

**PART 1:**  
**INTRODUCTION**



# THE COSTS AND BENEFITS FOR EUROPEANS FROM THEIR EMPIRES OVERSEAS

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## PART I. CONTEXTS, CHRONOLOGIES AND QUESTIONS

Large historical problems are stimulating to debate but difficult to specify and answer in ways that might carry forward our long-standing discourses in global economic history. The papers which form the basis of our essay deal with a meta question and are focused upon the economic consequences (the costs and benefits) for those European societies most actively involved in territorial expansion, colonization, world trade, capital exports and emigration to other continents over the past five centuries. Our symbolic dates mark (rather than demarcate) the beginning and ending of European imperialism. Colonisation occurred in Antiquity and in the Middle Ages but between 1415 and 1789 European powers, particularly Britain but also Spain, Portugal, Holland, France and Italy, founded hundreds of colonies. Individual articles have concentrated upon periods of significance for particular countries and are, moreover, analysed within the context of an international economy, evolving through four eras (or orders) of mercantilism (1415-1846), liberalism (1846-1914), neo-mercantilism (1914-48), and decolonisation (1948-74). Our *Introduction* draws heavily upon six national case studies as well as discussions that took place at a conference in Madrid in 1997. We do not intend to cite particular contributions to the inferences and conclusions in this essay. Our views represent an elaboration upon and an interpretation of the articles that follow. They are not a survey (still less a synthesis) and the scholars who participated with us in this intellectual venture would

not necessarily agree with all the generalisations we have attempted to draw from their work <sup>1</sup>.

In short, we have simply relied upon 11 authors, who have tried to elucidate *outcomes* for the long term development of the major metropolitan economies of Western Europe. When, how, where and why did European societies (and Europe as a whole) gain or lose economically from political connexions established and maintained (in stronger or looser forms) with national Empires are the difficult questions confronted by this complex and wide ranging exercise in European and comparative economic history. To confine a discussion that is potentially timeless and global in scope we refrained from widening it geographically, from lengthening it chronologically and left consideration of the impact of European imperialism on the economies and peoples of other continents for future consideration.

Comparative history goes back to the Enlightenment and is exemplified in the writings of a line of distinguished scholars (including Montesquieu, Voltaire, Tocqueville, Weber, Schmoller, Bloch, Braudel, Gerschenkron, McNeill, Wallerstein, Landes and others). All history that wishes to depart from cataloguing, describing and narrating and seeks to move on towards explanation must become comparative. Comparative history tries to impose order; to escape from the complexity, diversity and the tyranny of national detail and persuade us that it can offer coherent but sensitive interpretations of the grand themes that historians select for discussion. That design tends to be realised when scholars concentrate upon quantified outcomes, emanating from well researched locations which exhibit comparable but, more important, dissimilar economic, geographical, political, social, cultural and other conditions. Then as Marc Bloch anticipated «the comparative method can elicit from the chaotic multiplicity of circumstances those which were generally effective». Bloch also observed that «correctly understand the primary interest of the comparative method is ... the observation of differences» <sup>2</sup>. Thus for this theme, the method was brought to bear upon a sample of national economies, within which large scale investment in and persistent involvement with empire (and with the legacy of empire) varied in entirely different ways across space and through time.

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<sup>1</sup> Their papers were elaborated for Session A1, Twelfth International Economic History Congress, Seville, 24-28 August 1998 and will be presented to the Congress by two rapporteurs, David Landes and Immanuel Wallerstein.

<sup>2</sup> Bloch (1925) pp. 15-25.



Furthermore, few authors approached, or indeed could deal with, the problem without some theory or conceptual categories in mind. Thus all of the nationwide case studies published here made use of the standard balance of payments taxonomy as well as vocabularies and models derived from international economics in order to assess the overall economic impact of interconnexions with empires on the long run development of metropolitan economies. Exports and imports, emigration and capital flows between national economies and their overseas possessions, remained central for analysis even though data, particularly for eras before the midnineteenth century, turned out to be hard to find. Terms and conditions for trade set within a framework of imperial rules and regulations (designed to favour the home economy) have been evaluated; as well as the relative costs for defence borne by metropolitan and colonial economies.

Furthermore, imperial policies continued to be interrelated with a whole range of foreign, strategic and domestic policies pursued by European states right up to (and even beyond) the post-war era of decolonisation. In all kinds of direct and less obvious ways, a nation's involvement with its own (and with other nations') empires fed into the making of fiscal and monetary policies, the legal frameworks surrounding national commodity, capital and labour markets and also into attitudes and behavioural patterns underpinning various styles of capitalism that developed across Europe. Imperial, foreign and metropolitan influences upon the policies, institutions and cultures which promoted or restrained economic development turned out to be difficult to separate out and even more problematical to weigh. That is why the inclusion of an economy (like Italy) with a history of limited involvement either with its own possessions overseas or with other empires seems heuristic to contemplate. While a paper from Colin White on the making and maintenance of the Romanov Empire (to represent the case of colonisation overland), and which we discussed at the Madrid Conference, was likewise instructive to contrast with more familiar cases of European expansion overseas<sup>3</sup>.

As usual counterfactual assumptions are revealed as implicit in any attempt to model and to measure the costs and benefits of macro economic strategies. Most authors wisely eschewed any systematic pursuit of counterfactual history. They reluctantly recognised that what might have happened to a nation's economic growth, with more constrained recourse to empire by way of an earlier delinking from colonial exploitation (often

<sup>3</sup> White (1997).

maturing into costly responsibilities) are simply assumptions behind the questions raised. Economists might well decry the absence of explicit modelling and will undoubtedly recommend a black box labelled dynamic equilibrium theory to historians trying to cope with problems of this kind. Nevertheless, the one «big thing» that has emerged from this collaborative exercise is that the significance of empires for national economic development varied in illuminating ways across space and through time. We failed to find a high resolution map to carry us through the complex landscapes of imperial history. Economic historians worry about facts, chronology and contextual integrity. As the papers expose, they remain committed to detail, to locality and to contingency. Some even revel in paradox and ambiguity and seem more inclined to destroy than deploy grand theory. They have evaded counterfactual analysis that, alas, for this meta question cannot be specified in ways that could possibly command consensus among historians, increasingly impressed with the admission of chaos theory even into natural let alone the social sciences.

All history is contemporary history and the current interest in imperialism originates in three large issues that preoccupy European and North American political leaders in the late twentieth century. First and foremost is a deepening anxiety about the shift in strategic and economic power away from Europe and North America towards Asia. Secondly, the problem of world poverty and relative deprivation, analysed by economists and sociologists since mid century, has also attracted sustained attention from economic historians and historical sociologists. Their concerns with the origins of the so called North-South divide have led to plausible observations about long term trends in levels of income per capita achieved by European populations compared to the majority of humanity subsisting as citizens of Third World societies that form part of the continents of Africa, Asia and Southern America. From the poor data at their disposal, Paul Bairoch, Angus Maddison and other manufacturers of historical statistics, conjecture that European (including North American and Australian) standards of living were perhaps already twice as high as average levels achieved by the rest of the world in the eighteenth century<sup>4</sup>. Thereafter differentials widened to reach 4:1 by 1900, 5:1 by 1950 and today the gap in per capita incomes between Western Europeans and the inhabitants of the Third World is probably in the order of 10:1 and seems

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<sup>4</sup> Maddison's conjectures about the gaps differs from Bairoch's. Maddison (1983) pp. 27-41.

set to diverge even further in future<sup>5</sup>. Thirdly, and flowing from improvement in networks of transport and communications, the world economy has now become integrated and interdependent. National, regional and local economies are components of a global economy. Their growth and fluctuations depend to an ever more discernable degree upon the operation of markets for commodities, services, labour, capital and technology that transcend national frontiers. Major actors in these markets consist of large-scale multinational corporations whose activities in production, trade, finance and the transfer of technology are transcontinental in scope<sup>6</sup>.

