Review Article

Imperialism: The auditor's report

G. Balachandran
Delhi School of Economics

Until recently, things seemed rather quiet on the imperialism front. During this lull, the focus of combatants and non-combatants alike has grown narrower. There have been a few local skirmishes, lacking the drama of the main battle, during which some new weapons have been developed and tested. However, the agenda has been more modest, whatever its larger implications.

Davis and Huttenback's latest foray, even on the face of it, bucks the former (modest agenda) trend.* Although they make liberal use of quantitative techniques and the book itself has a higher 'regression per page' ratio than most other works on the subject, its agenda remains rather old-fashioned, which of course is not a bad thing. Naturally, it has evoked a mixed response, ranging from admiration for the magnitude of their undertaking, to astonishment at its seeming audacity.[1] Equally inevitably, their methods and conclusions will be a source of continuing controversy.

I Bonds of Empire

Davis and Huttenback (DH)'s first objective is to test the Hobson-Lenin hypothesis concerning the determinants of British overseas investment and the latter's extension of the argument to explain colonialism. They rehearse

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* Lance E. Davis and Robert A. Huttenback, *Mammon and Pursuit of Empire : The Political Economy of British Imperialism, 1860–1912,* Cambridge University Press, Cambridge, 1986.

[1] See respectively, Patrick O'Brien, 'The Costs and Benefits of British Imperialism, 1846–1914', *Past and Present,* No. 120, 1988 and A.G. Hopkins, 'Accounting for the Empire', *Journal of Imperial and Commonwealth History,* 1987/88, No. 2, pp. 234–48. Although I saw the latter only after this article was completed, it was reassuring to observe that the views expressed here are shared by others.

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the familiar argument that only about a third to two-fifths of Britain's overseas investments went to the Empire and that only a tenth of the total went to the dependent (as distinct from the self-governing) colonies: 'In aggregate terms, it appears that the dependent Empire received such a small share of the capital flows that under any reasonable set of assumptions, a redirection of these resources to other parts of the world would have only trivially affected the realized rates of return.' (p. 72)

Were returns on investments in the empire greater at home than in the foreign countries? Not invariably, the authors contend. They examine records of a sample of 482 British-owned home, empire and foreign firms with interests spread over different industries, mining, agriculture, real estate and finance. They arrive at estimates of rates of profit (rather than rates of return to all capital claimants) because of the role of profits in the Hobson-Lenin explanation. Besides, using stockholders' registers enables identification of the recipients of profits from the empire—a pre-requisite for the other operations conducted by the authors.

From this sample, DH observe that relative profitability varied over time and across sectors between home, empire and foreign investment. In most sectors, empire investments were more profitable than investments at home or in non-empire countries until the early 1880s. Thereafter, and until the early years of this century, empire firms were less profitable than home and foreign ones. In the last decade of their study, empire firms became slightly more profitable than home firms.

The significance of the next chapter on government support to business is not entirely clear. The main finding—whatever the British financial stake in the empire, public policy-making (proxied by government expenditure in direct or indirect support of business) was not bent to benefit her businessmen—suggests that the empire did not confer any special privileges upon British investors compared to what they would have secured elsewhere. The following chapters seek to answer the central question about the political economy of the empire. Who gained from the Empire and who paid?

II 'Philanthropy Plus Five Percent ...'

Cracking this riddle has involved, for the authors, a heroic—and potentially controversial—exercise which takes up the remainder of the book. As a first step, they attempt an estimate of the cost to Britain, of the empire.

Expectedly, the principal cost arising from the empire was that of defending it. Britain spent more (per capita and as a proportion of the total budget) on defence than the other 'developed countries' (France, USA, Germany and about a dozen others) while both the dependent and the self-governing colonies spent less on defence (again in per capita terms and in relation to public expenditure) than most of their respective non-imperial counterparts.

Thus Britain bore the bulk of the imperial defence burden. These obligations set each of her residents back by just over £1 every year (or about 20 per cent of savings). Had the empire not existed and had Britain spent at the level of France and Germany, the savings (annually) would have been £0.63 per capita.

