1 *The British Empire and the economics of imperialism: an introductory statement*

I. Introduction

Few questions have engendered as much reappraisal, reinterpretation and recasting as Western imperialism in the late nineteenth century. At this moment, three-quarters of the way through the 1980s, a majority of the countries represented in the United Nations blame imperialism for the poverty, illiteracy, and the generally unsettled condition of the Third World. In Britain, the political left still finds in the imperial past some of the explanation for slow economic growth; and Argentina continues to press irredentist land claims to an imperial relic in the South Atlantic past the point of war. Nor have professional historians ignored the alleged implications of imperialism. Indeed, it is difficult to find a single economic or political historian of modern Britain who has not had something to say about the British imperial experience or the relationship between overseas finance and the climacteric in the domestic economy.

The fact that four generations of historians have been mesmerized by imperialism in theory and practice suggests that the last word may never be written. In this book, no attempt is made to reach a moral judgment on the imperial process, to differentiate between the settling of essentially unpeopled lands and the conquest of populated ones, nor to measure the social or psychic effects that the colonial experiment had on inhabitants of the imperial domain or, for that matter, on the British themselves. Rather, this is essentially a work of economic history, although at times it might better be described as political economy.

The focus is the "profitability of Empire" in the five decades preceding the First World War, and on the identity of what might be termed the players in the imperial game. To that end, data have been collected on the direction and volume of portfolio finance that passed through the London capital market between 1865 and 1914; the rates of return earned by firms operating at home, in the Empire, and abroad; the composition of government receipts and expenditures in those same three loci; the identities of the investors whose main concern was the Empire; and the politicians whose votes shaped the Empire.

As a work of economic and political history, the focus of this work is quite narrow. It has been argued that in the late nineteenth century the British Empire was a political instrument designed to increase business profits, and that incomes in the United Kingdom (at least some incomes) reflected these "exploitive" profits. At the same time, the literature argues, preoccupation with Empire diverted capital from the domestic economy, making British industry increasingly noncompetitive and as a consequence less profitable. It is our hope that the ensuing pages will help to determine whether or not these propositions are true.

Imperialism is a vast subject and one that touches on any number of very important issues. This work makes no attempt to be exhaustive or to treat even all the important questions that are raised by the nature of the imperial relationship. It deals only with the British Empire, and there is no attempt to examine any others. Questions concerning the French or Germans in the nineteenth century or America or Russia in the twentieth are well beyond the scope of this endeavor. The primary focus is on the effect of the imperial system on Britain, not on the Empire or its inhabitants. Dependency theories have assumed an important place in the literature on development, but little effort is made here to assess the impact of the political economic system on indigenous populations or economies. As far as Britain is concerned, the effort is again severely limited. Economics hold the center of this stage, but even that subject is not dealt with comprehensively. No attempt, for example, is made to explain the growth or maintenance of an empire. Interest is limited to an examination of the role that profits may have played in motivating the political policies designed to continue and strengthen imperial ties. Once more, the examination of the effects of the Empire does not include an analysis of the long-term impact on British society and its psyche.

In the area of economics, the work examines in detail the rate of return on Empire investment, the flows of capital that underwrote those returns, the costs inherent in maintaining or expanding that Empire, the groups that paid the costs, and those that reaped the economic benefits. The study, however, touches only briefly on the subject of trade, and addresses not at all the effects of induced changes in the terms of trade and on the direction and rate of labor migration. Finally, the discussion is limited to the "formal" as opposed to the "informal" Empire.

This extended caveat is not meant to minimize either the nature of this undertaking or the importance of questions that fall outside its scope. It is a statement of the limits of the present work and a

recognition of the many very important questions that arise from the imperial connection that have not been examined in detail. Finally, it is an admission of the fact that, if it is not impossible, it is at least very difficult to do everything.

