British Imperialism Revisited: The Costs and Benefits of ‘Anglobalization’

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I

Writing in 1924, John Maynard Keynes observed caustically that it was ‘remarkable that Southern Rhodesia – a place in the middle of Africa with a few thousand white inhabitants and less than a million black ones – can place an unguaranteed loan on terms not very different from our own War Loan’. Keynes’s point was that this state of affairs was not in the economic interests of Britain herself. With unemployment stubbornly stuck above pre-war levels and mounting evidence of industrial stagnation, capital export seemed a misallocation of resources. Keynes believed British savings would be better employed at home in creating jobs and modernizing the capital stock of the British economy: he explicitly called for ‘the diversion of national savings from relatively barren foreign investment into state-encouraged productive enterprises at home’. Apart from any other consideration, he argued, overseas investment produced no lasting benefit to Britain:

If the Grand Trunk Railway of Canada fails its shareholders [as it had in 1923] … we have nothing. If the underground system of London fails its shareholders, Londoners still have their underground system. … If a Poplar housing loan is repudiated, we, as a nation, still have the houses.

Such arguments were among the many steps – sometimes hesitant, sometimes bold – that took Keynes along a path of intellectual development leading ultimately to his 1933 call for ‘National Self-Sufficiency’. This extraordinary lecture saw Keynes repudiate, in the space of one extraordinary paragraph, free trade, capital exports and imperialism:

The protection of a country’s existing foreign interests, the capture of new markets, the progress of economic imperialism – these are a scarcely avoidable part of a scheme of things which aims at the maximum of international specialization and at the maximum geographical diffusion of capital wherever its seat of ownership. … [But] I … sympathize with those who would minimize,
rather than with those who would maximize, economic entanglements between nations. … Let goods be homespun whenever it is reasonably and conveniently possible; and, above all, let finance be primarily national.\(^4\)

Seventy years on, there are not many economists who would agree with Keynes. Indeed, it is becoming conventional to regard the period from around the First World War until the 1980s as an economic dark age, in which precisely the policies of autarky Keynes endorsed had the effect of retarding global economic growth.

Yet for many years Keynes’s counterfactual – that the economic performance of the British Isles would have been enhanced if British capital had stayed at home – was central to debates about the costs and benefits of British imperialism. Among others, scholars such as Pollard and O’Brien argued that late nineteenth century capital exports diverted resources away from the modernization of British industry.\(^5\) In particular, the overseas investment that flowed to Britain’s colonies was regarded as a questionable use of resources. Was it even economically rational? Davis and Huttenback calculated that, between 1884 and 1914, the returns on sample of imperial investments were somewhat lower than the returns on roughly comparable domestic investments.\(^6\) Such views continue to be influential. In a recent synoptic paper, O’Brien and Prados de la Escosura argue that ‘the net benefits derived by the British and other economies from trade with their empires suggest that after mid-century the net benefits could not have been other than “small” … Investment at home (or overseas in independent countries outside European empires) would turn out to be a superior allocation of capital for a nation’s economic growth’.\(^7\) Elsewhere, O’Brien has argued that after around 1846 Britain could have withdrawn from Empire with impunity, and reaped a ‘decolonization dividend’ in the form of a 25 per cent tax cut. The money taxpayers would have saved as a result of a

\(^4\) Keynes, [title to come] (1933), p. 236.
Victorian decolonization could have been spent on electricity, cars and consumer durables, thus encouraging industrial modernization at home.\(^8\)

Such negative assessments of Britain’s relationship to the Empire sit somewhat uneasily alongside the large ‘nationalist’ literature on the economic costs of empire to Britain’s colonies, notably India. In the words of B. R. Tomlinson, ‘the suggestion remains that British rule did not leave a substantial legacy of wealth, health, or happiness to the majority of the subjects of the Commonwealth’.\(^9\) Numerous authors have insisted that the principal consequence of British rule in the Indian subcontinent was a legacy of ‘underdevelopment’. Can it really be that the Empire was economically bad for both Britain and her colonies? By drawing on the recent economic literature on globalization, past and present, this essay seeks to argue otherwise.