The implicit interest 'subsidy' on colonial borrowings arising from British government guarantees or legislation that conferred a trustee status on colonial securities also involved a cost. DH have a model in which there were two markets for securities in London—a market for 'safe' securities offered originally by the home government and firms and another for 'risky' foreign securities. Official guarantees pitchforked colonial securities from the 'risky' market to the 'safe' one. But for them, it is argued, the colonies would have incurred higher borrowing costs in London. The resulting savings are estimated at 10 per cent of the tax-bill in the self-governing colonies and about 5 per cent in the dependent empire. They contend that the increased supply of 'safe' securities in London would have lowered their prices, rationing out some private domestic borrowers and increasing the cost of British government borrowing. The latter, in turn, would have led to higher domestic taxes.

Other costs included direct assistance and administrative subsidies extended by the British government to the colonies for purposes as wide-ranging as shipping, railway construction and laying underwater cables on the one hand to drainage and sewage disposal on the other. Further, the Crown Agents who represented colonial governments in procuring goods and placing loans also represented a gain for the colonies and a cost to Britain. Their 'monopsony' power in the market for goods and their 'monopoly' power in the market for colonial securities lowered the cost of goods and loans for the colonies and robbed British residents of the rents that would have otherwise accrued to them.

DH argue, in the course of a terse three-page statement of their position, that trade also conferred gains upon the empire. Although no estimates are offered, unencumbered access to the large British market is said to have imposed a cost on her residents and represented a gain for the colonies. 'Whatever the case, it must have been a comfort to the imperial community to have the British market as a first and last resort.' (p. 189) All things considered therefore, from a '... strictly economic point of view being a part of the Empire was profitable—or more correctly the British tax-payer paid and the colonies benefitted'. (p. 191) However, the distribution of these gains between the colonies varied—the self-governing colonies gained more than India or the other dependencies. The total cost of the empire to Britain was £0.71 per capita on defence and subsidies alone and £0.95 per capita if interest and the Crown Agents' contributions are also taken into account.

These expenses, the authors argue, benefitted not only the empire but also British residents who had invested in it. From a fascinating study of the shareholding registers of 260 firms listed on the London stock exchange (59 home, 75 foreign and 126 empire firms), DH attempt to identify the social groups that showed a predilection for empire investment and who might be taken to have gained from British outlays on its defence, etc. The following groups are identified: merchants, manufacturers, professionals, miscellaneous businessmen, financiers, military, miscellaneous elites, and peers and gents, the last four comprising the 'elites'.

The distribution of shares between different regions of the United Kingdom is also studied. These investigations show that the elites (especially 'peers and gents' and 'miscellaneous elites') and London businessmen showed the greatest preference for empire shares. There is also some unexpected evidence of a North-South divide, residents of London, the Home Counties and the rural East (apart from the Scots) seem to have shown a pronounced weakness for imperial shares. The chapter on the sources of government revenues reveals that the burden of paying for the empire (relative to their receipts of empire subsidies) bore disproportionately on the British middle classes. The elites received more in subsidies than they paid in taxes. Thus the empire represented a transfer of incomes from the middle classes to the upper classes, particularly those living in London and the Southeast. There is one chapter that tries to uncover any relationship that might have existed between the self-interest of members of the House of Commons and their attitude to the empire as revealed by individual voting behaviour, but comes to no conclusions that are worth dwelling upon.

III

An exercise of this scope is bound to leave the reader somewhat breathless. Breath recovered, one feels a sense of uneasiness that stops just short of doubt about the utility of the whole endeavour. The authors confess that modelling the imperialist system was beyond the pale of their work. Yet, one feels, they might have shown greater sensitivity towards the rather fine and delicate balancing of competing interests that the pre-1914 British empire represented. Doubtless, any model of the empire would have encountered criticism at least as much as it would have been met with incomprehension. This notwithstanding, a chapter or two on the relationship between trade and capital flows, on the imperial settlements system and the reverse flow of funds into London would have strengthened (rather than weakened) the authors' claim to have provided the political economic explanation for British imperialism. As the work stands, their conclusions cannot be regarded as definitive.

The 'costs and benefits of imperialism' debate is showing every sign of developing into a monster. There are two questions, fundamentally, whose answers are being sought. Ignoring the issue of how these gains and losses are to be defined (Marxian/neo-Ricardian versus neo-classical), the questions are: was Britain a 'net gainer' from the empire and, were the colonies 'net losers'. Each question admits of an affirmative and a negative answer, so that there are four possible pairs of answers to the two questions.

