Who Benefited from the British Empire?

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The Drain Theory

In 1892, **Dadabhai Naoroji** was elected Liberal MP for Central Finsbury – the first Indian to enter the Commons. Naoroji was Zoroastrian, educated at Elphinstone College in Mumbai. In 1855, he moved to England as a cotton trader and professor of Gujarati at UCL. In 1866, with funding from Indian princes, he established the East Indian Association to press for the Indian Civil Service to be open to Indians, and to publicise the 'drain' theory. After a period back in India where he was a founder of the Indian National Congress, he returned to London and he stood in 1886 as Liberal candidate for the solidly Conservative seat of Holborn. Lord Salisbury thought no constituency was ready to elect a 'black man' – but he won the neighbouring seat in 1892 where he supported Irish Home Rule, votes for women, the abolition of the House of Lords, and the rights of India. He pulled together his writings in *Poverty and un-British Rule* in 1901.

Naoroji used frequent British claims that they would rule India in the interests of Indians to attack their hypocritical failure. In 1858, Queen Victoria's proclamation on assuming crown responsibility from the East India Co, stated that 'our subjects, of whatever race or creed, be freely and impartially admitted to offices in our service'; and that 'it is our earnest desire … to administer its government for the benefit of all our subjects…. In their prosperity will be our strength, in their contentment our security, and in their gratitude our best reward'. Naoroji complained that these promises were broken, with the result that 'the present system of government is destructive and despotic to the Indians and un-British and suicidal to Britain.

He was not calling for independence and accepted 'the very bright side of British rule, and the many blessings of law and order which it has conferred on India'. He could read like a modern apologist for empire:

- Britain's humane influence on banning sati.
- The introduction of English education which 'taught the highest political ideal of British citizenship'.
- Law and order, and freedom of press and speech.

But current rule was unBritish.

Britain was impoverishing India by 'draining' £30m a year – taxes were raised in India and spent in the UK, so that the 'masses of India… do not get enough to provide the bare necessaries of life'.

India had a large deficit on trade which was increased by the cost of servicing loans. In addition, officials remitted their savings to England; pensions and salaries were paid in England; and costs of government were incurred there. The drain removed capital from India to Britain which gave it a monopoly of trade and industry that further exploited and drained India.

Trade deficit with Britain covered by selling opium to China – 'a sin on England's head and a curse on India… [T]he opium trade of China fills up England's drain. India derives not a particle of benefit'. Profits go to England – India shares the curse of the Chinese.

India needs railways as In America, but there was a difference. In the United States, workers were American and expenditure from loans remained in the country. In India, loans paid for directors in England and for European staff who returned some of their salaries to England; as did part of the cost of working the railway and interest on the loan. The result was an increasing drain: 'as India is treated at present, all the new departments, opened in the name of civilisation, advancement, progress, … simply resolve themselves into so much new provision for so many more Europeans, and so much new burden on exhausting India'. '

A **drain of expertise and knowledge which left when Europeans retired home**. Meanwhile, educated Indians 'find themselves simply so many dummies, ornamented with the tinsel of school education, and then their whole end and aim of life is ended'. The English boasted of introducing education – but then act 'as if all this boast was pure moonshine'.

Pressure of taxation on a country with low per capita income. He argued that India paid double the English level of taxation as a share of its income.

'The only reason why the Indian Government does not go into bankruptcy … is that it can, by its despotism, squeeze out more and more from the helpless taxpayer, without mercy or without any let or hindrance. And if at any time it feels fear at the possible exasperation of the people at the enormity, it quietly borrows and adds to the permanent burden of the people without the slightest compunction or concern.

Not true free trade: 'free trade between England and India … is something like a race between a starving, exhausting invalid, and a strong man with a horse to ride on. Free trade between countries which have equal command over their own resources is one thing…. But what can India do? Before powerful English interests, India must and does go to the wall'. India needs protection.

India paid for imperialism elsewhere. 'All the wars by which the British Indian Empire is built up have not only been fought mainly with Indian blood, but every farthing of expenditure (with insignificant exceptions) incurred in all wars and proceedings within and beyond the frontier of India by which the Empire has been built up and maintained .. has been exacted from the Indian people. Britain has spent nothing. There is the great injustice that every expenditure incurred even for British interest is charged to India'.