II

Keynes was doubtless right about many things. But he was surely wrong about autarky. In an influential paper published in 1995, Sachs and Warner demonstrated conclusively that one of the principal reasons for widening international inequality in the 1970s and 1980s was protectionism in less developed economies. In their words, ‘open economies tend to converge [on the developed economies], but closed economies do not. The lack of convergence in recent decades results from the fact that the poorer countries have been closed to the world.’ When they compared per capita GDP growth among developing countries, they found that ‘the open economies grew at 4.49 per cent per year, and the closed countries grew at 0.69 per cent per year’.\(^10\) Sachs and Warner’s findings have been widely interpreted as making the case for present-day ‘globalization’, that is to say, demonstrating that countries which reduce impediments to trade are much more likely to


achieve rapid growth than those which incline towards autarky. However, their findings also have important historical implications. As the authors note, in the previous era of globalization – conventionally seen as the period from the mid nineteenth century until the First World War – economic openness was imposed by colonial powers (principally, of course, Britain) not only on Asian and African colonies but also on South America and even Japan.¹¹

A similar point can be made with respect to flows of labour. Williamson and others have emphasized the importance of international migration (or the restrictions on it) in determining the extent of international inequality. The more free movement there is of labour, the more international income levels will tend to converge. One reason that modern globalization is associated with high levels of inequality is that there are so many restrictions on the free movement of labour from less developed to developed societies.¹² This too has obvious implications for the history of the British Empire, which actively promoted emigration to at least some of its colonies, and certainly did little to heed the migration of British people wherever they wished to go.

Consider also the evidence on international capital flows, another key component of globalization. Development economists have spent many decades trying to work out how to raise the level of investment in backward agrarian societies. The most obvious solution has been for them to import capital from where it is plentiful, namely the developed world. According to the simple classical model of the world economy, this should happen naturally: capital should flow from developed to less developed economies, where returns are likely to be higher. But as Robert Lucas pointed out, with respect to the United States and India in the 1970s, this does not seem to happen in practice.¹³ Although some measures of international financial integration seem to suggest that the 1990s saw bigger cross-border capital flows than the 1890s, in reality most of today’s overseas investment goes on within the developed world. In 1996 only 28 per

cent of foreign direct investment went to developing countries;\textsuperscript{14} by 2000 their share was less than a fifth. The overwhelming majority takes place between the United States, the European Union and Japan.\textsuperscript{15} Investors in the developed world prefer to invest in countries which already have high levels of per capita GDP, which is one reason why increased capital flows in recent decades seem to have been associated with widening international inequalities. As Clemens and Williamson have shown, there was something of a ‘Lucas effect’ in the first era of globalization, in that ‘about two-thirds of [British capital exports] went to the labor-scarce New World where only a tenth of the world’s population lived, and only about a quarter of it went to labor-abundant Asia and Africa where almost two-thirds of the world’s population lived’.\textsuperscript{16} Nevertheless, the share of British capital going to poorer countries was still significantly larger then than it is today. According to Obstfeld and Taylor, in 1997 only around 5 per cent of the world stock of capital was invested in countries with per capita incomes of 20 per cent or less of US per capita GDP. In 1913 the figure was 25 per cent.\textsuperscript{17} They also estimate the share of developing countries in total international liabilities at 11 per cent in 1995, compared with 33 per cent in 1900 and 47 per cent in 1938.\textsuperscript{18} Those figures are at least suggestive of the possibility that the existence of formal empire encouraged investors to put their money in less developed economies.\textsuperscript{19}

\textsuperscript{15} Figures for 1998-2000. I am grateful to Dr Valpy Fitzgerald of the Said Business School, Oxford, for these figures.
\textsuperscript{16} Clemens and Williamson, ‘Where did British Foreign Capital Go?’
\textsuperscript{18} Ibid., table 2.
\textsuperscript{19} However, Obstfeld and Taylor follow Bordo in identifying the spread of the gold standard as the explanation: Maurice Obstfeld, and Alan M. Taylor, ‘Sovereign Risk, Credibility and the Gold Standard: 1870-1913 versus 1925-31’, NBER Working Paper, No. 9345 (Nov. 2002).
Finally, we need to consider recent empirical work on the institutional and political preconditions for growth. In a cross-country study of post-war economic growth, Robert Barro concluded that there were six significant variables that were likely to influence a country’s economic performance. The first was the provision of secondary and higher education (for men; interestingly, his findings do not support the hypothesis that female education is good for growth, though it may do so indirectly by reducing fertility); the second was the provision of health care, since there is a correlation between growth and life expectancy; the third was the promotion of birth control; the fourth was the avoidance of ‘non-productive government expenditures, since ‘big government is bad for growth’; the fifth was the enforcement of the rule of law; and the sixth was the avoidance of inflation above 10 per cent per annum.\(^{20}\) David Landes has come to similar conclusions, arguing that ‘the ideal growth-and-development’ government would:

1. secure rights of private property, the better to encourage saving and investment;

2. secure rights of personal liberty … against both the abuses of tyranny and …
   crime and corruption;
3. enforce rights of contract …
4. provide stable government … governed by publicly known rules …
5. provide responsive government …
6. provide honest government … [with] no rents to favour and position;
7. provide moderate, efficient, ungreedy government … to hold taxes down [and]
   reduce the government’s claim on the social surplus…

It requires only a passing familiarity with the nature of British colonial administration to
recognise that at least some of these were among its defining characteristics. To be sure,
British colonial rule was not democratic (outside the Dominions). But as both Barro and
Landes observe, democracy does not correlate closely with economic performance. The
rule of law is the key prerequisite for sustainable growth. And not just any law. A recent
survey of 49 countries concluded that ‘common-law countries have the strongest, and
French-civil-law countries the weakest, legal protections of investors’, including both
shareholders and creditors. This is of enormous importance in encouraging capital
formation, without which entrepreneurs can achieve little. The fact that eighteen of the
sample countries have the common law system is, of course, almost entirely due to their
having been at one time or another under British rule.

It should by now be clear that there is a significant discrepancy between the
historical consensus that the British Empire was economically deleterious, and the
modern literature on economic growth. A striking number of the things currently
recommended by economists to developing countries were in fact imposed by British
rule. There was, as Taylor has suggested, a ‘London consensus’ not unlike the
‘Washington consensus’ of our own time, with the difference that the International
Monetary Fund cannot rely on the services of the Royal Navy to enforce its
recommendations. Unless the economists have got it wrong, there is at least a prima facie

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24 Rafael La Porta, Florencio Lopez-de-Silanes, Andrei Shleifer and Robert W. Vishny, 'Law and Finance',
case that the British Empire was economically beneficial, not only to Britain herself, but also to her Empire – and perhaps even to the world economy as a whole.

III

Let us begin with world trade and tariffs. In an ideal world, of course, free trade would be naturally occurring. But history and political economy tell us that it is not. For most of the nineteenth century, free trade spread because of Britain’s power more than Britain’s example. From the 1840s until the 1930s, the British political elite and electorate remained wedded to the principle of *laissez faire, laissez passer* – and the practice of ‘cheap bread’. That meant that – certainly from the 1870s – British tariffs were significantly lower than those of her European neighbours;\(^{25}\) it also meant that tariffs in much of the British Empire were also kept low (the exception to this rule being the Dominions, which won the right to set their own protective tariffs in the later nineteenth century).\(^{26}\) Abandoning formal control over Britain’s colonies would almost certainly have led to higher tariffs being erected against British exports in their markets, and perhaps other forms of trade discrimination. The evidence for this need not be purely hypothetical: it is manifest in the highly protectionist policies adopted by the United States and India after they secured independence, as well as in the tariff regimes adopted by Britain’s imperial rivals France, Germany and Russia after the late 1870s. Whether one looks at the duties on primary products or manufactures, Britain was the least protectionist of the imperial powers. In 1913 average tariff rates on imported manufactures were 13 per cent in Germany, over 20 per cent in France, 44 per cent in the United States and 84 per cent in Russia. In Britain they were zero.\(^{27}\)

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\(^{25}\) By one measure (net customs revenue as a percentage of net import values) France was in fact more liberal from the 1820s until the mid-1870s: John Vincent Nye, ‘The Myth of Free-Trade Britain and Fortress France: Tariffs and Trade in the Nineteenth Century’, *Journal of Economic History*, 51, 1 (March 1991), pp. 23-46. The real significance of British free trade is that the British retained it even after globalization began to drive down commodity prices in the 1870s.


According to Edelstein, the economic benefit to Britain of enforcing free trade could have been anywhere between 1.8 and 6.5 per cent of GNP.\textsuperscript{28} But what about the benefit to the rest of the world? In the words of Sir John Graham, Britain was ‘the great Emporium of the commerce of the World’.\textsuperscript{29} Its domestic market and much of its Empire were more or less open to all-comers to sell their wares as best they could. The evidence that Britain’s continued policy of free trade was beneficial, in a protectionist world, to her colonies seems unequivocal. Between 1871-5 and 1925-9, the colonies’ share of Britain’s imports rose from a quarter to a third.\textsuperscript{30} More generally, as Williamson has argued, it was (mainly British) colonial authorities that resisted protectionist backlashes to the dramatic falls in factor prices caused by late nineteenth-century globalization.\textsuperscript{31}