Contemporary concerns with the waning of European and American hegemony, with the maldistribution of income among countries and with the «globalisation» of national economies has prompted intellectuals to look back into the origins and developments through time of features of the world economy, particularly imperialism, that command widespread attention and analysis at the end of the millennium. One famous school of global historians, who moved early into the research and reflexion required to deal with such large questions, has effectively set the agenda for discourse in the field. According to their leading spokesman: «Neither the development nor underdevelopment of any specific territorial unit can be analysed or interpreted without fitting it into the cyclical rhythms and secular trends of the world economy as a whole»<sup>7</sup>. World systems history and theory continue to develop and rest upon this premise. Nevertheless, there is an unresolved debate about just when and how significant connexions, through trade, migration and capital flows across frontiers and oceans, might have been for the development of national and regional economies before the diffusion of railways, steamships, telegraphs and the liberal international order that appeared after 1846. According to André Gunder-Frank and Barry Gills international connexions mattered for millennia before that time<sup>8</sup>. In her famous study Janet Abu-Lughod traces the origins of «The World System» to the century 1250-1350<sup>9</sup>. Jerry Bentley and Philip Curtin find «cross cultural contacts and exchanges» even further back in time<sup>10</sup>. Immanuel Wallerstein and his school insist

<sup>5</sup> Bairoch and Levy Leboyer (1981).

<sup>6</sup> Hirst and Thompson (1996).

<sup>7</sup> Wallerstein (1979), p. 73.

<sup>8</sup> Gunder-Frank and Gills (1993).

<sup>9</sup> Abu-Lughod (1989).

<sup>10</sup> Bentley (1993) and Curtin (1984).

that three centuries after 1450 witnessed the emergence and consolidation of a «European world economy based upon the capitalist mode of production»<sup>11</sup>. James Blaut's acclaimed *Colonizers Model of the World* represents the voyage of Columbus to the New World as the point of discontinuity. «Prior to 1492», he observes, «progress towards modernisation and capitalism which was taking place in Asia and Africa as well as Europe». Blaut goes on to assert that «this hemisphere wide system began to break apart shortly after 1492 because of the wealth and power acquired by Europeans in America... The massive flow of wealth into Europe from colonial accumulation in America and later in Asia and Africa was the one basic force that explains the fact that Europe became transformed rapidly into a capitalist society and the complementary fact that Asian and Africa proto capitalist centres began to decline first in relative and then in absolute importance». Blaut recognised, however, that: «many processes internal to Europe were important causes of change, of development in that continent but the one basic process that continuously fuelled the transformation was the wealth from colonisation»<sup>12</sup>.

Over the past three decades, books and articles published by the world systems schools of historical sociology and economic history and their critics have commendably and successfully shifted the «Eurocentric» focus of both Marxist and non-Marxist concerns with the origins and nature of imperialism towards questions about long term development and of underdevelopment. Simplifications and distortions occur in «boxing» scholars together in «schools». Obviously there are salient differences in the treatment, coverage and emphasis from one author to another in the precise importance imputed to connexions between a country's international economic relations and its long term growth. Nevertheless, and for purposes of contextualising the six national case studies included in this volume, we propose to paraphrase a general argument that commands widespread assent among intellectuals from the Third World.

According to this well elaborated view, the economic advance of Western Europe and the contingent retardation of Asia, Africa, Latin America and Eastern Europe originated and evolved over the centuries from the capture of Ceuta in 1415 to the repeal of the Corn laws in 1846, when Europeans (the «core») manipulated the conditions and therefore turned the terms of trade in their favour and exploited the rest of the

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<sup>11</sup> Wallerstein (1974), p. 67.

<sup>12</sup> Blaut (1993), pp. 152-3.



world. Through superior military technology and advanced forms of political and business organisation, Western Europeans either plundered and colonised the resources of other continents or reduced the weaker economies of Eastern Europe (the so-called semi-periphery) to conditions of dependency. Once established on a sustainable basis, intercontinental commerce dominated by Europeans promoted forms of labour control (such as slavery and peonage at the periphery and serfdom and sharecropping at the semi-periphery) which maintained prices of exports from the Third World sold on European markets close to subsistence wage costs.

During centuries before (and even after) the advent of free trade in 1846, institutions, property rights and modes of conducting trade emerged to control the marketing of minerals and primary produce and to set highly unequal terms under which surpluses from the Third World were exchanged for the manufactured goods, temperate farm produce and commercial services sold by European merchants. Over time the imposed institutions of a European mercantilist and imperialistic economic order created patterns of specialisation and sustained terms of trade which placed (and in some cases propelled) the economies of Western Europe on paths leading to industrialisation and higher standards of living and demoted the economies of the periphery (and semi-periphery) towards primary production, monoculture and to slower rates of growth in per capita incomes<sup>13</sup>.

Our papers confront these arguments with case studies which seek to analyse a relevant range of connexions between Europe's national economies and their colonies and dependencies (i.e. their imperial systems) overseas. Alas their delimited concerns might seem «repressively occidental» because they do not deal with the origins of European imperialism and pay almost no attention to Europe's impact (negative and positive) upon the territories, resources and indigenous populations of Asia, Africa and the Americas<sup>14</sup>. They are confined to an analysis of the costs and benefits from empires in terms of long run macro-economic outcomes for a small sample of now affluent European industrial market economies.

They also concentrate on connexions between European investment in empire and commerce with other continents over some five centuries of time and as usual the chronologies and long cycles used for periodisation

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<sup>13</sup> O'Brien (1997).

<sup>14</sup> Bairoch (1993).

raised a plethora of problems. Discontinuities and conjunctures varied from case to case. Nevertheless, most authors recognised that the French Revolution and Revolutionary Wars and their immediate aftermath, 1789-1825, marked a turning point in the centuries old struggle among European powers for dominance in global commerce and the acquisition of possessions and assets overseas. After that juncture (and even during «the high tide» of imperialism, 1882-1903), warfare among European powers, fought to secure resources and monopolies of trade with other continents, subsided towards the diplomacy of peaceable settlements and carve-ups. In the wake of the French Revolution, several nations (France, Spain, Portugal and Holland) lost serious amounts of territory overseas as well as the power to control the external economic relations of former colonies and dependencies in Africa, Asia and the Americas. For decades their interest in and benefits previously obtained from Empire diminished and in some cases decreased sharply. For these reasons European imperial history divides for heuristic purposes into two epochs: namely the centuries before and after a conjuncture precipitated by the French Revolution; and into four periods: the centuries from the capture of Ceuta in 1415 to the inauguration of free trade, 1846, labelled as a mercantilist order; the period from 1846 to the Great War called liberalism; the years between the wars, 1914-48, depicted as neo-mercantilism; and modern times, 1948-1974, represented as a period of decolonisation.

The focus of the papers is macro. They explore linkages to the economic development of entire nations and to their «industrialisation» rather than to the accumulation of wealth by towns, churches, conquistadors, merchants, soldiers, sailors and aristocrats who made fortunes from imperialism. By the first half of the nineteenth century modern, urban, industrial market economies of the kind that fortunate Europeans inhabit today had already appeared on the continent. Even before that time political economists had analysed the connexions between the affluent cities, advanced regions and developing countries of Western Europe on the one hand and their commitments to oceanic trade, maritime outposts and colonial possessions overseas on the other. Responding to the recent stimulus offered by the hypotheses of the World Systems School, it surely is time to respecify questions that are venerable and to go over the arguments again. What were these connexions? What mechanisms emanating from trade and empire promoted the long run development of Western Europe? Just how important were relations between metropolitan economies and their colonies? Was it not the case (as the

opponents of imperialism and mercantilism insisted almost from the very beginning of Europe's ventures overseas) that commitments to empire operated to weaken national economies, to retard their development and ultimately to restrain European progress towards industrial urban and affluent societies?