II. *Imperial theories*

Any work that claims to deal with the development of empire cannot help but be concerned with the motives for grasping and holding an empire; in the literature, indeed, these motives are legion. There are geopolitical explanations for particular acts of conquest, although attempts to generalize from those experiences have not proved too enlightening. The turbulent frontier hypothesis is one example of such a geopolitical theory. It conjectures that if an area of order is surrounded by a zone of disorder, the government of the former must eventually, for its own protection, conquer the latter. Thus, empires would tend to advance their frontiers until they reach some great natural barrier or the borders of another stable power. The British experience in India can be advanced as evidence of the influence of the turbulent frontier.[1] On the subcontinent, the argument runs, the British, through the medium of the East India Company, were willing (so long as the Mogul Empire was strong) to restrict their activities to trading stations like Surat, Bombay, and Madras. With the decline of Mogul power, however, the Company was "forced" to raise military forces to quell the anarchy in the surrounding countryside; and political annexation was the inexorable next step. The final northern frontiers of British India rested along the lofty barrier of the Himalayas and the borders of the great Russian and Chinese Empires. In the West, however, less definite geographical and political limits caused constant frontier fluctuations and frequent British interference in the affairs of "turbulent" Afghanistan.

If there is a dearth of truly political theories, the same cannot be said for other conceptual frameworks. In recent years much debate has centered on the concept of "informal empire" and the influence of free trade on the establishment of British hegemony in so many parts of the world. A great deal of the discussion was vitalized by a controversial article by John Gallagher and Ronald Robinson, entitled simply "Imperialism and Free Trade." It is the classic statement on informal empire and implies that formal empire or the acquisition of territory was a last resort; that the British government much preferred to support British business in what were in essence client states.

Social scientists are seldom silent on any issue, and they too have entered the intellectual fray. They have, for example, found the motivation for imperial expansion in the precepts of social Darwinism or rooted in the nature of society and the human animal. Joseph Schumpeter claimed that imperialism was a social atavism not prompted by economic reason or national interest, but purely by "the objectless disposition on the part of a state to unlimited forcible expansion," – a tendency encouraged, according to David Landes, by "the disparity of force between Europe and the rest of the world . . . that created the opportunity and possibility of dominion."[2] Or as Hilaire Belloc put it: "Whatever happens we have got the maxim gun and they have not." Similarly, but at the other end of the sociological scale, humanitarianism rather than atavistic behavior has been advanced as an explanation of imperial adventures. In West and South Africa it is argued, the British antislavery movement virtually forced the government to acquire unwanted territory in order to protect the native population. It could be considered the "bearing of the white man's burden" in the most positive sense. More recently, social imperialism, the marriage of social reform and aggressive expansionism, has been the focus of increased discussion.

Other theories rest on individual or social psychology for their inspiration. Examples abound; and among these, those that assume irrationality was the driving force behind the advance of empire must be given their place. How else, it can be argued, can we explain the strange triumphs of mindless ambition and the insane desire to "paint the map red" or whatever other color was the manifestation of the national ego? Again, in an age of slow communications, the "man on the spot" could, it is conjectured, influence events according to his own designs, unrestrained by the wishes of the home government; and empire, thus, might be considered the result of a series of idiosyncratic decisions. Cecil Rhodes in South Africa, Frederick Lugard in East Africa and Charles Napier in India are all cited as examples of this phenomenon; and the British government was allegedly presented in each case with territory it would much rather have done without. One cannot leave this particular discussion without mention of Charles "Chinese" Gordon, who, by stubbornly disobeying orders and thereby bringing about not only his own death but the massacre of the entire garrison of Khartoum, so aroused the passions of the British populace that the government was forced to acquire a province, the conquest of which it had tried studiously to avoid. But irrationality is always hard to stomach as historical explanation. Thus, Robinson and Gallagher reenter the debate to ex-

plain the so-called "scramble for Africa" by using South Africa, Egypt, and the route to India as the necessary touchstones.