In the same way, there would not have been so much international mobility of labour – and hence so much global convergence of incomes before 1914 – without the British Empire. True, the independent United States was always the most attractive destination for nineteenth-century emigrants. But as American restrictions in immigration increased, the significance of the white ‘Dominions’ as a destination for British emigrants grew markedly, attracting around 59 per cent of all British emigrants between 1900 and 1914, 75 per cent between 1915 and 1949 and 82 per cent between 1949 and 1963.\textsuperscript{32} Nor should we lose sight of the vast numbers of Asians who left India and China to work as indentured labourers, many of them on British plantations and mines in the course of the nineteenth century. Perhaps as many as 1.6 million Indians emigrated under this system, which lay somewhere between free and unfree labour.\textsuperscript{33} There is no question that the majority of them suffered great hardship; many indeed might have been better off staying

\textsuperscript{28} Edelstein, ‘Imperialism: Cost and Benefit’, p. 205. Edelstein imagines two counterfactuals: a benign one, in which tariffs would have risen but trade would have remained the same, and a worst-case scenario in which, in the absence of imperial control, trade to the Dominions would have been reduced by 30 per cent and trade with the other colonies by 75 per cent.
\textsuperscript{29} Cain and Hopkins, \textit{British Imperialism}, p. 141.
\textsuperscript{30} Ibid., p. 432.
at home. But once again we cannot pretend that this mobilization of cheap and probably underemployed Asians to grow rubber or dig gold had no economic significance.

![Percentage of all UK overseas emigrants going to Empire, 1900-1963](chart.png)

Similar arguments may be advanced about Britain’s role as a capital exporter. As is well known, from the mid-nineteenth until the mid-twentieth centuries, Britain acted as the world’s banker, channeling colossal sums of British (and other European) savings overseas. By 1914 total British assets overseas amounted to somewhere between £3.1 and £4.5 billion, compared with a British Gross Domestic Product of £2.5 billion. Compared with the other major capital exporters of the period, Britain sent a remarkably high proportion of her savings to overseas economies. To be sure, around 45 per cent of British investment went to the United States and the Dominions (what Maddison calls the ‘Western offshoots’). But 16 per cent of British foreign investment went to Asia and 13 per cent to Africa, compared with just 6 per cent to the rest of Europe. Taking British

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investment as a whole, Davis and Huttenback show that, between 1865 and 1914, as much went to Africa, Asia and Latin America (29.6 per cent) as to the UK itself (31.8 per cent). This pattern was surprisingly little changed by the effects of the First World War and the Great Depression. As late as 1938, around 18 per cent of British overseas assets were in Asia, and 11 per cent in Africa. As is well known, British investment in developing economies principally took the form of portfolio investment in infrastructure, especially railways. But the British also sank considerable (and not easily calculable) sums directly into plantations to produce new cash crops like tea, cotton, indigo and rubber.

Investing money in faraway places is risky: what economists call ‘informational asymmetries’ are generally greater, the further the lender is from the borrower. Less developed economies also tend to be rather more susceptible to economic, social and political crises. As J.A. Hobson put it:

It is often difficult to judge the quality of a possible investment in a distant land, especially when that land is inhabited by a different race of men, possessing different institutions, and speaking a strange tongue. Barriers to intercourse impede the flow of capital to those parts of the world where it would yield the highest return.

Why then were British investors willing to risk such an exceptionally high proportion of their savings by purchasing securities or other assets overseas? One possible answer to this is that the adoption of the gold standard by developing economies offered investors a ‘good housekeeping seal of approval’. To be precise, as Bordo has shown, going onto gold reduced the yield on government gold-denominated bonds by around 40 basis points. It is certainly the case that before 1914 membership of the gold standard was as good a way of obtaining cheap loans as membership of the British Empire – though it

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37 Davis and Huttenback, *Mammon*, p. 46.
38 Maddison, *World Economy*, Table 2-26b.
40 [Source to come.]
must be remembered that many countries went onto gold (which was, after all, a sterling standard devised in London) precisely because they were British colonies.  

