Marx and Naoroji*

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In the early 1850s Karl Marx, living in Dean Street in London's Soho, was working on his opus Capital, of which a preliminary fragment was published in 1859 as A Contribution to the Critique of Political Economy. He had little income, but whatever he had was earned from writing occasional articles for the New York Daily Tribune, among which were a series of remarkable pieces on British rule in India. The trips he made to the British museum for consulting documents for Capital must have also been used by him for reading on India which provided the material for the Tribune articles. Oddly, however, despite the fact that he was researching on both themes at the same time, the impact of colonialism on the dynamics of capitalism is conspicuously absent in Capital.

The Tribune articles provide profound insights into the impact of colonialism on the Indian economy. And of course there are numerous references to colonialism in Capital which clearly acknowledge its existence as a background phenomenon. But the role of colonialism in shaping the economy of the colonizing country is scarcely recognized. The capitalist economy is seen, certainly in Volume I of Capital, as a virtually closed and isolated economy consisting almost exclusively of capitalists and workers, with the State enforcing the "rules of the game".

Leaving aside numerous stray references to it across the three volumes of Capital, the only place where the colonial relationship enters into the central argument is in the discussion in Volume III of Capital on the "counteracting tendencies" to the "falling tendency of the rate of profit". Otherwise colonialism plays no central role in the analysis of the dynamics of capitalism once the system has come into existence, that is, once the early years of "primary accumulation of capital", consisting of plunder and dispossession, which set up the system in the first place, are over.

Of course, the fact that capitalism opens up previously-insulated pre-capitalist societies, that it has an intrinsically encroaching nature, was noted by Marx and Engels in The Communist Manifesto. But a recognition of this spontaneous tendency, which is a behavioural trait of the system, is not the same thing as according this tendency any central role in the system's operation. And Marx's not doing the latter is odd.

One can perhaps explain it by saying that Marx's concern in Capital, especially Volume I, was to examine the process of production under capitalism, to reveal how a surplus is extracted in this system despite equivalent exchange between capitalists and workers, each of whom is a commodity-owner (the workers of their labour-power) voluntarily exchanging on the market; and for this analysis, there was no need to drag in the colonial relationship. One can further supplement this explanation by saying that Marx's main preoccupation was with the European Revolution, for the theoretical groundwork of which an examination of the colonial relationship appeared secondary.

But while these explanations might be persuasive if the colonies merely provided markets for realizing the surplus value produced in the capitalist metropolis, which in turn accounted for all the surplus value available to the system, they are clearly inadequate if the colonies were also important sources of surplus value, even beyond the stage of primary accumulation of capital; for in such a case not recognizing their role makes the analysis incomplete.

Indeed what is striking is that neither in Capital nor in the Tribune articles is there any recognition of the extraction of substantial amounts of surplus from the colonies by metropolitan capitalism. The only surplus that is supposed to be available to the system is that which is extracted from the workers.

The fact that Marx carried on his analysis on this presumption suggests not that the surplus extracted from the colonies was theoretically inconsequential, but rather that he did not have adequate information about the magnitude of surplus so extracted. This is hardly surprising, as the surplus extracted from the colonies of conquest like India (we are not talking here of the colonies of settlement), and siphoned off to the metropolis, would never appear as such. Since the balance of payments must always balance, with the total outflows being matched by total inflows, determining which of the outflows constitutes a siphoning of surplus without any quid pro quo requires judgment as well as a certain amount of detective work. From the official statistics that Marx would have had access to in the British Museum, it would have been impossible for him to get any idea of the outflow of surplus from India to Britain.

One unfortunate consequence of Marx's being unaware of the "drain of wealth" from colonies like India is that the relationship between capitalism and imperialism remained unclear for long to the Marxist revolutionary tradition. This was a gap that was filled by Lenin later, by assimilating into the Marxist tradition the work of the liberal parson J.A. Hobson, and thereby converting Marxism from merely a theory of a European socialist revolution into a theory of world revolution; but Lenin's theory of imperialism related only to the stage of finance capital and did not analyze comprehensively the totality of the relationship between the metropolis and the colonies of conquest.

The first suggestion of a systematic annual "drain of wealth" from India to Britain was made by Dadabhai Naoroji in 1867, and his work was followed by that of Romesh Chunder Dutt who also put forward similar conclusions. Interestingly, however, in a letter to N.F. Danielson, the Russian narodnik economist, written on February 19, 1881, just a couple of years before his death, Marx had written about India:

"What the English take from them annually in the form of rent, dividends for railways useless to the Hindus; pensions for military and civil service men, for Afghanistan and other wars, etc., etc. – what they take from them without any equivalent and quite apart from what they appropriate to themselves annually within India, speaking only of the value of the commodities the Indians have gratuitously and annually to send over to England – it amounts to more than the total sum of income of the sixty millions of agricultural and industrial labourers of India! This is a bleeding process, with a vengeance!"

This was a striking remark by Marx, which recognized that the process of primary accumulation of capital, in this case siphoning of surplus from colonies, did not end with the birth of the system but continued throughout its life-time; and also, implicitly, that it affected the dynamics of the system, for so large a "drain" by the metropolis could not possibly be inconsequential for it.

The question that has puzzled many is: how did Marx come to recognize the “drain”, which required specialized knowledge of the Indian accounts under British rule that only someone like Naoroji had come to acquire? Some have speculated that Marx became acquainted with Naoroji and learned from him about this phenomenon, which he mentioned in a letter but had no time to incorporate into his own work. This is not so far-fetched a hypothesis since both Naoroji and Marx had a common friend, H.M. Hyndman of the Social Democratic Federation, in whose house they might have met and discussed the issue.

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