Two Indias: rich and prosperous India of British officials, capitalists who carry away enormous wealth; they cannot understand the other poverty-stricken India. 'This India, "bled" and exploited in every way of their wealth, of their services, of their land, labour, and all resources by the foreigners, helpless and voiceless, governed by the arbitrary law and argument of force, and with injustice and unrighteousness – this India of the Indians becomes the "poorest" country in the world, after one hundred and fifty years of British rule, to the disgrace of the British name'.

The result was that

> 'The British Empire in India is built up entirely with the money of India, and, in great measure, by the blood of India. Besides this, hundreds of millions, or, more probably, several thousands of millions (besides what is consumed in India itself by Europeans…) of money, which Britain has unceasingly, and ever increasingly drawn from British Indians, and is still drawing, has materially helped to make Britain the greatest, the richest, and most glorious nation in the world'.

Indians had no say in the expenditure of revenues or in good government. The English had a glorious struggle for constitutional, representative government, which they urged everywhere – but they maintained a 'desponding despotism' in India.

'England is now rearing up a body of Englishmen in India, trained up and accustomed to despotism, with all the feelings of impatience, pride, and high-handedness of the despot becoming gradually ingrained in them, and with the additional training of the dissimulation of constitutionalism… The English in India are … descending and degenerating to the lower level of Asiatic despotism'.

The outcome was to inflict upon India 'the triple evil of depriving the people of Wealth, Work, and Wisdom'.

Naoroji's critique continues to shape discourse. The recent book by the current Congress MP Shashi Tharoor, *Inglorious Empire: What the British Did to India* is close to Naoroji, though he goes further in claiming that there was a deliberate policy of deindustrialisation. He called for reparations. We are talking about current politics as well as history.

Under-Consumption and the Two Englands

The year after Naoroji's book, another Liberal published an equally famous book: **John A Hobson, *Imperialism: A Study.*** It was provoked by the Boer War and the debates over the social problems of poverty and unemployment in Britain. Naoroji argued that British rule was impoverishing India; Hobson argued that imperialism was caused by and entrenched poverty within Britain. In his view, imperialism benefitted a particular group within Britain.

His main concern was the scramble for Africa: ‘recent annexations of tropical countries, procured at great expense, have furnished poor and precarious markets’. Imperialism was a distraction, for ‘our most profitable and progressive trade is with rival industrial nations, whose territories we have no desire to annex, whose markets we cannot force, and whose active antagonism we are provoking’.

The benefits of imperial expenditure went to suppliers of armaments and public loans, to planters and officials. Above all, the empire reflected a struggle for outlets for investment.

> ‘Great Britain has been becoming a nation living upon tribute from abroad, and the classes who enjoy this tribute have had an ever-increasing incentive to employ the public policy, the public purse and the public force to extend the field of their private investments’. ‘Aggressive Imperialism, which costs the taxpayer so dear, which is of so little value to the manufacturer and trader… is a source of great gain to the investor who cannot find at home the profitable use he seeks for his capital, and insists that his Government should help him to profitable and secure investments abroad’.

The source of imperialism was a lack of domestic markets to absorb production and capital. Imperialism arose from ‘mal-distribution of consuming power which prevents the absorption of commodities and capital within the country’. Over-saving by the rich was the economic root of imperialism, produced by rents, monopoly profits, unearned/excessive income; it led to under-consumption by the poor and weak domestic markets.

Imperialism was the outcome of a ‘false economy of distribution’; social reform was the solution, to raise private and public consumption.

‘It is idle to attack Imperialism or Militarism as political expedients or policies unless the axe is laid at the economic root of the tree, and the classes for whose interest Imperialism works are shorn of the surplus revenues which seek this outlet’.

Where Naoroji saw two Indias, Hobson saw two Englands:

In the South, a **consumers’ England** living off investments, with conspicuous waste and ostentatious leisure; it called into being trades depending on their patronage, antagonistic to useful industry; a playground for socially reputable sports and entertainment. Supported imperialism and militarism.

In the North, a **producers’ England** based on industry in which well-to-do are engaged, with skilled workers, active associational life, supporting social and economic reform.