Yet there is a need to distinguish here between anticipated and actual returns on overseas investments. For the period 1850 to 1914, as table 1 shows, anticipated (ex ante) returns were not significantly lower on colonial bonds than they were on other foreign bonds. But the same cannot be said of the actual (ex post) returns. If one takes an average of the three colonial countries in the sample the anticipated yield was 5.3 per cent, compared with 4.7 per cent for the three South American countries. But the actual returns were significantly different: 4.7 per cent as against 2.9 per cent. This helps explain why, when the same countries returned to the bond market in the inter-war years, they paid significantly different risk premia. On average, the ex ante returns Latin American borrowers had to offer investors were 270 basis points higher than those on new colonial issues. Even so, actual returns on Latin American bonds were once again worse than expected and worse than those on colonial bonds.

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Table 1. Anticipated and actual returns on a selection of international bonds, 1850-1945

<table>
<thead>
<tr>
<th>Country</th>
<th>1850-1914</th>
<th>1915-1945</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>ex ante</td>
<td>ex post</td>
</tr>
<tr>
<td>UK</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Australia</td>
<td>4.35</td>
<td>3.02</td>
</tr>
<tr>
<td>Canada</td>
<td>4.47</td>
<td>4.77</td>
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<tr>
<td>Egypt</td>
<td>7.18</td>
<td>6.41</td>
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<tr>
<td>Argentina</td>
<td>5.07</td>
<td>3.52</td>
</tr>
<tr>
<td>Brazil</td>
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</tr>
<tr>
<td>Chile</td>
<td>5.39</td>
<td>2.79</td>
</tr>
<tr>
<td>Mexico</td>
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<td>-0.74</td>
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<tr>
<td>Russia</td>
<td>4.94</td>
<td>1.31</td>
</tr>
<tr>
<td>Turkey</td>
<td>7.39</td>
<td>1.61</td>
</tr>
<tr>
<td>Total sample</td>
<td>5.32</td>
<td>2.12</td>
</tr>
</tbody>
</table>

Anticipated and actual returns on 11 governments' bonds, 1850-1914

- **UK**
- **Australia**
- **Canada**
- **Egypt**
- **Argentina**
- **Brazil**
- **Chile**
- **Mexico**
- **Japan**
- **Russia**
- **Turkey**
- **Total sample**

**Ex ante**

**Ex post**
In other words, experience showed that money invested in a *de jure* British colony such as India, or in a colony in all but name like Egypt, was more secure than money invested in an independent, albeit informally ‘colonized’ country such as Argentina. This was because the commitment to gold was a ‘contingent commitment’; it was essentially voluntary and could be suspended in the event of an emergency such as a war.\(^{44}\) Gold standard members who were otherwise sovereign states could not only suspend gold convertibility of their currencies; they could also default on their debts. To varying degrees and at various times, Argentina, Brazil, Chile, Mexico, Japan, Russia and Turkey all did precisely that.\(^{45}\) Membership of the Empire was quite different. British colonies were unlikely to suspend convertibility and not much more likely to default than Britain herself. By the 1920s, membership of the Empire was therefore confirmed as a better


\(^{45}\) Details in Lindert and Morton, ‘How Sovereign Debt has Worked’.
‘good housekeeping seal of approval’ than gold.\textsuperscript{46} In the words of Ranald Michie: ‘The Empire found it easier and less expensive to borrow in Britain than foreign countries, as the British investor was more inclined to trust those who belonged to the wider British community, though the actual security offered might be identical.’\textsuperscript{47}

That imperial membership offered better security to investors than mere adoption of the gold anchor is not surprising. There were a variety of explicit legal guarantees offered by the Colonial Loans Act (1899) and the Colonial Stock Act (1900), which gave colonial bonds the same ‘trustee status’ as the benchmark British government perpetual bond, the ‘consol’.\textsuperscript{48} Over and above that, there was the cast-iron commitment of colonial governors and administrators to the principles of Gladstonian finance. It was inconceivable, declared the Governor of the Gold Coast in 1933, that the interest due on Gold Coast bonds should be compulsorily reduced: why should British investors ‘accept yet another burden for the relief of persons in another country who have enjoyed all the benefits but will not accept their obligation’?\textsuperscript{49} Even colonial constitutions had been drafted with at least one eye on creditor preferences. Writing in the 1950s, the Canadian historian Harold Innis declared: ‘The constitution of Canada, as it appears on the statute book of the British Parliament, has been designed to secure capital for the improvement of navigation and transport.’\textsuperscript{50}

This therefore explains why an increasing share of British overseas investment ended up going to the empire after the First World War. In the period from 1856 to 1914, around two-fifths (39 per cent) of British overseas capital went to the Empire, compared with three-fifths (61 per cent) to the rest of the world. But after the First World War, the balance shifted. Between 1919 and 1938, the Empire got two-thirds, the rest got a third.\textsuperscript{51} Nor is it surprising that more than three-quarters of all foreign capital invested in sub-Saharan Africa was invested in British colonies.\textsuperscript{52}