## PART II. EUROPEAN ECONOMIES IN THE FIRST EPOCH OF IMPERIALISM AND MERCANTILISM, 1415-1846

### *Italy*

Long standing antipathies to empire remain interesting to consider because most European economies (including Germany, Switzerland, Austria and Scandinavia) eventually industrialised without committing much of their capital, manpower, entrepreneurial talent and military forces beyond the borders of Europe. Furthermore, Italy (Europe's leading economy of the fourteenth and fifteenth centuries) entered into long term economic decline as a result of the establishment of a Portuguese seaborne empire in Asia followed in time by the shift of the locus of oceanic trade from the Mediterranean to the Atlantic and North Sea.

That occurred because long before the voyages of discovery (and for some decades afterwards) the wealth of Italian states (Florence, Venice, Genoa and other cities) had been built up on the basis of entrepôt trades between Asia, the Middle East and Europe. The distribution of eastern commodities, including porcelain, perfumes, aromatics, jewels, pepper and other spices, cotton fibres and sugar, was dominated along the Black Sea and at its Mediterranean end (at Alexandria and Tripoli) by Italian merchants (Florentines, Genoese and above all by Venetians). Although the latter ruled several colonies, what Italians did with consummate skill was to act as middlemen (financiers as well as merchants) between east and west and to process eastern raw materials, raw sugar, cotton fibres, silk, drugs, etc., into finished commodities for sale at the ports and towns of the Mediterranean and northern Europe.

Iberian expansion across the oceans and into other continents steadily undermined Italian prosperity and dominance in intercontinental trade. First, the Portuguese established direct routes by sea to India and beyond and transhipped an ever increasing share of Asian goods into Lisbon and Antwerp. Then Spanish, Portuguese, Dutch, French and English

investments in the tropical Americas brought the vast natural resources of a new world into direct competition with Asia and the Middle East and Africa. Sugar, coffee, jewels, spices, dyestuffs, cotton, drugs and above all bullion gradually came to be procured more cheaply and easily across the Atlantic. New middlemen and *entrepôts* —the Portuguese through Lisbon, the Dutch through Amsterdam, the French through Bordeaux and the English through London— replaced Italian merchants, ports and city states in servicing European markets.

Of course other factors contributed to the decline of the great Renaissance cities of Italy; not least the advent and consolidation of Ottoman power in the Eastern Mediterranean and the endless wars fought on Italian soil by the armies of France and Spain whose troops were, however, funded in large degree by silver brought in from the new world. Iberian imperialism, followed in the seventeenth century by the intrusion of Dutch and English sea power and merchant shipping into the Mediterranean, precipitated the economic decline of Italy that could not really be reversed before millions of Italians migrated to the Americas in the twentieth century.

Iberian imperialism and competition surely arrested the development of Italy. Most of Western Europe eventually industrialised without direct recourse to political intrusion into economies and societies located upon other continents. What exactly did «imperialism» contribute to the long term economic development of those powers most actively and consistently involved in oceanic trade and the acquisition of colonies and resources outside Europe? That problem is best addressed country by country and comprehended against the background of aggressive competition and warfare that persisted for some four centuries among European states for national security, international power, the spoils of empire and the gains from trade. Our attempts to offer a summary is no substitute for engagement with the surveys of voluminous and ongoing historical research at national, regional, industrial and more micro levels included and/or referenced in the national case studies upon which this survey is based.

### *Portugal*

Portugal a small, rather poor but highly entrepreneurial society, began the great venture as early as 1415 with the seizure of Ceuta in Morocco. For the Portuguese (and the Spanish) the Atlantic and the Mediterranean

were home waters. In the second half of the fifteenth century Portuguese ships moved along the west coast of Africa (importing gold, ivory, spices and slaves) and then out into the Atlantic to colonise the Azores and Madeira. By 1487 Portuguese explorers reached the Cape and in 1498 da Gama pushed on to India. Portuguese imperial strategy then passed through two phases —focused first on Asia and, when that enterprise failed, on Brazil— acquired under the Treaty of Tordesillas in 1494. In Asia the Portuguese Crown emulated Venice and attempted through investment in sea power to secure a monopoly of oceanic commerce with Europe, particularly for the trades in pepper and spices (ginger, cinnamon, medicines), but also for the import of Indian and Chinese porcelain and textiles.

To protect its claims to monopoly the Portuguese Crown established naval outposts and fortresses along the Red Sea, the Malabar coast and other ports around the Indian Ocean from where heavily armed and technically superior ships attacked Muslim, Indian and European shipping sailing in Asian waters without paying tribute to the Portuguese King.

Naturally the audacious attempt to protect a transcontinental monopoly of commerce by such a small country (albeit with a good navy) failed. Already in the fifteenth-century Castille contested Portuguese domination of trade with Africa. By the late sixteenth century (when the Spanish arrived in the Philippines) Dutch and English ships soon followed and joined with Muslims in attacks on Portuguese fleets and naval bases. During the unification of the Iberian Crowns from 1580 to 1640, the aggression of the Dutch and the English became more assured and vicious. Between 1600 and 1630 the Portuguese were driven from the Spice Islands by Dutch sea power. Squeezed almost entirely out of Asia (and Africa), Portugal recovered its colonies in Brazil and thereafter concentrated upon the exploitation of an Atlantic empire. Using coerced Indian and above all African slave labour Portuguese capitalists transhipped hard woods, dyestuffs, tobacco, sugar and above all massive amounts of gold to Europe. Portugal's pay off for investment in Empire really came on stream in the eighteenth century and rested heavily on the Brazilian gold boom, 1692-1770, and to some extent upon sugar.

Feedbacks and spinoffs to the home economy turned out to be disappointing. Local agriculture, which continued to employ most of the population could not be transformed, basically because technical possibilities readily and immediately available for raising the productivity of Mediterranean farming before the advent of chemical fertilisers and

mechanised irrigation systems remained rather limited. Meanwhile the spread of African (or American) maize solved the problem of feeding the mass of Portugal's population and helped to provision one huge city, Lisbon, and the smaller town of Oporto in the north.

For several reasons the markets and raw materials of the Portuguese Empire did not lead on to the industrialisation of the domestic workforce. First the entrepreneurial talent available among a small population could make money more easily by engaging in mercantile enterprise in the carrying trades or could live well as rentiers on their investments in Brazilian mines and plantations. Secondly (and this is predictably the argument advanced by Portuguese historians) local industry never received proper protection against manufactured imports that came from France and then increasingly from England. If the first point is weighty, the second becomes redundant. Furthermore, such views seem to rest on two counterfactual assumptions, namely that Portugal might have developed the skilled manpower required to produce enough tradeable manufactures to exchange for the gold and primary produce of Brazil and secondly that the revenues of such a small state would have been sufficient to afford the protection necessary to defend its Brazilian empire (and its Asian and African interests) against potential rivals and aggressors (including, after 1640, Spain, France and Holland).

Although the inflow of revenues from empire and transoceanic trade consolidated and sustained a powerful monarchy, to survive as an independent country, Portugal needed support from a major naval power. The cost of that long and famous alliance with England was to allow English merchants and English industry favoured access to Portuguese domestic and imperial markets. Given its geopolitical position, its reliance on the carrying trade, the hostility of Spain and the predatory policies of the Dutch, Portugal's gains from investment in Empire had to be shared with England. Most Portuguese historians might say *unequally* shared.

Empires (especially the colonial possessions and commercial monopolies of smaller European powers vulnerable to attack and movements for independence) are, however, expensive assets to retain. Portuguese investors (and presumably the population at large) certainly experienced cycles of prosperity during the long sixteenth century and again over the eighteenth century. Both ended, however, in political disasters. First in the seventeenth century came the costly struggle for independence from Spain and the collapse of commercial hegemony in Asia. Early in the nineteenth century the French occupation followed by the independence

of Brazil inflicted serious exogenous shocks to the economy. Although its population increased, at no time during the country's long involvement with empire and expansion overseas, 1415-1815, had the inflow of revenues accruing from plunder, conquest, trade and from servicing the international economy, been allocated towards the creation of an alternative, less vulnerable and productive base for agriculture and/or industry within the borders of Portugal. In economic, political and institutional terms, Portugal remained a maritime, mercantile system and took a very long time to recover from the collapse of that imperial system which followed from the French invasion of 1807.