However, probably the most diverse and numerous group of imperial theorists are the economic determinists. They deprecate the influence of geopolitics, of social and psychological forces, and of the "man on the spot." To them frontier turbulence might have provided opportunities, but it was the potential profits that set the rate of imperial expansion. Men and women might love war and strive mightily to save their fellows, but it was profit that dictated the battles to be fought and the societies to be rescued. As for the imperial proconsul, he was merely the pawn, albeit often an unwitting one, of the financiers and the bankers at home. To the economic determinists, the expansion of empire was consciously decreed by a small coterie of capitalists associated with the stock exchange and the great banks of England. As J. A. Hobson put it in his classic statement:

> In view of the part which the non-economic factors of patriotism, adventure, military enterprise, political ambition, and philanthropy play in imperial expansion, it may appear to impute to financiers so much power as to take a too narrowly economic view of history. And it is true that the motor-power of Imperialism is not chiefly financial: finance is rather the governor of the imperial engine directing the energy and determining its work: it does not constitute the fuel of the engine, nor does it generate the power. Finance manipulates the patriotic forces which politicians, soldiers, philanthropists, and traders generate; the enthusiasm for expansion which issues from these sources, though strong and genuine, is irregular and blind; the financial interest has those qualities of concentration and clear-sighted calculation which are needed to set Imperialism to work. An ambitious statesman, a frontier soldier, an overzealous missionary, a pushing trader, may suggest or even initiate a step of imperial expansion, may assist in educating patriotic public opinion to the urgent need of some fresh advance, but the final determination rests with the financial power.[3]

Lenin put Hobson's agents of the financial power to his own use when he wrote, "... all these have given birth to those distinctive characteristics of imperialism which compel us to define it as parasitic or decaying capitalism. ..."[4]

And Bernard Shaw, probably not aware that he was an economic determinist, wrote, as only an Irishman could, that an Englishman

> ... is never at a loss for an effective moral attitude. As the great champion of freedom and national independence, he conquers

> and annexes half the world, and calls it Colonization. When he wants a new market for his adulterated Manchester goods, he sends a missionary to teach the natives the Gospel of Peace. The natives kill the missionary: he flies to arms in defence of Christianity, fights for it, conquers for it; and takes the market as a reward from heaven. . . . His watchword is always Duty; and he never forgets that the nation which lets its duty get on the opposite side of its interest is lost. . . .[5]

Even the explorer H. M. Stanley belonged to the ranks of the economic determinists.

> There are forty millions of people beyond the gateway to the Congo, [he wrote] and the cotton spinners of Manchester are waiting to clothe them. Birmingham foundries are gleaming with the red metal that will presently be made into ironwork for them and the trinkets that shall adorn those dusky bosoms, and the ministers of Christ are zealous to bring them, the poor benighted heathen, into the Christian fold.[6]

What a happy marriage of the spiritual and the material!

Many missionaries in Africa, notably David Livingstone, envisaged a union of commerce and Christianity – "those two pioneers of civilization" – as the salvation of Africa. In 1857, in a speech at Cambridge, Livingstone exhorted his audience "to direct your attention to Africa. I know that in a few years I shall be cut off in that country, which is now open; do not let it be shut again! I go back to Africa to try to make an open path for commerce and Christianity. . . ."[7]

Economic determinists of the Leninist persuasion find the hand of the financier everywhere, even in the acquisition of areas that were at best marginal, like the humid and inhospitable lands of West Africa. To them, imperialism was a symptom of the final crisis of capitalism, the time when the competition for protected markets that were needed to absorb the increasing domestic production was at its height. Consequently, they argued, the control of markets, even those that would have been considered worthless in previous decades, became necessary for survival.

Of all the explanations of empire, none is more compelling than the one concerned with economic gain. Regardless of the weight given to the importance of the various motives for imperial expansion, few doubt that, once hegemony was established, economics (if not economic determinism) emerged as an important force in questions of imperial governance and continuity. British authorities were constantly worried about the costs of Empire. As early as 1828 one of the directors of the East India Company wrote the governor-general:

> The expenses of [the Indian establishment] are now under consideration and I trust that they may be greatly reduced without injury to the public interest – and I would fain hope and believe that under your Lordship's administration, if Peace and Tranquillity be preserved in India, the embarrassments in which the Company's affairs are now involved will be removed and that we shall be able to render a good account of our government of India both as respects our Financial and Political administration.[8]

And for the years under study, almost every colonial governor, whether in India, Canada, or West Africa, received similar instructions. Whitehall consistently opposed the assumption of any new responsibilities – at least when they threatened to become a drain on the exchequer. And yet, this attitude does not appear to have prevented lands that were clearly unprofitable (at least in the public sense) from coming under the British flag.