\textsuperscript{46} As demonstrated by Obstfeld and Taylor, ‘Sovereign Risk’. For a contrary but less persuasive argument see Michael D. Bordo and Hugh Rockoff, ‘Was Adherence to the Gold Standard a “Good Housekeeping Seal of Approval” during the Interwar Period?’, \textit{NBER Working Paper}, No. 7186 (June 1999).
\textsuperscript{48} Cain and Hopkins, \textit{British Imperialism}, pp. 439, 570.
\textsuperscript{49} Ibid., pp. 584f.
\textsuperscript{50} Ibid., p. 233.
\textsuperscript{51} Ibid., p. 439.
\textsuperscript{52} Ibid., p. 567.
Cain and Hopkins lay great emphasis, in their history of British imperialism, on the dominant role played by the City of London, with its ethos of ‘gentlemanly capitalism’. In both the formal and the informal empire, they argue, finance came first, and British export industries a poor second. The question they do not address is what the policy of prioritizing overseas investment implied for the rest of the world. On the strength of this evidence, it seems reasonable to conclude that it offered at least the opportunity of economic convergence. For in order to ensure that loans to developing economies were repaid, British policy-makers were prepared to go to considerable lengths, ultimately allowing a system of differential tariffs to evolve which gave colonial manufacturers easier access to the British ‘home’ market than British manufacturers enjoyed to colonial markets.53

Intention and outcome are two different things. The British did not see the economic development of Asia and Africa as their primary concern, though they sometimes paid lip service to the idea. As we shall see, they would have acted rather

53 On the implications of the Ottawa Conference, see ibid., pp. 471, 473, 585.
differently in India, if development had been the paramount objective. Nevertheless, the intended policy of financial rather than industrial domination of the world economy had secondary positive outcomes alongside the primary outcome of ensuring that investors got their interest and principal. Under the right circumstances, this policy was conducive to rapid economic growth on the periphery – more so than a policy which would have put the interests of British industrial exports first.

IV
The results of ‘Anglobalization’ were in many ways astounding. The combination of free trade, mass migration and unprecedented overseas investment propelled large parts of the Empire to the forefront of world economic development. In terms of the production of manufactured goods per head of population, Canada, Australia and New Zealand ranked higher than Germany in 1913. Between 1820 and 1950, their economies were the fastest growing in the world. Per capita GDP grew more rapidly in Canada than the United States between 1820 and 1913.54

But the performance of the Dominions was not matched in the rest of the Empire and least of all in Asia. Why was Indian economic performance so much worse than that of the Dominions? India attracted £286 million of capital raised in London between 1865 and 1914 – 18 per cent of the total placed in the Empire, second only to Canada. A lot seemed to be at stake to contemporaries. In the words of the Viceroy Lord Mayo in 1869, ‘an Indian disaster would entail consequences equal to the extinction of half the National Debt’. Yet Indian per capita GDP grew at a miserably slow rate. Between 1857 and 1947 – between the Mutiny and Independence, in other words – Indian per capita GDP grew by just 19 per cent, compared with an increase in Britain of 134 per cent. The chart shows that between 1820 and 1950, it grew at a mere 0.12 per cent per annum – barely at all by the standards of the ‘white’ empire, and slow even by comparison with Africa.

The nationalist explanation for Indian ‘underdevelopment’ under British rule has four essential components. First, the British de-industrialized India by opening it to

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56 Calculated from figures in Maddison, *World Economy*, p. 112.
factory-produced textiles from Lancashire, whose manufacturers were initially protected from Indian competition until they had established a technological lead.\(^{57}\) Secondly, they imposed excessive and regressive taxation. Thirdly, they ‘drained’ capital from India, even manipulating the rupee-sterling exchange rate to their own advantage. Finally, they did next to nothing to alleviate the famines that these policies caused. One recent historian has gone so far as to speak of ‘Late Victorian Holocaus ts’ in the 1870s and 1890s.\(^{58}\) This negative view of the British role in India – which can be traced back to Dadabhai Naoroji’s *Poverty and Un-British Rule in India* (1901) – continues to enjoy wide currency.\(^{59}\)

