific and technical training to Indians and thereby dislodge the European monopoly on technical and managerial positions. Naoroji was closely involved in the affairs of Indian colleges and universities, especially that of his alma mater, Elphinstone College.

As a longtime resident of London, Naoroji mentored and supported hundreds of Indians who came to the imperial capital for education and training. For example, he funded the work of Shankar Abaji Bhisey, a brilliant Maharashtrian inventor who developed a mechanical typecaster which promised to revolutionize the printing industry. (Henry Hyndman, Naoroji's fellow capitalist critic, was another enthusiastic investor who spent a substantial amount of his own capital.)[18] Naoroji also supported Indians studying glassmaking, textile manufacture, modern agricultural techniques, specialized medicine, law, and modern methods of education, as well as those preparing for the civil service examination. For young recipients of scholarships to study in the United Kingdom—whether from the J. N. Tata Endowment or princely states—Naoroji was often the first contact when they arrived on British shores. He counseled them on their courses of study, loaned them money (much of which, as Naoroji's correspondence indicates, was never paid back), helped them overcome acute homesickness, and even arranged occasional Indian meals for them.

Why did Naoroji take such a marked interest in the lives of these Indian students? The answer is quite simple: he recognized that they represented the best hope for India's economic regeneration. Many of them would return to India with the knowledge and skills necessary to pioneer industries, manage businesses, or further develop professions like law and medicine. For this reason, Naoroji made sure to inculcate in them a sense of political consciousness, sending them copies of his papers on Indian poverty and inviting them to political meetings. Indeed, many of these students went on to form the next generation of nationalists.

A Moral Drain: Then and Now

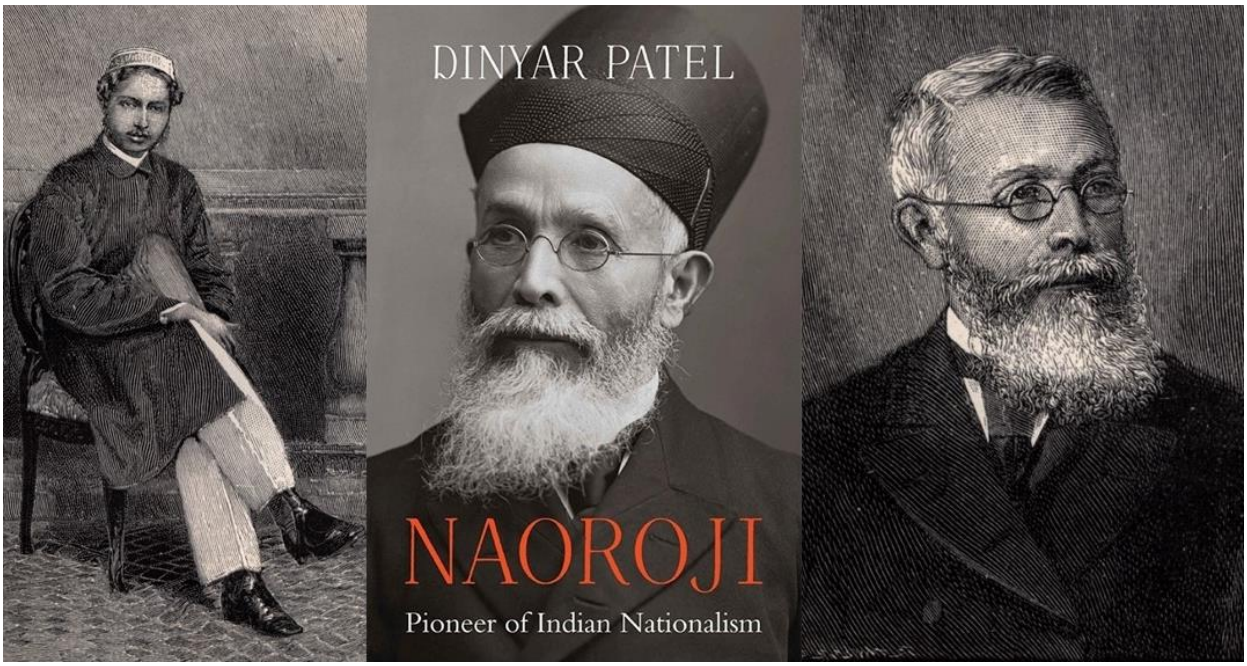
Dadabhai Naoroji's educational advocacy is perhaps the most relevant aspect of his career from the perspective of economic reform today. Although India has made impressive progress since 1991 in terms of economic growth and the expansion of educational infrastructure, poverty and ignorance continue to severely impede the achievement of India's full potential. Despite aspirations for world-class universities and institutes of excellence, higher education remains encumbered by political interference, Kafkaesque bureaucracy, subpar facilities, inferior instructional quality, and outdated pedagogical methods.