While it would be perfectly appropriate to measure any or all the various factors associated with imperialism, this work centers largely on the economic ones, not only because of their intrinsic importance but because the kind of quantitative data needed for the analysis are available. That is not true for other aspects of imperial theory, and our task is to determine whether and to what degree Britain's prosperity in the late nineteenth century was dependent on its economic and political relations with the Empire.

III. The growth and development of the Empire

While the search for profits may have underlain the growth of Empire, the mechanism that is supposed to have connected the cause with the effect is sometimes obscure. It has been said with at least the spirit of truth that the British Empire was founded in a fit of absence of mind, and that the largely ad hoc development of the overseas extensions of Britain itself owed more to traditional British pragmatism than to any master plan emanating from the corridors of Whitehall. In 1926, Lord Balfour defined the lengthy imperial experience by contending that the Empire "considered as a whole . . . defies classification and bears no resemblance to any other political organization which now exists or has ever yet been tried."[9]

This unique hybrid enjoyed at least two incarnations. The so-called First Empire was limited largely to North America and the Caribbean. There, the desire to rid the home islands of religious and political dissidents combined with a mercantilist doctrine of state to allow settlers to plant the British flag on the eastern seaboard of the

continent and on the sugar islands of the West Indies. It was an empire of settlement – of colonies peopled by British immigrants – and it died, to all intents and purposes, with the American Revolution. The Second British Empire, whose birth coincided with the death throes of the first, was founded, if for any rational reason, on ambitions for increased foreign trade. Ideally, it was to have been a chain of trading posts protected by strategically placed naval bases. The attainment of wealth through commerce was to have been its purpose, but the profits were not to have been diminished by the expense of colonization and the costs of warfare that had proved so frustrating in North America. Constitutional developments in the Second Empire spawned the Empire–Commonwealth. Dating from the 1850s, it established a dichotomy between the increasingly autonomous colonies of the white settlement and the dependent possessions.

A policy designed to lead to profits without costs may have been rational, but the pattern of actual development did not follow the anticipated path. The West Indian sugar islands remained of major economic significance; however, profits were unattainable without administrative expense. An imperial connection with North America was unavoidable because Canada – ironically acquired to protect the lands further south, now gone – was still part of the Empire. In the Southern Hemisphere, Australia and New Zealand were rediscovered and occupied, and the population explosion of the nineteenth century peopled these new possessions with British immigrants. In India, the stable structure of the Mogul Empire, under whose aegis the East India Company had once securely conducted business, had collapsed, and that development created a vacuum into which the British felt themselves forced to move. Thus, the Second Empire was no less free of cost than the first – Canada, Australia, New Zealand, and the administration of other lands all demanded the expenditure of resources.

Once committed, however reluctantly and unwillingly, questions of communication and access could not be avoided by the home authorities and their servants in the field. Consequently, the British ship of state set sail on a whole new troubled sea when the Cape of Good Hope was wrested from the Dutch in 1814. The conquest was designed to facilitate the journey to India; and similar considerations, this time to protect the Suez Canal route to the East, led to the establishment of British control in Egypt. Nor, as it turned out, was British hegemony in Africa limited to the Cape and Egypt. Over the course of the nineteenth century, a variety of factors prompted continued expansion throughout the continent – into

East, West, and Central Africa and into the Sudan. Inadvertence, greed, humanitarianism, personal ambition, missionary zeal, fear of foreign intervention, and that curious phenomenon, "prestige imperialism," which toward the end of the century whetted the British appetite for expansion – all may have played their parts. In addition to new possessions in Africa, the nineteenth century saw northwest India; the Malayan archipelago; Brunei, Sarawak, and Hong Kong; Cyprus; Fiji, Tonga, and the islands of the Western Pacific Group; Mauritius, the Seychelles, and, to all intents and purposes, Egypt coming under the Crown (see Appendixes 1.1 and 1.2).