The choice may seem simple. But, consider the range of issues that this debate has drawn upon, if not actually spawned, either directly or indirectly. There are issues in political/military history. Did Britain need the empire for its own defence, or—this is where the economic historians have entered with their wardrobe of ill-fitting counter-factuals—did the empire countries get Britain to foot their defence bill? Tackling this question involves, at a minimum, assumptions about the possible political dispensation in Europe and in the colonies in the various counter-factual scenarios and the need to tease out of the list of 'might-have-beens' different possibilities regarding the evolution of nineteenth-century Europe and its spheres of influence.

In social history, the debate is also (or rather should be) about the social origins of British capitalism, the relative power of the bankers, the landed gentry and the manufacturers, which, if any, was the hegemonic group, and how the hegemony was exercised. It also takes in the debate about the social factors leading to the vulnerability of important countries such as India to colonialism, the likely course of events in these countries if colonial intervention had not occurred and at one remove, some discussion of the relation between the material and cultural states of society.

Lastly, this debate can draw (indeed has drawn) upon a large number of parallel discussions in economic history: the determinants of British overseas investment, which in turn involves smaller, but in their own right substantial, macro-issues on the demand and supply sides, rates of return on investment and their determinants, the nature of the London capital market and lastly, the effects of overseas investment on the lending and the borrowing countries. It is neither necessary nor desirable to enumerate the other subsidiary issues that need resolution; enough has been said to convey to the reader the dimensions of this monster.

The phenomenon of fragmentation is not peculiar to this debate, nor is it futile or unnecessary. Equally, no one scholar (or two) can easily assimilate the results of rapidly expanding research in all these different areas. However, a debate in which the counter-factual scenario, for good or for ill, has come to stay is likely to make more headway if greater sensitivity is shown for the complexity and inter-relatedness of the many factors that shape a historical epoch.

IV

Consider in this light the DH estimates of British defence expenditure in the absence of the empire. The subject is raised here on account of its empirical significance—since defence is said to account for the lion's share of the subsidy paid for by the British tax-payer.

DH seem to be using an essentially Cobdenite counter-factual to estimate defence spending attributable to the empire. Cobden was an agitator representing Northern industrial interests who proposed a defence policy centred in the waters surrounding the British isles. Also, somewhat paradoxically, in an age which saw the ideology being exported on board gunships, he was a free-trader. As it turned out, he lost the argument. Even had he won it and been entrusted with the task of implementing his programme, it is to be wondered if his conversion would have been long in coming—the history of Victorian Britain was full of anti-imperialists whose actions, once they came into positions of power, were indistinguishable from those of their imperialist predecessors.

First consider Canada's case—her uniquely vulnerable position on Britain's western 'front'. Whatever her political status, she would never have been able to afford effective defence against the growing power of her southern neighbour. Peace would have had to be bought by other means, as in fact it was. Britain also could not afford to give up Canada without sending the wrong signals to her potential adversaries, large and small, and to the inhabitants of the empire. USA's rapid emergence as an economic power thus made Britain's defence policy-makers very uneasy. As late as 1927 (after the US had intervened on Britain's side in the First World War but had subsequently acquired a stake in German stability by making large loans to her), Churchill believed that this Atlantic power was Britain's most likely naval adversary.[2] Such perceptions were even stronger towards the end of the nineteenth century when most contemporary observers expected Anglo-American relations always to be 'cool, grudging and occasionally hostile'.[3] Recognising the untenability of her strategic position on the western flank, Britain accepted American demands on the isthmian canal, seal fishing and the Alaskan boundaries, thus heralding the so-called Anglo-American rapproachment of the turn of the century. In the somewhat uneasy years preceding these agreements, it would have been in Britain's strategic as well as financial interest if Canada had undertaken to spend more on defence. Hence the Treasury pressure that DH invoke in support of their argument.[4] But London had the more vital strategic stake in Canada, as the latter well recognised.

[2] See F. C. Costigliola, 'Anglo-American Financial Rivalry in the 1920s', *Journal of Economic History*, 1977.

[3] Paul Kennedy, *The Rise and Fall of the Great Powers*, London, 1988, pp. 317–23.