### *Spain*

Why did the acquisition of a vast empire rich in natural resources and bullion apparently do so little to establish a basis for progress towards an industrial market economy in Spain? Unlike the Portuguese in Asia, Spanish explorers and merchants in the Americas did not encounter economies, populations and infra-structures already engaged in oceanic trade and prepared for mutually profitable commercial exchanges. Where city economies and civilisations existed (e.g. in Mexico and Peru) they appeared as exploitable in the first instance only for plunder. Those early and unfortunate attacks (and above all the transmission of diseases) decimated Amerindian populations and rendered them incapable of sustained trade with Europeans whoever they were. To realise the potential inherent in the discovery of a resource abundant but labour scarce continent of the Americas, required continuous investment in exploration; the formation of social overhead capital (including ports, housing, internal transportation, oceanic shipping); the establishment of new forms of political and commercial organisation; land clearance and the transplanting of European crops and animal populations across the Atlantic to new ecological environments. Spain's imperial venture required colonisation and settlement in alien and often hostile places. In short economic systems and capital assets which had taken centuries to build up in Europe and Asia had to be put in place quickly in the Americas because investors and governments back home became impatient for easy and quick returns.

For some fifteen decades after Columbus's historical voyages, the bulk of that investment, required to establish regular oceanic trade with Europe, continued to be undertaken by Spaniards. For nearly half a century (and

despite the fortunes brought home by famous adventurers from Extremadura) the balance of trade for commodities and services exchanged with colonies in the Americas remained heavily unfavourable for Spain. Fortuitously, (but in the long run not so fortunately) around 1545 the great mine of Potosi opened up. Within two decades silver imports turned the balance of trade the other way (i.e. imports exceed exports). By how much varied from cycle to cycle depending on the quantities of silver mined in the new world and fluctuations in its purchasing power on European markets. Nevertheless, even at times of peak shipments between 60 per cent and 70 per cent of the bullion arriving in Seville continued to be used for European exports of goods and services consumed and used by settlers, slaves and native Indians in the Americas.

In macro economic terms the discovery and exploitation of valuable sources of mineral wealth led to predictable changes in Spain's trading pattern and its structure of production. For example, inflows of silver and gold increased real wealth which raised the level of domestic demand for commodities and services that Spanish industry could meet only to a limited extent and by diverting resources away from the production of tradeable goods. Surplus gold and silver was then used basically, however, to purchase the imports required to satisfy rising home demand which competed with the output of Spanish industry and in time led to industrial and urban decline. As Forsyth and Nicholas observed: «Gold and silver inflows which allowed Spain to increase her consumption of both tradeable and non-tradeable goods required the economy to adjust its industrial and trading structure. The price system brought about the adjustment. Firstly, rising prices in the non-tradeable goods sector attracted resources from the traded goods sector. Secondly, the contraction of the tradeable goods sector resulted in a shortage of domestically produced trade goods which caused prices to rise attracting imports»<sup>15</sup>.

Thus in so many ways, silver turned out for the development of Spain (not for Europe!) to be a lot less valuable as a return cargo than seemed to be the case at the time. On the credit side, the lure of treasure maintained interest, promoted investment and led to the settlement of young and energetic Iberians in the Americas. On the other side neither silver nor gold are utilitarian metals that could be utilised for construction or transformed into tools, weapons or household artefacts. When not used as money, gold and silver are crafted (often very skilfully) into articles

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<sup>15</sup> Forsyth and Nicholas (1983).



of adornment for churches, monasteries, nunneries, aristocratic mansions and royal palaces. They are not raw materials upon which large scale and utilitarian forms of metallurgical industry, enterprises and jobs can be based.

Bullion had, however, long been the stuff from which money could be minted and taxes paid. Wherever and whenever kings and princes can expropriate precious metals, their traditional fiscal and, ipso facto, political problems are immediately alleviated. Their powers grow in proportion to the treasure placed at their disposal. Royal or state power in early modern Europe was constrained by the king's needs to raise taxes from his recalcitrant and often rebellious subjects and provinces. The more kings depended on taxes the less sovereign and autonomous they became.

One way and another something like a quarter of all bullion mined in the Indies passed directly under the control of Spanish monarchs. This gave that Habsburg state immediate control over a much larger share of the resources required to fund whatever expenditures Charles V, Philip II and their successors chose to make. Guaranteed flows of bullion also formed the basis upon which Spanish kings could borrow money from European bankers and merchants. It substituted for taxes and provided the security for the rapid accumulation of an enormous royal debt. Bullion not only underpinned regal power but augmented the incomes of the aristocracy and thereby reduced their rapacious tendencies to prey upon the crown estate or to use their territorial powers and property rights to extort rents from merchants, businessmen and towns. In short, colonisation helped to consolidate and stabilise traditional institutions and structures of power, status and property rights within Spain.

Neither of these fiscal and political attributes flowing from imports of treasure through Habsburg coffers can be represented as necessarily inimical to the longer term development of the Spanish economy. It turned out that way because the Crown deployed its huge windfall from the Americas to fund diplomatic, strategic and imperial policies that produced entirely limited long term macro economic benefits for Spain. Part of the state's military and naval expenditures were, however, necessary to concentrate economic and political gains from empire in Spanish hands. Spaniards had invested massively in the discovery and development of an empire and relied on the Crown to exclude, tax and control foreigners who wished to do business with and within their possessions in the Americas. Any kind of mercantilist strategy to maximise profits from imperialism proved, however, difficult to implement for an empire dispersed across Europe, as well as the Americas and Asia. Ex post it is clear, however,

that the Habsburgs allocated the bulk of their domestic taxes and imperial revenues towards the pursuit of European and dynastic politics and never invested enough in the naval power required to protect Spanish assets in the Americas. Spain soon lost territory in the Caribbean and could only intermittently and partially contain the conspiracy spearheaded by its Dutch and English enemies to smuggle goods into and out of Southern America. These protestant «free riders», who made no contribution to overheads, denuded returns from the Spanish investments for long stretches of the period before the Industrial Revolution. Constrained by a European-wide Empire, Spanish mercantilism rarely worked as effectively it did for the maritime ambitions of Holland and England.

Although Spain was clearly a much larger and better endowed national economy than Portugal, it too never accumulated enough capital, skilled manpower and other resources required to prevent commerce with its Empire from becoming steadily more multilateral. When Spain acquired colonies overseas in the late fifteenth century, the domestic economy could not be described as among the most advanced in Europe? At that time Spanish industry and agriculture did *not* look poised for export led or import based growth. Yet some feedbacks from imperial trade can be represented as positive. For example, bullion inflows helped to integrate domestic markets and encouraged inter-regional trade. Maize and other botanical transfers augmented the capacity of local agricultures to feed more people and to sustain urbanisation. In the sixteenth and again in eighteenth century exports to the colonies did impart a real stimulus to several industries and to some towns but the small share of industrial goods and commercial services supplied to Latin America by Spanish firms and merchants before the break up of the Empire after 1808, stands in contrast to the significant linkages forged between the British economy and Britain's overseas territories and markets between 1688 and 1815.

Perhaps (and like Portugal) this predictable outcome occurred because the opportunities to invest in the facilities and organisation required simply to import bullion and raw materials from the Americas satisfied whatever propensities to risk capital and to stimulate any entrepreneurial talent that was around? Perhaps the Empire provided Spaniards of that time with too many comfortable and profitable ways of becoming rich, as soldiers, as royal creditors, as merchants, as advisers and as well rewarded sleeping partners to foreigners forced to comply with the rational strategies pursued by Spaniards in seeking rents from outsiders who wished to trade within their possessions overseas.