Commercial companies, religious dissidents, planters, and adventurers were at least as important in extending the bounds of Empire as the soldiers and sailors of the monarch. Indeed, until the third quarter of the nineteenth century the whole enterprise prompted either ennui or outright hostility in Britain itself. As late as 1865 Sir Charles Adderley, the British colonial reformer and Parliament's most eloquent anti-imperial spokesman, had asserted in the House that the four British possessions on the West Coast of Africa wasted a million pounds a year. The attempt to create a "civilized" Negro community in Sierra Leone, he claimed, had failed; the Gold Coast had involved the British government in several unjustifiable wars; and the trade of Gambia and Lagos was at best negligible.[10] The Committee on West African Affairs, a Parliamentary select committee, created in response to Adderley's protest, recommended:

> All further extension of territory or assumption of government, or new treaties offering protection to native tribes, would be inexpedient . . . . The object of our policy should be to encourage in the natives the exercise of those qualities which may render it possible for us more and more to transfer to them the administration of all the governments, with a view to our ultimate withdrawal from all, except probably Sierra Leone.[11]

By 1866, the Colonial Secretary, Edward Cardwell, was able to report that the West African establishments had been drastically reduced.[12]

It was only six years later that Disraeli rose in London's great Crystal Palace to attack the anti-imperial bias of Gladstone's Liberal Party. He urged his listeners to take pride in an empire "which may become the source of incalculable strength and happiness to this land." And he issued a stentorian challenge to his audience.

> Will [you], [he asked] be content to be a comfortable England, modeled and moulded upon Continental principles and meeting in due course an inevitable fate, or . . . will [you] be a great coun-

> try, an Imperial country, a country where your sons, when they rise, rise to paramount positions, and obtain not merely the esteem of their countrymen, but the respect of the world.[13]

Disraeli's words did not fall on deaf ears. The Conservative Party consciously used empire as an election issue and was swept into power on a wave of votes from the newly enfranchised urban working class, to whom the vicarious pleasure of ruling an empire upon which the sun literally never set appeared to offset a more logical loyalty to the Liberals.

Even then, however, public enthusiasm was usually no more matched by official elation than it had been earlier. The Treasury continued to rail against the costs of empire, and debates on imperial and particularly Indian issues were calculated to empty the halls of Parliament. Besides, the growth of colonial responsibilities somehow ran counter to the burgeoning of liberalism and later, humanitarianism, in Britain itself, and this dilemma required the development of an administrative doctrine and a philosophical foundation in keeping with the prevailing climate of public opinion – no easy matter.

The period of high imperialism lasted little more than two and a half decades. It began at the Crystal Palace and ended at Mafeking. The Boer War, fought against a gallant and badly outnumbered foe and for gold rather than virtue, seemed to many to strip away what aura of moral rectitude was attached to the concept of empire. The costs of imperial glory also rose. During this brief span of years the British entered into intense rivalry with the French and the Germans, and several times a major war was narrowly averted. It is a testimony to the degree to which imperialism developed a mindless force of its own that far more territory was added to the British Empire during the administration of the anti-imperialist Gladstone than during the government of the expansionist Disraeli.[14] The Liberals added territory at the rate of 87,000 square miles per year in power, compared to the Conservatives' paltry 5,300.

The new Empire as it grew was far from homogeneous. On the one hand there were the colonies of white settlement, Canada, the Australian colonies, New Zealand, and in some sense, South Africa; on the other, colonies of the so-called dependent Empire, predominantly nonwhite, centered at first in Asia but including by the end of the century large tracts of Africa.[15] (See Appendix 1.1.) The latter group could again be divided into colonies, protectorates, and protected states. Colonies, or Crown Colonies, as they came to be known, developed a form of government with a powerful governor advised by an appointed executive council and working with, but not responsible to, a legislative council. The proportion of elected