[4] It is not a useful practice, generally, to read official records literally. For instance, the

The main threat to the Oceanic colonies (until the early years of this century) came from their own indigenous population. Whether they felt as vulnerable as their non-imperial counterparts (DH's frame of reference), most of whom had to contend with a long history of competing empires and wars, is a moot question. How much of the British expenditure was devoted to preserving her access to the colonies, rather than their defence *per se*, and whether Britain might have valued this access more than the colonists is another. If the expenses of Britain's war and many near-wars in Egypt to secure the routes to India are seen as a subsidy to the latter, the costs of recent US actions in the Persian Gulf could also be similarly construed.[5] Nor is any allowance made for the island-nation's dependence on predominantly naval defence and on ocean-borne trade, which, rather than the colonies (as Foreman-Peck acknowledges) was what the former's might was deployed to protect.[6] Not only was the navy a more expensive proposition than the land forces, but Britain also relied on a (more expensive) voluntarist armed service. So estimates based on French and German criteria (both, countries who might have expected to do more of their fighting on land and who resorted to different degrees of conscription) are besides the point. Perhaps, some part of the extra per capita defence spending in Britain could be seen as income foregone by her tax-payers in order to avoid conscription and the social tensions that it brought in its wake.

One may question DH's estimates of the defence subsidies that Britain extended to the empire. There can however be no doubt that her military outlays would have risen on its account, though for reasons mentioned above, in a smaller measure than they suppose. To that extent therefore, there would have been a net transfer of incomes from the tax-payers who did not have a stake in the empire to those who did. Our arguments in this section have assumed implicitly that other (non-investing) Britons had a stake in the empire. How far was this true? In what did their interests consist?

Treasury's opposition to increase in defence spending in 1939 could hardly be taken as suggesting that it wished to leave Britain undefended!

[5] As they well might. See L.E. Davis and R.A. Huttenback, 'The Cost of Empire', in R.L. Ransom, R. Sutch and G.M. Walton eds., *Explorations in New Economic History*, New York, 1982, pp. 41–69.

[6] J. Foreman-Peck, 'Foreign Investment and Imperial Exploitation : Balance of Payments Reconstruction for Nineteenth Century Britain and India', *Economic History Review*, 1989, p. 359. For an argument similar to DH's, see O'Brien, *Past and Present*, No. 120, 1988. One of the assumptions that the Cobdenite counter-factual requires is that the non-possession of colonies would not have imposed costs on Britain. O'Brien argues that there was no evidence of France and Germany having designs on the areas colonised by the British. Even if this was true, a policy-maker in Victorian Britain (who did not have the benefit of the works of modern historians) could hardly have been certain that this was the case. Denying the relationship between Britain's empire (the supposed reason for her large military spending) and her material well-being forces O'Brien to co-opt the originally 'nationalist' argument that the degree of political unity and economic integration that India achieved in the colonial period, would have come about anyway! See his reply to Paul Kennedy, *Past and Present*, No. 125, 1989.

V

The book's main finding—that the upper classes gained from the 'empire of finance' while the middle-classes paid for it, is not entirely novel.[7] With some variation, this was a widespread perception in Britain in the 1920s. It is also the subject of a fairly extensive literature based mostly on Britain's stabilisation experiences of the period. According to the dominant interpretation in this literature, the objective of restoring London's pre-eminence as a financial centre ruled out non-deflationary domestic stabilisation options so that the interests of the producing classes were sacrificed to those of the rentiers.[8] The pride of Finance was protected at the cost of discontent in Industry, to paraphrase a famous statement.

What is novel about the central finding of this book is the period to which it relates. Most studies that reach a similar conclusion have little to say on the pre-1914 period. The implicit argument (independently supported by scholars such as Ford who found a lagged positive relationship between overseas British investment and the prices of her exports) is that through their effects on trading volumes, prices, employment and real wages, capital exports before 1914 tended to benefit a substantially larger part of the British population than those who held empire or foreign securities in their portfolios.[9] To an extent, the above argument is qualified by suggestions that the London capital market showed a bias for overseas issues and, unlike in France or Germany, made little institutional provision for smaller (therefore, less profitable, and riskier) issues by domestic manufacturers. This in turn is said to have played a major role in thwarting the growth and long-term competitiveness of the latter. Needless to add, there is no unanimity either about this phenomenon (of bias) nor its effects.