Inequality in Britain led to low domestic consumption so that capital went abroad. Profits returned to a Southern elite rather than to workers. Hobson’s argument has been widely accepted by modern historians. In the influential thesis of Peter Cain and Tony Hopkins, the empire was a transfer payment to ‘gentlemanly capitalists’ - a fusion of landed aristocracy and City of London in the later nineteenth century, as landed incomes fell and financiers looked for status. According to this view, this new elite was educated at the leading public schools and Oxbridge, dominated the government and a nexus of Treasury and City of London which ignored the needs of northern industry. As Youssef Cassis argues, ‘the formation of a renewed elite … added the financial power of the City to the prestige of the old aristocracy….Bankers' distinguished semi-amateur status allowed them to lead an aristocratic way of life and helps to explain their social closeness with landowners’. The Barings are an outstanding example: they married into the family of Earl Grey, the Harewoods and Grenfells. Barings’ bank funded the Louisiana purchase, the US cotton trade, and loans to Argentina. Thomas Baring was vice-roy of India; Evelyn was his private secretary there and ran Egypt after its financial crisis.

And it is argued by two American economic historians, Lance Davis and Robert Huttenback in *Mammon and the Pursuit of Empire* that the owners of overseas investments were predominantly in the south. They analysed the geographic location of shareholders in a sample of domestic, foreign and imperial firms listed on the London Stock Exchange and found that residents of London made up 58.5 per cent of shareholders of imperial firms, 50.9 per cent of foreign but only 20.8 per cent of domestic. Non-metropolitan shareholders accounted for 59.1 per cent in domestic firm but only 25.8 per cent of foreign and 21.2 per cent of imperial. The costs fell on the taxpayers in general who paid for excessive defence costs – the benefits went to a particular social grouping. Their analysis therefore supports Hobson.

The combination of Naoroji and Hobson, confirmed by the work of these recent historians, suggests an answer to my question of who benefitted from the British empire: India suffered a drain of wealth that went to Britain, where it benefitted southern English bankers, landowners and officials rather than northern industry and workers.

Should we accept this answer? I will suggest that it is too simple, and that we need to look closer at the politics of imperial relations between mother country and colonies, and the internal dynamics within both. The politics shifted over time, and relations were always more complex than our two late Victorian and Edwardian Liberals assumed. Let us turn to the politics of the Raj.

The Politics of the Raj

In my first lecture, I showed that Britain had a trade deficit with India in the eighteenth century when bullion was leaving to purchase high quality Indian textiles. By the second quarter of the nineteenth century, this pattern was changing and India became the only major area of the world with which Britain had a trade surplus which covered purchases from other parts of the world. India was central to Britain's multilateral system of trade, as is clear in the pattern of settlements in 1910: the UK's surplus of £60m with India helped cover its deficit of £50m with the US and £45m with the rest of Europe.

Deindustrialisation

Why did this come about? Tharoor makes some sensationalising (and mistaken) claims in *Inglorious Empire* – that there was a drain from India in the 18th century; and that the East India Co. systematically destroyed looms and even cut off the thumbs of weavers. He misunderstands what was happening: the East India Co wanted to maintain its export trade in muslins; it was interest groups in England – above all the woollen textile industry – that wanted to limit imports. The East India Co- the gentleman capitalists - lost that political battle in Westminster to producers. Technical advance in British industry allowed competition with Indian textiles in third markets; finally, in the second quarter of the nineteenth century, Lancashire could compete within India.

In *Das Kapital*, Karl Marx reported a comment of the Governor General in 1835: 'The bones of the cotton-weavers are bleaching the plains of India'. To Marx, the village community based on domestic production was collapsing because of English steam and free trade – not imperialism *per se* but competition with mechanised factories with declining world textile prices.

The result was deindustrialisation that was common to the periphery in the nineteenth century. The share of workforce in industry fell from about 15-18 per cent in 1800 to 10 per cent in 1900. However, the Indian textile industry did not entirely collapse:

- it survived by cutting prices, using machine spun yarn which was linked with a loss of independent status and dependence on middlemen. Incomes were squeezed.
- Towns produced specialised goods - the most valuable/artistic cloth especially for saris for women, with gold wire mixed with silk and cotton, though often attached as a border to English cloth.

These changes had an impact on agriculture: labour moved into agriculture where wages fell, farms were unable to sustain so many workers; loss of supplementary income from weaving to compensate in times of hardship/famine.

There were signs of a reversal of deindustrialisation in the later nineteenth century.