No doubt it benefited the Indian economy little to maintain one of the world’s largest standing armies as a mercenary force.\(^{60}\) Yet recent research casts doubt on other aspects of the nationalist critique. Tirthankar Roy has shown that the destruction of jobs in the Indian textile industry was probably inevitable, regardless of who ruled India, and that an equal if not greater number of new jobs were created in new economic sectors built up by the British.\(^{61}\) Even in the case of textiles, by the 1920s the Government of India was clearly giving preference to Indian manufacturers over Lancashire’s mills. Roy also casts doubt on the idea that taxation under the British was excessive, showing that the land tax burden fell from around 10 per cent of net output in 1850s to 5 per cent by 1930s.\(^{62}\) The supposed ‘drain’ of capital from India to Britain turns out to have been comparatively modest: only ‘about 0.9 to 1.3 per cent of Indian national income from 1868 to the 1930s’, according to one estimate of the export surplus (which was what nationalists usually had in mind).\(^{63}\) In any case, so far as the Home Charges were


\(^{60}\) See David Washbrook, ‘South Asia, the World System, and World Capitalism’, *Journal of Asian Studies*, 49, 3 (August 1990), pp. 480f.


\(^{62}\) Ibid., p. 250.

\(^{63}\) Maddison, *World Economy*, Table 2-21b. The ‘drain’ of resources from Indonesia to Holland was substantially larger and more deserving of that appellation. It is nevertheless undeniable that Indian monetary policy was governed with managing this transfer of resources, not with maximizing Indian output, as its principal objective.
concerned, ‘a great deal of government expenditure was in fact incurred for services that India needed but could not supply on her own’. 64 Finally, ‘the prospect of devastating famines once every few years was inherent in India’s ecology … Famines were primarily environmental in origin’ and after 1900 the problem was alleviated by the greater integration of the Indian market for foodstuffs. The Bengal famine of 1943 arose precisely because improvements introduced under British rule collapsed under the strain of the war. 65

Moreover, British rule had some distinctly positive effects. It greatly increased the importance of trade, from between one and two per cent of national income to over 20 per cent by 1913. 66 The British created an integrated Indian market: they unified weights, measures and the currency, abolished transit duties and introduced a ‘legal framework [which] promoted private property rights and contract law more explicitly’. They invested substantially in repairing and enlarging the country’s ancient irrigation system: between 1891 and 1938, the acreage under irrigation more than doubled. 67 As is well known, the British transformed the Indian system of communications, introducing a postal and telegraph system, deploying steamships on internal waterways and building more than 40,000 miles of railway track (roughly five times the amount constructed in China in the same period). The railway network alone employed more than a million people by the last decade of British rule. Finally, there was a significant increase in financial intermediation. 68 As Roy concludes:

The railways, the ports, major irrigation systems, the telegraph, sanitation and medical care, the universities, the postal system, the courts of law, were assets India could not believably have acquired in such extent and quality had it not developed close political links with Britain. … British rule appears to have done far more than what its predecessor regimes and contemporary Indian regimes were able to do. 69

67 Ibid., pp. 258-63.
68 Ibid., pp. 46f.
69 Ibid., p. 257.
By comparison with the other major Asian empire – China, which remained under Asian political control – India fared well. The Chinese economy shrank, even if some of its troubles can doubtless be attributed to the disruptive influence of informal European imperialism.\(^{70}\)

### 2. Percentage increase in selected Indian economic indicators, 1891-1938

<table>
<thead>
<tr>
<th>Indicator</th>
<th>Percentage Increase</th>
</tr>
</thead>
<tbody>
<tr>
<td>Real value of exports</td>
<td>26</td>
</tr>
<tr>
<td>Real national income per capita</td>
<td>29</td>
</tr>
<tr>
<td>Real value of imports</td>
<td>32</td>
</tr>
<tr>
<td>Population</td>
<td>36</td>
</tr>
<tr>
<td>Real national income</td>
<td>80</td>
</tr>
<tr>
<td>Area of cultivated land</td>
<td>84</td>
</tr>
<tr>
<td>Railway mileage per capita</td>
<td>116</td>
</tr>
<tr>
<td>Acreage irrigated</td>
<td>137</td>
</tr>
<tr>
<td>Factory employment</td>
<td>448</td>
</tr>
<tr>
<td>Real value of bank deposits</td>
<td>531</td>
</tr>
<tr>
<td>Coal production</td>
<td>1,318</td>
</tr>
</tbody>
</table>