This qualification apart, even Cain and Hopkins, whose admirable essays focus attention upon 'gentlemanly capitalism' from the seventeenth to the middle of this century, are inclined to attach considerable importance to the role of the London market in expanding the market for domestic manufactures in the nineteenth century.[10] Ford's views have already been

[7] Nor do Davis and Huttenback damage the Leninist explanation beyond rehabilitation. Convinced adherents would feel reassured to know that once its more dogmatic elements are cleaned out with a little help from Hilferding and Rosa Luxemburg and the resulting product is spliced with Gramsci, their view gains in polish and explanatory power what it loses in simplicity and perhaps 'mobilising' power. For example, see P. Anderson, 'The Figures of Descent', *New Left Review*, 1987.

[8] See for example the essays in S. Pollard ed., *The Gold Standard and Employment Policies between the Wars*, London, 1970.

[9] See A.G. Ford, 'Overseas Lending and Internal Fluctuations : 1870–1914', in A.R. Hall ed., *The Export of Capital from Britain, 1870–1914*, London, 1968, pp. 90–92.

[10] P.J. Cain and A.G. Hopkins, 'Gentlemanly Capitalism and British Overseas Expansion: I—Old Colonial System, 1688–1850', *Economic History Review*, 1986; and 'Gentlemanly

cited. Things changed however after 1914, although intimations were available even earlier. Not only did British overseas investment now not lead directly to orders for British goods (except from empire countries), but also, Britain could not hope to gain from a world expansion triggered by her capital exports. The reason, in the parlance of balance of payments adjustment theory, was that domestic expansion affected the British balance of payments more than it affected world prices. The resulting stop-go policies had well-known effects on domestic employment, output, competitiveness, etc.. Largely as a result, industrialists became progressively more protectionist and empire-centred in their vision while the financiers remained as internationalist as before. Thus the implicit compact that had existed between industry and finance in pre-1914 Britain, and which was already coming under strain by 1913, broke down. The Treasury also supported controls on overseas issues. Exceptions were made in the case of empire issues, because the bulk of the resulting orders came to British manufacturers, but also to prevent American penetration into the colonies.

In the background of these studies, DH's neglect of the effects of capital exports on real variables in the pre-1914 British economy is mystifying. It might seem unfair to fault a book for what its authors explicitly, at the outset, declare it is not about. It 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 net labour migration' because, '... if it is not impossible, it is at least very difficult to do everything' (pp. 2–3). One is, however, left to wonder whether a book with the purported aim of this one can ignore these and other effects of British capital exports which had a major bearing on the cost-benefit calculus of imperialism. Also, if the aim of the work is to test the Leninist account of imperialism, it would not do to ignore trade. Hilferding's notion of 'finance capital', which Lenin took over, has a substantial (though subordinate) role for industrial capital in imperialism's scheme of things.[11] Moreover, one aspect of the traditional Leninist-type argument, advanced by its supporters more explicitly than by its chief proponent, has always been that capital exports retarded the tendency for the rate of profit to fall at home, not only through reducing the supply of capital, but also through boosting the

Capitalism and British Overseas Expansion: II—New Imperialism, 1850–1945', *Economic History Review*, 1987. Also see G. Ingham, *Capitalism Divided? The City and Industry in British Social Development*, London, 1984. For a dissenting view which casts the relationship between financiers and manufacturers in much stronger terms, see M.J. Daunton, 'Gentlemanly Capitalism and British Industry 1820–1914', *Past and Present*, No. 122, February 1989. For a survey of the literature on British overseas lending and its effects on Britain, see S. Pollard, 'Capital Exports, 1870–1914 : Harmful or Beneficial?', *Economic History Review*, 1985, P. Temin, 'Capital Exports, 1870–1914 : An Alternative Model', *Economic History Review*, 1987 and Pollard's reply to Temin in the same issue.