Per centage of cloth consumption in India

	Imports	Indian mill	handloom
1900/1	66	11	23
1922/3	36	38	27
1938/9	10	62	28

By the late 19th century, cotton mills were developing in Bombay, using cheap labour plus more modern spinning machinery than in Lancashire – above all Jamsetji Tata (1839-1904), like Naoroji a Parsi/Zoroastrian, educated at Elphinstone College. In 1859, he visited China and started an export business with branches in Japan, Paris, London, New York. In 1874 he started the Central Indian Spinning Weaving and Manufacturing Co. in Nagpur; the first mill opened in 1877, named *Empress* after Victoria; the second mill in 1886 was named *Swadeshi* after Indian nationalism in favour of local goods. His plans to move into heavy industry were fulfilled by his son Sir Dorabji Tata – Tata Iron and Steel; Tata Hydro-Electric Power Supply Co, and the Indian Institute of Science at Bangalore.

Also a rise in jute spinning and weaving in Kolkata, in part financed and operated by British firms. Both developments had serious consequences in Britain.

How to Pay for the Drain

Naoroji was right: India covered the costs of British troops based in India as well as Indian troops for imperial excursions: 11,000 troops were sent to China in 1860, 12,000 to Ethiopia in 1867-8. And the 'home charges' were rising in real terms in the final quarter of the nineteenth century as a result of the depreciation of the silver-based rupee against gold sterling. We now laugh at Miss Prism's comment to Cecily in *The Importance of Being Earnest* because it sounds ridiculous: 'you will read your Political Economy in my absence. The chapter on the Fall of the Rupee you may omit. It is somewhat too sensational. Even these metallic problems have their melodramatic side.' The joke had a sharper edge at the premiere in 1895 when the fall of the rupee was a major issue:

- more taxes were needed to pay for the home charges denominated in sterling which caused political problems in India.
- And the fall in the value of the rupee meant that imports of Lancashire cotton cloth became more expensive compared with local production.

These considerations led to difficult political decisions.

The viceroy in India was concerned about local politics: increasing land taxes or the salt tax would lead to resistance within India.

The land tax was a major source of revenue. Its nature reflected both an ideological division within Britain, and the politics of groups in India. It was not a simple story of increasing expropriation. The land tax had different forms and economic consequences.

Permanent settlement of Bengal in 1793 gave rights to zamindars in return for a fixed payment to the East India Co. Peasant cultivators lost their rights. Aim: as rents from peasants rose, zamindars would invest in improvements, as did English landowners. Disadvantage: the zamindars did not behave as expected; East India Co. and crown would not share in rising profits of agriculture, so tax needed to be raised from other sources.

Another approach was adopted in the North-West Provinces in 1833: **temporary settlement** to allow periodic renegotiation which meant closer involvement by British officials in fiscal extraction, and risk of tension.

The alternative was to rely on **peasant cultivators or ryots** to pay taxes direct to the government. This approach was preferred by English radicals such as James and John Stuart Mill (both officials of the East India Co.) who were critical of English landowners for escaping taxes and securing unearned profits. If the ryot had security of tenure in return for paying tax, they would have an incentive to invest to improve their holdings. The risk was that periodic reassessment of the tax could lead to political unrest.

The ryot system led to greater prosperity – as in the Punjab – than in the zamindari system of Bengal, and even there the eastern delta area where the zamindars were not dominant experienced more equitable growth. Success in some of the ryot areas also reflected local circumstances: in the Punjab, the rise of sikhism among peasant farmers, and their willingness to use the British army in India to learn skills and the acquire land grants.

I am arguing for a greater sense of local variability both in the formal empire and also in the India princely states such as Baroda (where Naoroji was diwan in 1873/4) which embarked on programmes of modernisation.

Land taxes declined as a share of net revenue, from 53 per cent in 1865 to 40 per cent in 1910. Higher taxes on zamindars would alienate local elites – and increasing taxes on ryots would provoke unrest. How to cover the growing need for revenue?

Other sources were **state monopolies** on opium that fell as a share of revenue from 20 per cent in 1865 to 15 per cent in 1910; and of salt which fell from 15 per cent to 6.5 per cent.

Attempt to introduce an **income tax** fell foul of both British civilians and zamindars who claimed exemption as a result of the permanent settlement.