Modern economic historians will wish to quantify the scale and scope of the impact of empire upon major European economies involved with trade and colonisation overseas. For Portugal, a small economy with a population of less than 1.5 million, connexions with empire through trade, migration and capital flows, could only have been relatively more important (in a macro accountancy sense) than they turned out to be for Spain, a much larger, more diverse and far from backward economy in the fifteenth century. The albeit imperfect data tentatively offered in Yun's paper in this volume suggests that most of the relevant ratios (including trade to gross domestic product, emigration to total population and imports of bullion to domestic product), are simply too small to explain more than a fraction of Spain's overall record of economic growth between 1492 and the loss of its American colonies, 1808-24. Endogenous factors, particularly agriculture, remained dominant. At several well observed pôles de croissance, connexions between metropole and empire mattered but throughout the long cycles of upswing, downswing and stagnation that marked those early centuries of Spanish imperialism, such connexions remained too constricted to make that much difference one way or the other to growth, structural change and movements in average standards of living for the Spanish population as a whole<sup>16</sup>.

On the positive side Spanish imperialism, even its golden age, apparently did something, but too little, to propel the economy forward at an accelerated rate. On the negative side the well analysed connexions with the American colonies as documented in pessimistic interpretations of Spain's economic history do not convince us that imperialism can be held in any significant way responsible for the long term, relative retardation of the economy before it converged towards northern European levels of productivity after the Second World War. Interloping by other powers and the politically inspired (or uninspired) allocation of resources by the Habsburg state simply explain why Spain failed to maximise the potential for long term development derivable from expansion overseas.

### *France*

To the chagrin of Spain an unearned and increasing share of the benefits from transcontinental commerce and territorial expansion which began to

<sup>16</sup> Prados de la Escosura (1993).

flow back into Europe from the mid sixteenth century onwards really accrued to two powers: Holland and above all to England. Yet France (Europe's major military power from 1648 to 1815) also competed for territory and commerce in the Americas and Asia. Its empire offered an important stimulus to urban and industrial growth in the eighteenth century basically through trade with colonies in the Caribbean, especially with San Domingue and to a smaller extent with Canada (Quebec). At the peak of French involvement with its colonies in the 1780s, purchases of sugar, coffee and other tropical groceries accounted for 37 per cent of total imports and the colonies took a quarter of French exports, of which 36 per cent consisted of manufactured goods. Although the share had risen to become the most important single component of total trade beyond the borders of France, in terms of French gross domestic product imperial connexions remained small. As in Spain, it had certainly increased rapidly over the eighteenth century and recovered after the American War, 1784-89, but the economic impact of colonial trade tended to be regionally concentrated on the Atlantic ports (especially Bordeaux, but also Nantes and Le Havre) and their immediate hinterlands. French colonies purchased linens, lace, woollens and cotton fabrics, as well as fine flour and wines. Most of their exports of sugar, coffee and other tropical groceries were transhipped and re-exported by French merchants to the rest of Europe. That business was profitable but, considering the risks, not inordinantly lucrative.

Although the threshold costs of colonisation and the establishment of commerce could not be depicted as expensive, the costs of defending its colonies turned out to be enormous and negative for the development of France. For example, the first French Empire contributed substantially to the fiscal crisis of the state, 1763-89, which led on to the French Revolution and a quarter of a century of European and global warfare from which the French economy emerged devastated and crippled in its competition with Britain.

In strategic terms France remained a continental power. Bourbon governments never really concentrated naval and military resources on securing territories in the Americas and defending trades on the Atlantic. Nevertheless, aspirations to empire in the Americas and Asia certainly promoted and contributed to costly wars with England which eventually led to the crisis of the state. That crisis which erupted into revolution, internal instability and a commitment to warfare, 1789-1815, severely set back the evolution of France towards an industrial market economy. By

1815 and after eight expensive conflicts, France had lost the second hundred years war with England and all prospects of being anything but a second rank imperial power. Richelieu's and Colbert's vision of a thriving Atlantic economy based upon Bordeaux, Nantes, Le Havre and Rouen was thrown away and eventually destroyed by Napoleon's premature drive for an early European common market. As Thiers recognised, «nous n'avons pas gagné la bataille de Trafalgar. Nous ne sommes pas restés maîtres des mers et nous n'avons pas 200 millions de consommateurs comme l'Angleterre les possède. Voilà tout le secret de notre infériorité»<sup>17</sup>.

### *Holland*

Most historians who attempt to draw up balance sheets for the mercantilist age of European imperialism recognise that two protestant societies garnered «extraordinary» shares of the benefits from connexions with Asia, Africa and the Americas. Colonisation and commerce with other continents did more to carry England and Holland towards successful market economies than the strategy of overseas expansion did for any other nations in western Europe, especially France. Already by the mid seventeenth century a disproportionate amount of the profits obtained from servicing intercontinental trade accrued to Anglo-Dutch merchants, shippers, bankers, brokers and insurers. Large (but alas impossible to quantify) shares of oceanic trade within and beyond the empires of Holland (and eventually Britain) came to be financed, shipped, insured and distributed first, 1570-1688, through Amsterdam and later through London. Cargoes of manufactured commodities and processed foodstuffs, exported to Asia, Africa and the Americas, were initially made in Holland but increasingly in England. Imports from Asia and the Americas, including tropical groceries, (sugar tea, cocoa, coffee, spices and pepper) and industrial raw materials (hardwoods, botanical drugs, tobacco, cotton fibres, raw silk, dyestuffs, furs, oils and wax), provided inputs for industries located within and around Dutch, English, Scottish and Irish, as well as other ports in western Europe. Those raw materials manufactured for sale, mainly in European markets, were also returned in more processed and valuable form to Asian, African, and American consumers. European merchants, first Genoese and Portuguese but later Dutch and English businessmen,

<sup>17</sup> Lacour-Gayet (1952), vol. 5, p. 76.

financed and organised the transshipment of crops, minerals (especially bullion), manufactured commodities and factors of production (particularly slaves but also indentured servants and migrants) from latitude to latitude and from geographical zone to geographical zone. Profits from servicing and funding inter-cum-intra continental trade which increased in line with the growth of global commerce occurred in ever increasing proportion to Dutch and English merchants whose enterprise also actively promoted the development of trade and specialisation by region, country and by continent.

Between 1585-1713 Holland continued to be envied as the most advanced and successful commercial economy in Europe. As Josiah Child observed in 1688: «The prodigious income of the Netherlands in their domestic and foreign trade riches and multitude of shipping is the envy of present and may be the wonder of future generations»<sup>18</sup>. Holland compares with Portugal in that it represents an example of a small, competitive but politically vulnerable power taking full advantage of opportunities offered by the expansion of European trade with other continents. From a good site and solid domestic economic base, rooted in an advanced agriculture, extensive proto industrialisation and long participation in intra European trade, on a per capita basis Dutch merchants, bankers and shippers invested heavily in intercontinental trade and in the European imperialism that went along with that commerce<sup>19</sup>.

Dutch resources and considerable entrepreneurial talents came to be concentrated in three connected but separable types of mercantile endeavour. First (and most successfully), the Dutch operated for nearly three centuries as major carriers, shippers and distributors of commodities produced by the farms, plantations, mines and firms of Portuguese, Spanish, French and British possessions and dependencies in Asia, Africa, the Caribbean and the Americas. Legally and illegally, directly and indirectly, generations of Dutch middlemen profited from supplying the markets of other European empires and trading bases with the food, textiles, metals, weapons, transport equipment, tools and above all the slaves that they required to develop colonies and trade in the Americas, Asia and Africa. En route Dutch ships engaged in shorter distance exchanges from port to port before they returned to Amsterdam with the produce, minerals and luxury manufactures of tropical zones which they then processed,

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<sup>18</sup> Letwin (1969), p. 41.

<sup>19</sup> de Vries and van der Woude (1997).

packaged and distributed around Europe. As middlemen and financiers the Dutch reaped their largest and most persistent flows of the gains from intercontinental trade, from the extension of credit, from transportation, and from the storage and the distribution of exports and imports from European colonies, plantations and dependencies overseas.