[11] Rudolf Hilferding, *Finance Capital: A Study of the Latest Phase of Capitalist Development*, edited by Tom Bottomore, Routledge and Kegan Paul, London, 1981, p. 315.

demand for domestic output. In other words, capital exports helped overcome recurrent 'realization crises' in capitalism.[12]

In the same context, it is worth pointing out that Davis and Huttenback do not seriously examine the domestic over-saving hypothesis. They merely say that redeploying the capital invested in the dependent empire would have only trivially affected the domestic rate of return. No reason is offered for ignoring investments in the self-governing colonies. For the rest, they satisfy themselves with comparing rates of profit in the empire, at home and overseas—a perfectly acceptable tack to disprove an 'exploitative profits' type hypothesis, but inadequate as a test of whether the rate of profit at home was falling.

Returning to the attempt to disentangle the gainers from the losers, some pointers emerge quite clearly from the above paragraphs. Ignoring the possibility of crowding out, for the present, overseas investment might have created jobs that would have otherwise not existed, and under conditions of full employment, have led to an increase in real wages. In general, empire investment was more likely to generate orders for British manufactures, especially after the 1870s and these effects would have been stronger, as the proportion of overseas investment that went to the empire increased. Net migration would have increased home incomes through remittances and could also be expected to improve incomes for workers who stayed; the former bore some relation to capital exports, particularly to the colonies after 1900. More importantly, British capital invested in plantations, mines, railways and shipping reduced the prices of British imports of wage goods. Whatever their effects in the very long term, cheaper food, tea, sugar, etc. were, at different times since the mid-1830s, major sources of improvement in the living standards of wage- and salary-earners. Many of these goods came in from the empire. Not surprisingly, well into the 1920s, free trade commanded support among the working class. Thereafter, however, its popularity was displaced by that of greater empire integration.

As already mentioned, Davis and Huttenback's discussion of trade is confined to a three-page statement of the view that intra-empire trade was a losing proposition for Britain. This was because the colonies, barring India (and they forget to add, the rest of the Asian empire and most of the African), could erect protectionist barriers against British exports while their own produce enjoyed free and unhindered access to the British market. It is useful here to counterpose the results of Edelstein's more modest endeavour to the DH argument since the former (although not without its

[12] Rosa Luxemburg, *The Accumulation of Capital*, Routledge and Kegan Paul, London, 1963, Chs. 6–9, 25 and especially 26 and 30. Speaking strictly, Luxemburg was not a follower of Lenin. But note that Bukharin, who was, does not question her assertion that 'realization problems' played a role in colonial expansion; he merely questions their centrality. See Rosa Luxemburg and Nikholai Bukharin, *Imperialism and the Accumulation of Capital*, edited by Kenneth J. Tarbuck, Allen Lane, London, 1972, pp. 238–57.

problems) indicates the broad magnitude of the gains involved for Britain in the imperial trading relationship.[13]

Edelstein attempts to estimate Britain's trading gains from the empire on the basis of two alternative counter-factuals. In one (the 'marginal non-imperialist standard'), the levels of development and integration (with the world economy) of the empire countries are assumed to be unchanged from that obtained under colonial rule, but at the moment of measurement, the subject nations adopt trade policies such as those adopted by France, Germany, USA, etc. In the other (the strong non-imperialist standard), without the integrative impulses generated by imperial expansion, the empire countries are assumed to have developed less and integrated themselves to a smaller extent into the International economy. Trading volumes are therefore assumed to have been lower than they were in reality by margins that vary between the settler colonies and the colonies of the old world. Under the former set of assumptions, Britain's gain (through exports of commodities and services) from the empire are estimated to have equalled some 1.1 per cent and 2.5 per cent of the British national income in 1870 and 1913 respectively. Using the latter set of assumptions yields gains totalling 3.6 per cent and 5.4 per cent respectively for the two years. Note that under the marginal non-imperialist standard, Britain's gains would have been higher to the extent that investments in the empire led to a favourable shift in the terms of trade or promoted the expansion of the domestic economy.

There is, however, one phenomenon that needs explaining. Whichever estimate of total British investment overseas we accept for these years, the empire accounted for less than half the total and India, supposedly the 'jewel in the British Crown', took in only about a tenth. If capital could be invested so easily elsewhere, what role did the colonies play? In trying to answer this question, it might be useful to note that, owing to unanticipated factors, ex ante expectations from colonialism may not have been realised ex post. (Also, given future uncertainty, imperialism may have been as much about 'denial' as it was about 'possession'. Consider in this connection, European conferences in the closing decades of the last century to carve up West Africa.)