The obvious answer was **tariffs**. Import duties on Lancashire cotton exports were less likely to cause political difficulties in India, and could be presented as a way of encouraging local industry. But what made sense to British rulers in Calcutta was not appealing in London – it would threaten a loss of votes in Lancashire.

Which view would succeed? The viceroy stands for Consumers England of the City and aristocracy so we might think they had their way. But the Secretary of State for India – a member of the British Cabinet – was naturally more concerned about electoral politics at home. Consumers England might own financial assets, but did they have the votes? The swing area in late Victorian and Edwardian Britain was Lancashire which could not be ignored.

In 1859, the government in India introduced an import duty to help pay for the costs of the revolt of 1857. However, the Lancashire lobby secured its reduction in 1862 and abolition in 1882.

Attention returned to a tariff with the rising costs of the home charges and depreciation of the rupee. When introduced in 1894, it provoked opposition from Lancashire. The political difficulty was resolved by an excise duty on Indian cloth which was opposed by Jamsetji Tata. In 1896, both were reduced.

Matters change with the First World War.

- India made a huge contribution to the war effort. Around 1.2 million Indian soldiers served overseas, mainly in Mesopotamia (589,000) and France (131,000). £100m was 'donated' to support the war in Europe.
- At the end of the war, an element of fiscal autonomy was granted to India to handle the resulting debt.

There was a change in the balance of advantage between India and Lancashire. The rise of nationalism in India meant that costs were rising; and Lancashire was less important in domestic politics. Tariffs were increased.

By 1930, the land tax was down to 23 per cent of net revenue, opium to 2 per cent and salt to 5 per cent. Resistance came from Gandhi's non-violent opposition or satyagraha. In 1927, proposal to raise land tax in Bardoli by 22 per cent led to resistance in February 1928; commission found it too high and reduced to 6 per cent. Then in March-April 1930, Gandhi led the salt march against the government monopoly.

By contrast, tariffs rose to 40 per cent of net revenue by 1930.

The changing economic balance between India and Britain caused political problems – not least for Winston Churchill, MP for Dundee at the end of the First World War. The city was the major centre of the jute industry – the largest mill was Cox Brothers at Camperdown. Dundee faced competition from mills in Kolkata.

Before the war, he had been a leading supporter of free trade; and as a minister in the reforming Liberal government, he introduced minimum wages for 'sweated' trades, administered by trade boards. These two commitments were difficult to maintain after the war in Dundee.

He accepted 'safeguarding' of industry from goods dumped by foreign competitors. Otherwise, he remained loyal to free trade which was not easy given the jute industry's demand for protection. Churchill rejected these calls.

Divisions also opened over trade boards. In 1919, a trade board and minimum wage was established for jute. By 1921, employers were calling for wage cuts and abolition of the board to compete with India. Churchill supported the employers and argued against 'this special and invidious control.' His solution was wage cuts in Dundee and opposition to fiscal autonomy in India that would allow it to impose tariffs on British goods. Churchill alienated employers in rejecting protection and worker in rejecting minimum wages. He lost Dundee in the general election of 1922.

Should India continue to pay for its troops anywhere in the empire, as it had in the First World War? This was no longer politically feasible, and just before the Second World War, agreement was reached on future payments for the army. India would cover the costs of its own defence – Britain would pay for costs incurred overseas. This agreement led to huge costs for Britain. The Japanese invasion of Burma had not been anticipated – and Burma had separated from India in 1937 so counted as overseas deployment. There were also the costs of supplying material to troops in the middle east.

These costs were covered by sterling which was 'blocked' – not to be spent or converted into other currencies. Congress wished to use this money for large-scale economic development after the war which meant releasing the balances to buy capital equipment, The case was made at Bretton Woods in 1944 where Keynes promised that Britain could be relied on 'without any delay to settle honourably what was honourably and generously given'. On returning to London, he published an article arguing for a revision of the agreement between Britain and India on the allocation of the costs of the war.