And higher education is India's bright spot. Primary and secondary education, those essential building blocks to producing human capital, are in an utterly dreadful state. In many ways, the moral drain continues in today's India. It is no longer orchestrated by a foreign power but by independent India's own sclerotic bureaucracy, excessive centralization and politicization, and lack of clear political will among its leaders. It does not take a professional economist or political scientist to realize that India's goal of becoming a $5 trillion economy will stay a mere pipe dream as long as the vast majority of Indian students continue to suffer from subpar primary and secondary education. And so, the early nationalists' call for improved education, articulated over 150 years ago, remains all too relevant today.

When Naoroji made that fateful visit to Europe in 1855, he was exposed to an educational revolution. At University College in London, where he became a professor of Gujarati, he witnessed the creation of modern research universities built on merit and talent. In subsequent decades spent in the United Kingdom, he observed how government-supported free education lifted the children of the poor and the working class out of dire poverty, allowing Britain to diversify its economy and generate more wealth. In speeches and writings, Naoroji identified the widening chasm between educational opportunities in British India and those in Great Britain and other parts of the British Empire. Lack of proper education, he noted, was making India fall even further behind the rest of the world.

Perhaps the best way to remember Dadabhai Naoroji and his early nationalist peers is to return to the fundamental link they identified between poverty and education, and between financial capital and human capital. Naoroji and his colleagues—men such as Gopal Krishna Gokhale and Mahadev Govind Ranade—understood the transformative qualities of education: how knowledge and skills

development could help weaken the foundations of colonial rule, embolden Indians into new ways of political and economic thinking, and give Indians the tools to stop the drain of wealth. Looking to countries like Japan, the United States, and the United Kingdom, these early nationalists realized that the path to national prosperity began in the classroom. Education was the key to true economic reform in Naoroji's day. It remains the key to true economic reform today.



Read Dinyar Patel's book, *Naoroji: Pioneer of Indian Nationalism*, here.

Listen to Dinyar Patel discuss his book on Shruti Rajagopalan's podcast, Ideas of India, here.

Notes

[1] Dadabhai Naoroji, "Māltāthī Inglandnī shafar," *Rāst Goftār*, October 14, 1855, 325.
[2] Dinyar Patel, "Naroroji's 'Drain of Wealth' Approach: Guiding Indian Nationalism," *Live History India*, February 8, 2021.
[3] Dadabhai Naoroji, "East India Revenue Account," in *Poverty and Un-British Rule in India* (London: Swan Sonnenschein & Co., 1901), 282.
[4] Dadabhai Naoroji, "The Condition of India," in *Poverty and Un-British Rule in India* (London: Swan Sonnenschein & Co., 1901), 196.
[5] Dadabhai Naoroji, "Poverty of India, Part I," in *Essays, Speeches, Addresses and Writings (on Indian Politics) of the Hon'ble Dadabhai Naoroji*, ed. Chunilal Lallubhai Parekh (Bombay: Caxton Printing Works, 1887), 190.
[6] Dadabhai Naoroji, "The Wants and Means of India," in *Essays, Speeches, Addresses and Writings (on Indian Politics) of the Hon'ble Dadabhai Naoroji*, ed. Chunilal Lallubhai Parekh (Bombay: Caxton Printing Works, 1887), 102.
[7] Rustom P. Masani, *Dadabhai Naoroji: The Grand Old Man of India* (London: G. Allen & Unwin, Ltd., 1939), 443–44.
[8] Henry Hyndman to Dadabhai Naoroji, July 24, 1900, National Archives of India, Dadabhai Naoroji Papers, H-221 (88).
[9] Naoroji, "Poverty of India, Part I," 194.
[10] Naoroji, "Poverty of India, Part I," 217.
[11] Naoroji to Romesh Chunder Dutt, July 5, 1903, National Archives of India, Romesh Chunder Dutt Papers, S.N. 4
[12] Dadabhai Naoroji, "Twenty-Second Congress—Calcutta—1906: Presidential Address," in *Speeches and Writings of Dadabhai Naoroji*, ed. G.A. Natesan, second edition (Madras: G.A. Natesan & Co., 1917), 76.
[13] Naoroji, "Poverty of India, Part I," 213.
[14] Naoroji, "Poverty of India, Part I," 196.
[15] Naoroji, "Twenty-Second Congress—Calcutta—1906: Presidential Address," 91.
[16] Dadabhai Naoroji, "A Note Submitted to the Education Commission of 1882 by Dadabhai Naoroji," in *Evidence Taken by the Bombay Provincial Committee, and Memorials Addressed to the Education Commission (Bombay, Vol II)* (Calcutta: Superintendent of Government Printing, India, 1884), 89.
[17] Naoroji, "A Note Submitted to the Education Commission of 1882, 104.
[18] See Dinyar Patel, "The Transnational Career of the 'Indian Edison': Shankar Abaji Bhisey and the Nationalist Promotion of Scientific Talent," in *Bombay before Mumbai: Essays in Honour of Jim Masselos*, ed. Prashant Kidambi, Manjiri Kamat, and Rachel Dwyer (London: Hurst, 2019), 239–62.
[*] Sourced from the author; Dinyar Patel, *Naoroji: Pioneer of Indian Nationalism* (United States: Harvard University Press, 2020).