The explanation for the disappointing impact of these improvements on per capita incomes lies not in British exploitation, but rather in the insufficient scale of British interference in the Indian economy. The British expanded Indian education – but not enough to make a real impact on the quality of human capital. The number of Indians in education may have increased sevenfold between 1881 and 1941, but the proportion of the population in primary and secondary education was far below European rates (2 per cent in India in 1913, compared with 16 per cent in Britain). The British invested in India – but not enough to pull most Indian farmers up off the base line of subsistence, and certainly not enough to compensate for the pitifully low level of indigenous net capital formation, worsened by the custom of hoarding gold.\(^{71}\) The British built hospitals and banks – but not enough of them to make significant improvements in public health and credit networks.\(^{72}\) These were sins of omission more than commission. Unfortunately for

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\(^{70}\) The exceptional prosperity of Hong Kong requires no comment.


Indians, the nationalists who came to power in 1947 drew almost completely the wrong conclusions about what had gone wrong under British rule, embarking instead on a programme of sub-Soviet state-led autarky whose achievement was to widen still further the gap between Indian and British incomes, which reached its widest historic extent in 1973.\textsuperscript{73}

V

Economic historians continue to debate the causes of the ‘great divergence’ of economic fortunes which has characterized the last half millennium. In this debate, the role of colonialism – and specifically the British Empire – must needs play a crucial role. If geography, climate and disease provide a sufficient explanation for the widening of global inequalities, then the policies and institutions exported by British imperialism were of marginal importance;\textsuperscript{74} the agricultural, commercial and industrial technologies developed in Europe from 1700 onwards were bound to work better in temperate regions with good access to sea routes. However, if the key to economic success lies in the adoption of legal, financial and political institutions favourable to technical innovation and capital accumulation – regardless of location, mean temperature and longevity – then it matters a great deal that by the end of the nineteenth century a quarter of the world was under British rule. According to Acemoglu, Johnson and Robinson, ‘societies where colonialism led to the establishment of good institutions prospered relative to those where colonialism imposed extractive institutions’.\textsuperscript{75} Where colonizing powers encountered relatively advanced economies – as measured by the density of population – the institutions imposed were essentially those of plunder and exaction. These institutions were unlikely to foster long-run growth, and indeed had the effect of impoverishing the conquered. But in less densely populated, poorer societies, the colonizers had to start

\textsuperscript{73} Thanks to the liberalization of the 1990s, India has since managed to narrow that gap.
more or less from scratch. That was why West European style institutions were more likely to be introduced in North America or Australia than in Central America.\textsuperscript{76}

In all likelihood, the dichotomy between geography and institutions is a false one. The British settled in large numbers in temperate zones, taking their institutions with them; in the tropics, they preferred to rely on monopoly companies and plantations run in (unequal) partnership with indigenous elites.\textsuperscript{77} But by the last third nineteenth century this distinction had faded somewhat. Even in the tropics, the British endeavoured to introduce the institutions that they regarded as essential to prosperity: free trade, free (and indeed forced) migration, infrastructural investment, balanced budgets, sound money, the rule of law and incorrupt administration. If the results were much less impressive in Africa and India than they were in the colonies of British settlement, that was because even the best institutions work less well in landlocked, excessively hot or disease-ridden places. There, the investments which were needed to overcome geography, climate and its attendant deleterious effects on human capital were beyond the imaginings of colonial rulers schooled in the Gladstonian fiscal tradition.

Perhaps they are beyond our imaginings too. It is far from clear that the very different policies adopted by post-independence governments and international agencies have been more successful.\textsuperscript{78} A simple calculation of the ratio of British per capita GDP to that of 41 former colonies is instructive. Between 1960 and 1990 the gap between the British and their former subjects narrowed in just fourteen cases.\textsuperscript{79} While it is convenient for contemporary rulers in countries like Zimbabwe to blame their problems on the ‘legacy of British rule’, the reality is that British rule was on balance conducive to economic growth. Tragically, most post-independence governments have failed to improve on it.

\textsuperscript{76} Needless to say, ‘starting from scratch’ was possible because disease thinned already small populations and where it did not suffice violence ensured that native lands could be regarded as terra nullius.
\textsuperscript{79} They are: Lesotho, Pakistan, Egypt, Botswana, Malaysia, Malta, Barbados, Cyprus, Israel, Ireland, Singapore, Hong Kong, Canada and the United States: figures from Maddison, World Economy.

25
Ratio of British Per Capita GDP to Ex-Colonies’ Per Capita GDP, 1960 and 1989/90

(The average Briton is Y times richer than the average inhabitant of country X)

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