Davis and Huttenback's explanation of the empire's significance seems to border almost on the sociological.[14] Sections of British society preferred to invest in empire securities while others preferred home or foreign securities. This preference lasted as long as the trend for empire returns to fall relative

[13] 'Foreign Investment and Empire, 1860–1914', in D. McCloskey and R. Floud eds., *The Economic History of Britain since 1700,* Vol. 2., Cambridge, 1981.

[14] This is not to deny that social attitudes and prejudices matter. But those who lost up to about 3 per cent of their incomes every year could hardly be expected to have indulged the Great Imperialism Fraud in silence. A notable gap in the DH work is that they do not say how the empire could be sustained despite the costs it entailed for sections that did gain from it. One is left with an impression of conspiracy theories lurking in the shadows.

to the other two had not become apparent. Thereafter, notwithstanding whatever sympathies these social classes had for the imperial dream, their pocketbooks dictated their investment decisions.

On the face of it, it seems reasonable to argue, as the authors and others like Fieldhouse have done, that expanding foreign investment did not need the imperial system to sustain it. A closer look, however, suggests that this view sees the process of capital exports in separation from trade and financial settlement systems and institutions. So did Lenin and his followers, but that is no reason why more than seventy years later, we should neglect to discuss the mechanism whereby Britain could generate investible surpluses. As contemporaries acknowledged and as Saul has shown, the empire (at least India, though this might have been true of other colonies as well if imperialism had survived and fulfilled its transformation agenda) mattered not primarily as recipients of capital but as 'financiers' of capital exports by the metropolis to other parts of the world.[15]

Consider, for example, India's role in the pre-1914 settlement system. Simply put, her surpluses with the rest of the developed world enabled Britain to settle, to a substantial extent, her own deficits with the latter, so that the large part of Britain's invisible receipts could be lent abroad. To the extent that this pattern of settlements (to forging which, the institutional mechanism of the empire was the major contributor) was underwritten by India, her importance to Britain cannot be judged only on the basis of her share of total British overseas investment. The decline in Britain's ability to lend in the 1920s without increasing her short-term indebtedness coincided with a diminished Indian role in settling Britain's deficits. At this time colonial policy-makers attempted to make India finance British capital exports through deflation and forced dis-saving. Although this is another story, it suffices to note that the extent to which Indian policy-responses could be adjusted to suit the imperial interest also highlights the many dimensions that exist to the issue. These dimensions cannot be captured merely by capital receipts shares and point to the need for a closer look at the economics of the imperial system.[16]

[15] *Studies in British Overseas Trade*, Liverpool, 1960. Note that this particular argument goes through and is unaffected by S. Pollard's valid criticism of A.G. Frank's use of Saul's analysis. See A.G. Frank, 'Multi-lateral Merchandise Trade Imbalances and Uneven Economic Development', *Journal of European Economic History (JEEH)*, 1976, pp. 407–29 and S. Pollard, 'Merchandise Trade and Exploitation', *JEEH*, 1977, pp. 745–49.

[16] O'Brien (*Past and Present*, 1988, p. 169) argues that mutually agreed tariff reductions between Britain and the other industrial countries could have replaced empire settlements and helped settle British deficits. In a no-colony world, this might have been one of many outcomes (none of which would have been costless for Britain). Treating the outcome that is favourable to one's own position as the most likely one does not carry the debate a great deal forward. Attributing probabilities to different contingent outcomes in the counterfactual case (necessary to give the method some degree of rigour) and coalescing all these into a solution system is a task that boggles the imagination. In the extant case, before negotiating mutually

VI

DH's discussion of the London capital market also betrays their rather casual modelling approach. Guarantees, in their view, made empire securities 'safe'. However, as McCloskey has argued, the securities that were added to the list of trustee securities by the 1900 Colonial Stocks Act were already widely held in portfolios of trustees who were not limited by statute.[17] Besides, colonies were, in exchange for guarantees, required to hold their reserves in London. As contemporaries acknowledged, these holdings not only reduced interest rates in London, but also, they tended to be an important stabilising influence in the market for sterling.[18] Further, colonial holdings could be, and indeed, were deployed to stabilise the market for consols or to prepare the market for a fresh issue of these securities. Thus in a variety of ways, which had little to do with their actual size, the reserves of the colonies improved the liquidity of the London market.