Churchill was also unhappy with the situation and in August 1944 asserted the right to readjust the settlement to take account of Britain's contribution 'to save India from invasion'. Leo Amery, the Secretary of State for India, disagreed: 'When driving to the station to catch a life or death train … I should hardly think that you … would tell the cabby man you have no intention of paying when you get there'. To Amery, the demand that India should make a larger contribution 'sounded like a memory from another world. Unfortunately, that other world is the one that Winston still lives in'.

it was neither equitable nor practical politics to cancel India's sterling balances. A refusal to pay would renege on the agreement reached at the start of the war, lead to more unrest, and require more troops to maintain order. The mother country was now paying India for its contribution to the costs of imperial defence. Indian independence was a foregone conclusion at the end of the war – it was simply too costly to maintain.

I am arguing that the allocation of costs and benefits within and between India and Britain reflected more than a dominance by Southern gentlemanly capitalists within Britain and over India. Rather, we need to analyse he shifting political calculations that changed over time.

Globalisation or Imperialism

The case of Naoroji was that wealth was drained from India to make Britain prosperous. But to many commentators at the time, and to modern historians, the question is whether we can separate British imperialism and the emergence of a highly globalised economy in the long nineteenth century. As we have seen, Indian deindustrialisation was the result of the emergence of mechanised production in Lancashire, quote apart from British rule. Could Britain have secured any benefits from a globalised economy without engaging in formal imperialism which increased defence costs? There were different views at the time that continue to be fought among historians.

1. Globalisation would have happened anyway, so that the cost of the empire and formal control was unnecessary.

Adam Smith's *Wealth of Nations* appeared in 1776, the same year as the American Declaration of Independence. His Adam Smith's preference was for Britain to withdraw voluntarily from the Thirteen Colonies. 'Great Britain derives nothing but loss from the dominion which she assumes over her colonies', and without the expense of empire, Britain 'might settle with them such a treaty of commerce as would effectually secure her a free trade, more advantageous to the great body of the people, though less so to the merchants, than the monopoly which she at present enjoys'.

Richard Cobden, the leader of the Anti-Corn Law League and the Peace Society, took the same line: free trade would bring nations together in peaceful exchange. To Cobden, militarism and imperialism led to higher taxes which harmed workers and industry, and benefitted the aristocracy. There was no need for imperialism and military intervention:

> our commerce… can neither be sustained nor greatly injured abroad by force of violence. The foreign customers who visit our markets are not brought hither through fear of the power of the influence of British diplomatists: they are not captured by our fleets and armies….

Similar arguments are made by recent historians such as Davis and Huttenback. Expenditure on defence was higher in Britain than other European countries; only India paid for its defence; the Dominions were free riding which allowed them to spend on public works and education. On this view, benefits therefore went to undertaxed white settlers and gentlemen capitalists in Britain; the costs fell on workers. There could have been a decolonisation premium: Davis and Huttenback suggest that if Britain had given up the empire before 1914, and spent the same as France and Germany on defence, taxes could have been reduced by 12 per cent.

The empire was not the main destination for capital exports. Data for the period 1865-1914 suggest that the empire took about 40 per cent compared with 59 per cent for independent foreign countries and 1 per cent for foreign dependencies. Capital went to temperate areas of recent settlement – USA, Canada, Argentina, New Zealand – both in the empire and beyond.

Distribution of overseas capital calls, 1865-1914 per cent

USA	34.3
Canada	20.5
Argentina	8.6

Australia	8.3
India	7.8
South Africa	6.4

Most capital went into social overheads (69 per cent) -above all railways – with 12 per cent into extractive and 4 per cent manufacturing industries.

The situation is more complicated:

- Argentina: investment was, for example, in the Vestey business from cattle ranches, refrigeration plants and ships to supply Dewhurst butchers. Not part of the formal empire – supplied cheap food which helped the real wage of British workers. Railways owned by British capital.
- Investment in grain production and transport overseas meant that landowners in UK lost – 40 per cent fall in arable rents, so it is not surprising they married bankers or American heiresses. This was a survival device rather than reflecting their ability to determine policy.
- Lloyd George hoped that the boom in overseas investment after 1905 would lead to economic recovery. Unlike Hobson, his economic adviser was sanguine. By the war, Lloyd George was starting to worry that recovery was not happening but that high interest rates were harming social reform.
- Most investment was not in shares – the basis of Davis and Huttenback's argument – but government and railway which were more widely dispersed as safe investments. Industrial families such as Cox Brothers in Dundee invested in US rail from 1870s, Japanese and Australian government bonds - £147,000 by 1907. These private investment funds were extended to allow others to participate: in Dundee, Robert Fleming's Scottish American Investment Trust of 1873 relocated to London. Scotland was a major player in the empire and overseas investments – formation of the Straits Mortgage and Trust Company in Edinburgh in 1909 to lend to Malaysian rubber planters became the Scottish Mortgage and Trust Co in 1913 which remains a major investment trust today.