Secondly, over the first half of the seventeenth century the Dutch ousted the Portuguese and established a network of trading posts and plantations of their own in Asia under the control of the *Verenigde Oost Indische Compagnie*. Like the Portuguese (but perhaps with more efficiency) Dutch naval power attempted to reserve the transshipment and sale of Asian spices (mace, nutmeg, cloves and cinnamon and even pepper and coffee) to Europe for the profit of Holland. Returns varied and diminished over time as gradually commerce between Europe and the East came to be dominated by imports of tea and textiles where competition from rival French, Danish and above all English East India Companies maintained prices and profits closer to competitive levels.

Thirdly, Dutch colonisation and settlement across the Atlantic looks decidedly unsuccessful. They failed to establish a foothold in North America and the Portuguese reconquered their original plantations in Brazil after the brief but very costly attempt at occupation by the Dutch between 1629-54. At that time they also lost bases in Angola and the Gold Coast. New Amsterdam passed under British control and became New York in 1664. The Dutch colonised islands (the Antilles and Curaçao) and tracts of territory (the Guyanas) in the Americas but their empire served basically to facilitate carrying trades with Iberian, French and British possessions. Dutch colonies in the Atlantic never produced sugar, tropical groceries or anything else in the volumes required to meet more than smallish fractions of European demand. Meanwhile, they suffered from British, French and Iberian naval attacks in times of war. Apart from spice islands in Asia and peripheral colonies in the Americas, Dutch participation in the first era of European imperialism remained heavily concentrated on supplying mercantile services: shipping, credit, insurance, packaging and some long term investment in the fixed assets of English, French and Iberian empires overseas.

As intermediaries the Dutch remained vulnerable to the enforcement of navigation codes and mercantilist regulations designed to exclude them from commerce with rival European empires. They frequently found that their ships, forts, trading posts and islands came under attack, particularly when they prudentially opted (or were compelled) from time to time to

ally with the wrong side in that long sequence of wars between England and France between 1689 and 1815. As a small and far from centralised state on the mainland of Europe, Holland could hardly defend its borders against French power. Indeed the two wars against Louis XIV created a large public debt, led to persistently high levels of taxation and transformed Holland into a satellite of England. The Republic was thrice invaded, first in 1672, again at the end of the War of the Austrian Succession and in War against Revolutionary France, when its already ailing economy and diminishing place in intercontinental trade were both seriously disrupted by the long political crisis and subsequent occupation by French forces between 1784-1814.

Largely for political and strategic reasons, Holland failed to maintain anything like the extraordinary shares of global commerce it enjoyed during its 'primacy' in the late sixteenth and seventeenth centuries. Trade clearly mattered for the country's long term development but whether the diffuse and fluctuating flows of benefits derived in large measure from servicing European intercontinental commerce and colonisation carried the Dutch economy forward and up to plateaus of possibility for development, that seem counterfactually unimaginable without its sustained commitment to Europe's imperial project is not that clear. On the one hand, several newly established industries, gains in productivity, rates of capital formation, the accumulation of skills and the acquisition of technologies, can be connected to Holland's participation in European oceanic trade. On the other, the gains do not look significant enough to gainsay the impression that a post hoc cost benefit analysis (if such an account could ever be constructed) would indicate that returns to the nation from involvement in Empire were not that substantial for long term economic growth of the Dutch Republic.

### *The United Kingdom*

Then and now the British have been credited with having secured the «lion's share» of the benefits accruing to Europeans from colonisation, commerce and trade with Africa, Asia and the Americas. Part of their success in international trade and services occurred not merely because England (and Scotland) avoided massive investment in the start up costs involved in the establishment and expansion of commerce between Europe and other continents but also because the British emulated Dutch methods



of conducting international business and absorbed Dutch capital into joint mercantile ventures beyond the seas and frontiers of Europe.

Since the Reformation politically and ideologically Holland and England shared common catholic enemies, Spain and France. Even at the height of three Anglo-Dutch wars in the late seventeenth century, London and other British ports continued to adopt the techniques and forms of organisation that had made Holland and Amsterdam successful. Dutch banking, corporate forms of organisation, insurance, shipbuilding, nautical techniques, craftsmen, merchants, machinery and industrial technology diffused easily across the North Sea. After a Civil War and the execution of its Stuart king, the restored English state redesigned its fiscal and financial system along Dutch lines. In 1688 to ensure that kingdom's foreign, imperial and taxation policies supported liberty and commerce, parliament invited a Dutch protestant to take the throne. Thereafter, Dutch savings poured into the English national debt. Dutch merchants and financiers settled in London. Like the bourgeoisie of that other vulnerable maritime power, Portugal, Dutch capitalists welcomed the protection that their mercantile endeavours outside Europe derived from the powerful Hanoverian navy. On the Atlantic and in the Mediterranean, many joined their fortunes to the aggressive mercantilism of eighteenth-century England. In Asian and Africa they prudently avoided provocative competition and tacitly opened their markets and carrying trades to British shipping and British manufactures.

But how far did England's famous transition to an industrial market economy emerge within a mercantile and mercantilist matrix dominated by colonisation and commerce with continents beyond Europe? To an important but not overwhelming extent is the short answer to this pertinent question. Intercontinental trade represented only a share (albeit a growing proportion) of total trade with markets beyond the frontiers of the United Kingdom. All relevant ratios (calculated within the framework of national accounts) are simply not large enough to provide Britain's external economic relations with the statistical underpinning required to be convincingly represented as «the major propellant» for the British economy as a whole. Nevertheless, for industry (the economy's leading sector) transcontinental markets and sources of supply, as well as the flows of income derived from servicing the growing trades with Africa, Asia and the Americas, add up to components and form the contexts for explanations of British industrialisation as it occurred between 1688 and 1846 that were surely significant compared to «exogenous forces» operating upon other

European economies. That significance cannot, however, be depicted as vital or even extraordinary. As usual for economies of any size, a very high share of national output continued to be sold within the realm. Most of the raw materials, inputs, factors of production, knowledge and technologies required for the growth and diversification of industrial production continued to be procured on domestic markets. Britain's productive and responsive agriculture, cheap and accessible supplies of energy, its flexible institutions and above all the skills, capacities and attitudes embodied in a national workforce, that had accumulated by way of long traditions of participation in internal and intra-European trade, provided the preconditions for an effective response to opportunities to compete for economic gains from intercontinental trade and empire.

The areas, industries and margins of the economy where commerce with protected and imperial markets overseas mattered for the growth of industry, towns and urban services have been well analysed in secondary literature. After protracted debate these linkages can no longer be presented as small and dispensable components of British industrialisation as it proceeded from one long cycle to another between 1688 and 1815. Alas, all the numbers purporting to estimate the gains from trade in general and imperial trade in particular, generally ignore externalities and rest upon contestable assumptions about the eighteenth-century economy, which include the persistence of full employment and an even less plausible assumption that the allocation of resources (used by private enterprise and the state) to engage in intercontinental trade might in theory have been only slightly more productive than their allocation to almost equally profitable alternatives, producing for the home market and for intra-European trade.

Needless to say, the chronologies, assumptions and latterly the data upon which the recently published and rather dismissive assessments of the significance of trade, mercantilism and empire are based, have all been challenged<sup>20</sup>. Revisionists now suggest that since Adam Smith the liberal critique of Hanoverian commercial and imperial policy has dominated too much of the high ground for academic discourse and that it is time to rescue the widespread political consensus about empire that marked the period from the condescension of posterity. Very few of its critics writing between 1688 and 1815 developed an alternative strategy for national development that offered to carry Britain to the expensively acquired

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<sup>20</sup> O'Brien and Engerman (1991), pp. 177-209.



position within the international economic and political order that the country occupied when Castlereagh signed the Treaty of Vienna. Over the period most statesmen, members of Parliament, Anglican scholars, mercantilist intellectuals and above all merchants, perceived that economic progress, national security and the integration of the kingdom might well come from sustained levels of investment in global commerce, naval power and whenever necessary, the acquisition of bases and territory overseas. Sceptical economic historians who, with hindsight, now suggest that realistic and less costly counterfactual strategies were in fact available, might lay them out for inspection and explain why a «polite but commercially aggressive» people failed to entertain, let alone adopt, them between 1688 and 1815?