DH have little discussion of the many factors which affected the demand for and supply of capital. The 'crowding out due to guarantees' hypothesis assumes that there was no shortfall in domestic (or foreign) investment demand and that the supply of savings did not respond to the demand for them. Edelstein's work which was available to DH and which represents by far the most thorough study of the factors determining British overseas investment shows that a secular, exogenously-determined reduction in domestic investment was the single most important factor responsible for the phenomenon. He also shows that when domestic and overseas investment peaks coincided, it was matched by an increase in savings.[19] Not just British savings, one may add.

DH focus exclusively upon British investment in the colonies, but have nothing to say on savings mobilised from the colonies for investment in London. Colonial banks, insurance companies as well as individuals placed their assets at the disposal of institutions in London. For example, the tendency of Indian 'exchange-banks' to mobilise deposits from India but invest them in London was so widespread that Keynes wondered whether the banks would be able to check a run on them in India. [20] Foreigners

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agreed tariff reductions, Britain would have had to impose (or threaten to impose) tariffs on her own imports. Whether this would have led to tariff reductions or widespread debt defaults is however debatable.

[17] D.N. McCloskey, 'Did Victorian Britain Fail?', *Economic History Review*, 1970.

[18] J.M. Keynes, *Collected Writings*, London, Vol. 15, L.S. Pressnell, 'Sterling System and Financial Crises before 1914' in C.P. Kindleberger and J.P. Lafargue eds., *Financial Crises : Theory, History and Policy,* Cambridge, 1981 and P.H. Lindert, *Key Currencies and Gold, 1900–1913,* Princeton, 1969, pp. 18–22.

[19] M. Edelstein, *Overseas Investment in the Age of High Imperialism : The United Kingdom, 1850–1914,* London, 1982.

[20] *Collected Writings,* Vol. 1.

would also have been considerably more significant as investors in government securities (whether domestic or empire/foreign) than in joint-stock companies whose records DH use to identify investors. Therefore, apart from the other factors discussed above, purchases of overseas securities by those not resident in Britain should also be taken into account for estimating the costs to Britain of her investment in the empire. The corollary—financial markets would have developed poorly because so much of their governments' loan business was transacted in London—would also have implied a cost to the colonies.

VII

The absence of a model of the empire as an economic system—that exported funds, generated investible surpluses for the mother country which were policy-sensitive up to a degree, whose capital imports also financed commodity imports from Britain that would not have taken place otherwise and which generated migration, both temporary and permanent—compels DH to resort to a series of purely *ad hoc* counterfactual comparisons. The latter are partial and are not extended to corresponding model-consistent situations in the colonies. i.e., situations that might arise in the colonies if the original condition (colonialism) is relaxed. The implicit assumption is that the colonies would have remained in the medieval mess in which, so imperial historians assure us, they were found. This might well have been true; but surely, this assumption (which is close to Edelstein's strong non-imperialist standard) also affects the level of gains that Britain made from the empire. With critically related variables so casually and selectively endogenised or exogenised, it is not surprising that the book, in many parts, reads like an accountant's analysis of imperialism.

To be fair to the authors, they recognise the drawbacks inherent in their method. (p. 25) One appreciates the difficulties involved in formulating a model of the empire as a politico-economic system and sympathises with the authors for the problems that its absence posed them; therefore, more the reason why they deserve praise for the innovativeness of their methods for which they have been rewarded with strong results. Yet, and this is said without seeking to detract from the undoubted merit of their work, both can do with more scrutiny and one aim of this article has been to attach a few necessary, but tentative, riders. These might be significant enough to affect not just the numbers in the cost-benefit exercise but their signs as well.

This said, there can, however, be no denying that the book has sparked a new interest in the issues that it has tackled and has already become something of a starting-point for future exercises in the area. Its findings draw attention to the many aspects of colonialism which are as yet lightly researched, and by concentrating our minds upon these, it makes a useful contribution to the literature. Now that the auditors have returned their report on the promoters of Empire Inc., perhaps it is time now that we heard more from the securities and exchange commission and the office of fair trading about its non-voting, optionless, stockholders.

Delhi School of Economics G.BALACHANDRAN