On this argument, the empire was not needed. Globalisation was the driving force and was not coterminous with empire. But many in Edwardian Britain disagreed.

2. The alternative to Cobdenite free trade was tariff reform or imperial preference, proposed by Joseph Chamberlain in 1902. In his view, free trade was no longer the basis for economic prosperity.

- to solve unemployment and poverty at home: create a stable domestic market by imposing protective duties on imports from Germany and the United States which had large protected home markets and could dump cheap goods.
- Preferences to imperial markets: allow cheap food from Canada, Australia so the consumer would not pay higher wages; and these Dominions would provide a market for British goods.

The Liberal party remained committed to free trade:

- Imperial preference was a device to benefit landowners, a tax on food.
- It would undermine competition and lead to cartels/monopoly profits as in Germany and USA, distorting markets and turning politics into corrupt bargain for favours.
- resolve social problems by social reform rather than tariff reform. As Churchill said, 'I see little glory in an Empire which can rule the waves and is unable to flush its sewers'.

The general elections of 1906 and 1910 were fought on these issues, and imperial preference was defeated. This changed after the war with a shift in support in response to the depression: imperial preference was introduced in 1932 by Joseph Chamberlain's son Neville.

There was a shift to empire trade. However, it was combined with growing scepticism about the benefits of capital exports. During the First World War, a Capital Issues Committee banned overseas and allowed some imperial investment. Although it was repealed in 1919, free markets did not entirely return: in 1920 there was more concern for funds for council housing. Would excessive foreign lending jeopardise domestic recovery and put pressure on the exchange rate which was pegged to gold; or would it secure orders for British industry? The answer remained in dispute. An embargo was placed on overseas loans in 1924 and empire in 1925 which was opposed by the Colonial Office. The embargo was then removed until 1929. In the general election of 1929, Keynes and Lloyd George urged domestic investment in public works. The Treasury thought capital exports were more likely to lead to growth – but neither did the Treasury welcome Conservative plans for imperial investment which would have little impact on domestic recovery. An embargo was reintroduced in 1929 in response to pressure on the pound, and in the 1930s, Britain became a net importer of capital.

Imperial preference in trade was combined with doubts about the effiicacy of capital exports, both in general and to the empire.

3. Was there really a decolonization premium? Even in the absence of empire, Britain would still need to protect sea routes which were crucial for security of food and resources.

On this view, after the repeal of the corn laws in 1846, Britain depended on food imports: it ran down domestic agriculture, imported from temperate regions, both empire and non-empire. Anxiety about food security came from a commitment to Cobdenite free trade.

In *The Agrarian Origins of the First World War,* Avner Offer argues that:

- even if the empire were surrendered, the costs of defence would not have been reduced: Britain relied on external trade more than other countries and would still have invested in the navy.
- Neither was the discrepancy in defence costs as great as appears at first sight: some estimates put it around same as Germany and a third less than France. France and Germany – unlike Britain - had conscription with a loss of output by young men. Dominions were wealthy and Britain felt they should pay more – but should they? Their defence needs were less – there was little threat to their trade.
- The value of the empire was clear in the First World War when soldiers from the Dominions and resources of the colonies were vital in the defeat of Germany. Davis and Huttenback stop in 1912 and exclude the First World War when the empire was a strategic asset. Britain did not starve, unlike Germany. 'British naval supremacy guaranteed that the economic assets of the empire would be available exclusively to Britain in case of war'. Canada supplied a quarter to third of shells in 1917; white dominions supplied 1.2 million men or a fifth of number in UK.

Offer: 'The web of free trade made spending on defence inevitable, but it also built up the obligations and resources that sustained Britain in the First World War'.

An even stronger claim:-

4. Globalisation Needed Empire – And Not Any Empire, but Specifically The British Empire

In 2003, Niall Ferguson argued that Cobden was mistaken: rather than the product of the spontaneous action of markets, globalisation arose from coercion by the British empire which favoured economic liberalism. 'The British Empire acted as an agency for imposing free markets, the rule of law, investor protection and relatively incorrupt government on roughly a quarter of the world' – as well as encouraging these features in areas where it had economic influence outside the formal empire.