Revisionists will concede that the outward thrust led to burdens of taxation which increased dramatically over time and that taxes distorted and constricted the growth of the economy. Nevertheless, they will also observe that the degree of compliance secured from Parliaments (disposed, rhetorically at least, to resist all taxes) and from a traditionally recalcitrant body of taxpayers, suggests that a strong degree of consensus existed about the broad objectives and profitability of state expenditures. That consensus, embedded in the commercial and imperialistic cultures of British society, was sustained, moreover, by fiscal policies that avoided direct forms of taxation, exempted the «necessities» of a potentially disorderly underclass from indirect taxes and structured their incidence in ways that kept the economy on course.

Another familiar cost of imperial expansion: borrowing by the government (represented in figures published regularly and showing an alarmingly rapid accumulation of the national debt) funded the immediate and sharp rises in expenditures on the naval and military forces required to combat Britain's foes and rivals at times of conflict. Some «crowding out» of private investment most certainly occurred but there seems to be no hard evidence that loans raised for the state occurred on a scale sufficient to significantly depress private investment in the infra-structural facilities and capital goods required for the long term for the development of the economy. On the contrary, there may be valid arguments (well rehearsed in the mercantilist literature of the period) to conceive of high levels of public «investment» in naval power and military force as complementary and necessary to sustain, what became in international terms, rather impressive rates of capital accumulation by the private sector. For a mercantilist age, marked by persistent recourse to warfare among European

powers, it now seems anachronistic to classify expenditures under antithetical labels (derived from a modern national accounts framework) into «public consumption» and «private investment». Furthermore, some modern growth economists now deduct defence expenditures as government consumption<sup>21</sup>. At the time such allocations were more realistically regarded as connected and inseparable elements of a package of policies that aggregated through time into a successful strategy for good order, for economic development and for the defence of the realm.

At sea, Europe's mercantilist era came virtually to an end at Trafalgar, 1805, and on land at Waterloo a decade later. When Castlereagh signed the Treaty of Vienna (which successfully preserved the balance of power for several decades before the unification of Germany) Britain had emerged as *the* hegemonic naval, imperial and commercial power in Europe and was, moreover, in the middle of its industrial revolution. Massive and sustained public investment in military and naval power had been required to reach a position, from where national security could be taken for granted and London's dominance in servicing global commerce and British industry's lead position in the sale of manufactures on imperial and world markets seemed assured for decades to come.

As the twentieth century draws to a close, there no longer seems to be valid historical arguments for accepting traditional liberal perceptions which are traditionally prone to denigrate connexions between Britain's successful pursuit of mercantilism, trade and empire on the one hand and its famous industrial revolution on the other. Nor is the alternative case (favoured by Marxists) that Britain deployed its overwhelming competitive advantage in naval power to build up a mercantile and industrial economy at the expense of its European competitors by exploiting the populations and resources of other continents in order to secure extraordinary shares of global trade and services, anything like the whole story. The First Industrial Revolution is far too complex an event to be explained in simplistic terms.

### *Europe's gains from the First Age of Imperialism and Mercantilism*

Britain came late to the imperial endeavour but surely reaped a «lion's share» of the gains from European wide investment in intercontinental

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<sup>21</sup> Barro and Lee (1993).

commerce and empires overseas. After 1815 all the economies of Western Europe recovered from the ravages of revolutionary warfare on the basis of capital stocks, institutions, knowledge, technologies and commercial relations that had developed over four centuries of productive interconnexions with other continents. At that juncture and without the expansion of European power into Africa, Asia and above all into the Americas, the economies of Europe would have been poorer, the composition of their national products would have been more agricultural and less industrial in form and lower proportions of their workforces would have been employed in industry and resident in towns. After some three decades of serious disruption (1789-1819) Europe's potential for recovery and for further and even more rapid economic advance —based upon science and technology, as well as the resumption of trade, could only have been less promising.

Real and substantial gains for the long run development of Europe can be represented as a tangible bounty that took the form of foodstuffs, raw materials, minerals and manufactured commodities from other continents that flowed into European ports —falteringly at first— but rapidly when their prices and costs fell after 1650. Any list will include: tropical groceries (pepper, cinnamon, cloves, nutmegs, ginger, cocoa, coffee, tea, sugar, groundnuts and tobacco); basic foodstuffs (fish and fish oils, maize, potatoes, tomatoes, beans, chilies, rhubarb; botanical medicines (cocaine, quinine, narcotics); industrial raw materials (hardwoods, raw silk, cotton fibres, furs, wax, indigo, cochineal and other dyestuffs); manufactures (porcelain, jewels, textiles); and above all the gold and silver from Southern America<sup>22</sup>.

The macro economic significance of these concrete manifestations of gains from the first age of European imperialism is, however, more difficult to elaborate and impossible to quantify. Several European industries were based upon import substitution for manufactures originally purchased from Asia and the Islamic world- including silk, cotton textiles, porcelain and jewellery. Capital formation, the establishment of firms and the employment of labour also occurred in order to process raw materials carried from other continents into major European ports; and that led on to the establishment of a range of industries including: silk and cotton textiles, the dyeing, printing and finishing of cloth, furniture made from hardwoods, sugar refining, coffee roasting, tobacco processing and chocolate making.

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<sup>22</sup> Landes (1979).

Spices, chilies, tomatoes, coffee, tea, cocoa and above all sugar, not only brought interest and diversity into monotonous European diets but (together with the curative and energising properties of botanical medicines, tea, rhubarb, quinine, curare and fish oils) such imports raised propensities and capacities to labour among national workforces. More significant are the calorific additions to basic food supplies and the contingent growth of European populations and cities promoted by the introduction of maize, potatoes and fish (from remoter Atlantic waters). Feedbacks from imperial trades to the growth of such major ports as Seville, Cadiz, Lisbon, Antwerp, Amsterdam, Bordeaux, London, Bristol, Glasgow and Hamburg, and to the shipbuilding, shipping, commercial and financial services that formed an integral part of their development and of the prosperity of their hinterlands are still visible today and were regarded as important at the time.

Although massive imports of precious metals from the Americas and Africa are considered by historians to have constricted prospects for the long run economic development of Spain and Portugal, bullion turned out to be instrumental for the development of a European and an international monetary system. Minted into coins and widely accepted collateral for instruments of credit and paper circulation, silver and gold from Africa, but overwhelmingly from Southern America, provided the basis used for a necessary expansion in the global supply of money. Without that flexibility and because something like one third of the strategic goods and primary produce from the Baltic economies could not be covered by commodity exports, intra-European trades from the Baltic to Western Europe and Mediterranean would surely have been constrained?

Trade with China, India and other parts of Asia must surely have been even more constricted because for long stretches of the sixteenth, seventeenth and eighteenth centuries, approximately three quarters of the commodities purchased in Asia and carried back to Europe could not be covered by revenues received from Europe's commodity exports? Bullion flowing into Iberia acted as the almighty dollar of the day. One way or another Europeans obtained the silver they needed to carry on trading with the Baltic, Asia and with each other because the Iberians (like the Americans after the Second World War) ran deficits on their balance of payments accounts. That inevitable outcome stabilised European economies and facilitated their growth and transformation.

