The Drain Gain: An investigation into how colonial drain counteracted the fall in the rate of profit

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Abstract

India's colonial history has received substantial scholarly attention, and the drain of wealth has particularly attracted considerable focus. However, the emphasis has often remained on the drain of wealth as a cause of India's underdevelopment. This study shifts the lens to examine how this drain from India to Britain played a crucial role in Britain's economic development. By highlighting this aspect of the global drain of wealth, I demonstrate empirically how this transfer was pivotal to the success of the British economy. While the drain of wealth from India is a well-documented phenomenon, this article not only clarifies its complexities but also connects it to Marxian Political Economy. To the best of my knowledge, this is the first study to investigate both how capital was accumulated through colonial exploitation and how this accumulation enhanced the profitability of the British economy—a key indicator of economic viability. Through a detailed analysis of colonial accounting practices, this study enhances our understanding of the impact of the wealth drain on Britain's economic situation. By addressing spurious correlations, as suggested by Hamilton (2020), I find that a doubling of my measure of colonial drain corresponds to approximately a 10% increase in Britain's rate of profit. This finding is further supported by an alternative measure of colonial drain, known as *Expenditure in England*. The analysis covers the period from the enactment of the Third Charter Act in 1833 to the onset of the First World War.

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