'No organization in history has done more to promote the free movement of goods, capital and labour than the British empire in the nineteenth and early twentieth centuries. And no organization has done more to impose Western norms of law, order and governance around the world'.

British rule, he claimed, led to use of the English language; English forms of land tenure and banking, common law, night watchman state, representative assemblies, and above all the idea of liberty which meant that despotism was always challenged. The result was 'Anglobalization'.

This argument is close to economists whose work has influenced the World Bank's approach to economic development – Daron Acemologu, James Robinson and Simon Johnson. They claim that successful economic development rests on European settlement which led to institutions of democracy, secure property rights and law. Where the disease environment was not conducive to European settlement, as in Africa, the result was extractive institutions that led to a vicious circle. They argue that most of the successful democracies in the world arose from British colonialism.

What these arguments do not explain is economic growth in Japan, South Korea and China. An eminent historian of India reported to the World Bank on their analysis: 'Indigenous ideologies and practices were as significant in the slow enhancement of Indian capabilities as transplanted colonial ones. … Over much of Asia and Africa, the most successful enhancement of people's capabilities came through the action of hybrid institutions.' – as he points out, men like Naorji and Tata from Parsi families, or Lakshami Naryan Mittal, the steel producer, who came from the Marwari who dominated moneylending in north and central India.

These economists are guilty of western cultural imperialism. Further, the story is less beneficial than Ferguson admits. It is hard to deny that there was a drain as Naoroji argued, and that racist attitudes excluded Indians from participation. Contracts for railways were placed by the India Office in London which gave preference for British firms, even when they were not the most competitive; they insisted on steel produced by British specification which limited the ability of Tata to produce cheaper steel using specifications adopted in other countries.

My view is that both Cobden and Ferguson are misleading – globalisation did involve power, not necessarily through formal rule but through the power of capital and defence; and the result was to change the relationship between the 'core' of industrial countries and the 'periphery' that became the suppliers of food and raw materials.

Did the Empire Have a Future After 1945?

By the end of the Second World War, it was clear that India would soon be independent – the costs were too great. Nevertheless, the debates over the role of the empire continued between free traders and tariff reform. Britain's international economic situation was dire, with the loss of export markets in the war, a serious deficit on trade with the United States, and the overhang of the sterling balances.

To some, the empire was a distraction and it was necessary to work with the United States in creating a multilateral world economy: the United States offered Lend Lease in the war and a loan in 1945 on condition that imperial preference was abandoned. This was the **'one world'** approach.

To others, Britain could only recover by turning to the empire in a **'two world'** approach – the sterling area, possibly including Europe, alongside the dollar area. This view was held by Leo Amery in the wartime coalition – a long time supporter and biographer of Joseph Chamberlain. It was also clear to the post-war Labour government that its weak economic position meant sustaining imperial preference. Malayan rubber was a main earner of dollars – and Africa might assume the role previously occupied by India. Ernest Bevin, the Foreign Secretary, thought that 'If only we pushed on and developed Africa we could have US dependent on us, and eating out of our hand in four or five years'. Such attitudes led to the folly of the east African ground nuts scheme.

Bevin did also propose a European Customs Union in 1946 which was ruled out as a threat to the balance of payments which relied on the empire: in 1951, Australia alone took 12 per cent of British exports, more than the six founding members of he EEC. 1952-4 the Commonwealth took 48 per cent of British exports – the Six 19.6 per cent. It was not until the 1960s that it was clear that economic future lay there rather than with the empire.

Conclusion

The costs and benefits of the British empire have always been disputed, within Britain as well as in the colonised areas. Current debates do not reflect some 'woke' war on our heritage. On the contrary, the controversy is intrinsic to our heritage.

What I have tried to show today is that the issues are complex, with politics shifting over time. We need to analyse the interplay of different interest groups within and between both Britain and the empire, to see how choices were made. We need to consider what ws the result of formal imperialism and what the outcome of globalisation and industrialisation. In either case, the result was a great divergence between core and periphery of the world economy which continued after decolonisation, and is only now being reversed. Mittal owns British steel; Tata owns Jaguar Range Rover.

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