Political historians will also point out that it was Habsburg power (funded by American silver) that finally checked the thrust of Ottoman

imperialism in the Eastern Mediterranean and in the Balkans. Turkish armies stood at the gates of Vienna twice: in 1529 and again in 1683. Furthermore, the pretensions of Charles V and Philip II to universal monarchy (backed by revenues from the New World) reinforced the traditional conviction of Europeans that politically their continent should remain organised as a multi state system and not as a new holy Roman empire ruled from Spain. Over the long run Europe's peculiar state system with all its rivalries and expensively maintained balance of power contributed positively (through the movement of people and capital and through the irrepressible diffusion of knowledge and technologies across frontiers) towards the evolution of European societies into competitive and technologically progressive market economies<sup>23</sup>.

In diverse, unpredicted and complex ways the imperialism of the mercantilist era helped to place the already interconnected economies of Western Europe upon a growth path that eventually provided their populations with markedly higher standards of living than the rest of the world. Yet, arguments that reify the expansion of Western Europe overseas into the engine of its economic success compared to continents (until recently represented as a Third World) should be resisted and severely qualified. Clearly that particular motor (conquest and trade) did little to promote industrialisation in the Iberian peninsula. Indeed historians of Spain and Portugal now seem more inclined to present their nations' early and sustained connexions with empires in Asia and the Americas as being partly responsible for their late and slow transitions to industrial market economies. Although they recognise that the severe economic disruptions caused by French invasions, 1807-14, and the loss of imperial control over colonies in the Americas (which with support from Britain occurred in the wake of the Revolutionary and Napoleonic Wars) makes it difficult to assess potential (but after the event unrealised) gains from a counterfactual retention of empires in South America over the nineteenth century<sup>24</sup>.

France (or rather the country's western ports and their hinterlands) also began to derive benefits from investments in transatlantic trade and colonisation during the eighteenth century. Again potential returns to France were severely constrained by the loss of Canada and its foothold in India during the Seven Years War and dwindled to insignificance after

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<sup>23</sup> Jones (1981).

<sup>24</sup> Pedreira (1993) and Prados de la Escosura (1988).

the destruction of the plantation colony of Haiti and the loss of other Caribbean islands to Britain during the long wars, 1793-1815.

For more than a century Holland's highly visible and successful exploitation of the opportunities offered by intercontinental commerce and colonisation aroused the envy and antagonism of rivals, particularly Britain and France, who used military and naval force to weaken the Republic's power and its economy. Dutch merchants and capital then played a role in Britain's rise to a hegemonic position in the expanding global economy. Even for England, where the pace and pattern of industrialisation between the Civil War and the victory for free trade some two centuries later can be most clearly associated with imperialism and the expansion of intercontinental trade, the macro economic significance of the benefits should not be inflated.

Yet the positive correlations to long term growth seem visible enough in the British example. For example, a high but by no means a dominant share (but possibly up to 30 per cent to 40 per cent) of all the extra industrial output manufactured in Britain during the early stages of industrialisation, 1660-1815, was exported overseas; mainly to the Americas, Asia and Africa in addition to exports sent to other European countries, who derived their capacities to spend some more money on British goods from participation in world trade. Profits from servicing global commerce helped to fund the expansion of British industry, to promote internal transportation, to develop financial intermediation, distribution and other activities closely associated with industry; as well as the growth of housing and social overhead capital required to support the extraordinary growth of London and other port towns. British merchants became industrial entrepreneurs, bankers and members of Parliament. They successfully lobbied aristocratic governments to create the fiscal, legal and institutional conditions for the efficient operation of commodity, capital and labour markets.

Receipts from exports procured strategic imports including (timber, pitch, tar, hemp and bar iron), as well as such important raw materials as silk, flax, cotton, dyestuffs and sugar. Imported luxuries (tobacco, tea, alcoholic beverages and high quality textiles) provided incentives for harder work, fed customs duties into the Exchequer and funded the powerful navy required for the security of the realm, for the protection of trade and the expansion of its possessions overseas.

For the First Industrial Nation there could be no gainsaying the positive connexions between imperialism, trade and long term economic growth,



which by 1846 had helped to elevate the British economy into the workshop of the world<sup>25</sup>. Nevertheless, there were other, and probably more significant, endogenous factors at work including: the kingdom's highly productive agriculture, its abundant and accessible deposits of cheap energy and the steady accumulation of a skilled workforce capable of inventing, developing and working with new machinery. Britain had participated in networks of intra European trade, in European migration and in the exchange of scientific and technical knowledge for centuries before Columbus, Da Gama and other navigators embarked upon their famous voyages of discovery. Finally, the conjuncture of the Revolutionary and Napoleonic Wars depressed the economies, interrupted the trade and severely reduced the empires of all British competitors, particularly France, but also Spain, Portugal and Holland<sup>26</sup>. At the Congress of Vienna an Austrian General observed that «Great Britain has no greater obligation to any mortal on earth than this ruffian (Napoleon). For through the events which he has brought about, England's greatness, prosperity and wealth have risen high. She is mistress of the sea and neither in this dominion nor in world trade has she a single rival to fear»<sup>27</sup>.

### PART III. THE SECOND EPOCH: LIBERAL IMPERIALISM AND DECOLONISATION, 1846-1989

#### *The Liberal International Order, 1846-1914*

Once the Revolutionary Wars and their aftermath faded into history, intellectuals revived and elaborated upon suggestions designed to persuade governments that, since a balance of power within Europe had been secured and the international economic order was moving towards free trade, the retention (let alone expansion) of empires could only be counterproductive for the vitality of Europe's economies. Such arguments had appeared in the writings of Josiah Tucker and Adam Smith in the 1770s and in Jeremy Bentham's considered polemic, «Emancipate Your Colonies», presented at the outbreak of war in 1793. They flowered again in speeches, essays and books published by a long line of European economists and liberal intellectuals from the 1830s right down to 1914.

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<sup>25</sup> For the most recent quantitative assessment, see Cuenca Esteban (1997), pp. 879-906.

<sup>26</sup> O'Brien (1998).

<sup>27</sup> Kennedy (1983) p. 123.

For brief periods in the nineteenth century such «Cobdenite» recommendations for severing formal political ties between European states and their colonies overseas received something like a sympathetic hearing from statesmen and public opinion. Nevertheless, and even during years which witnessed the ascendancy of a free trade ideology (1846-1879) no territory was given up. On the contrary for decade after decade after the loss of the Iberian colonies in Southern America, and particularly during the high tide of European imperialism from 1882-1903, empires continued to expand under liberal, conservative and autocratic governments alike. Although Denmark, Sweden and Holland sold territories overseas to Britain, France and the United States and concessions towards local self government marked constitutional and political relations between metropolitan governments and their «empires» between 1815-1939, European powers continued to establish and retain colonies right down to the decades of decolonisation after the Second World War.

TABLE 1

*The Foundation and Termination of Colonies*

<i>Years</i>	<i>Colonies Established</i>	<i>Colonies Terminated</i>
1415-1775	188	41
1775-1825	28	95
1826-1921	138	53
1926-1969	17	127

SOURCE: Bergesen (1980), pp. 237-38 \*.

By 1800 Europe and European possessions and settlements overseas occupied 55 per cent of the world's surface, in 1878, 67 per cent and by 1914 (when the only parts of the world that had never been colonised included China, Japan, Siam, Arabia, Tibet, Mongolia and Turkey) that ratio had risen to an astonishing 84 per cent. The dramatic jump up to 84 per cent during the years of the «new imperialism», 1882-1903, coincided with the spread of the gold standard and the increasing intergration of the international economy, and followed on from the unification of Germany, which disturbed the balance of power established

\* The table is constructed in terms of legal categories because the establishment or termination of colonies does not convey changes in political and constitutional status between metropolitan governments and their empires overseas (Darwin, 1980).

at the Treaty of Vienna and intensified competition for markets, raw materials, bases and possessions overseas, particularly in Africa but also in Asia and the Pacific<sup>28</sup>.

TABLE 2  
*Colonial Territory held by European Powers, 1878-1933*  
(in millions of square kms)

	1826	1878	1913	1933
Britain	9.0	24.9	29.5	31.6
France	0.1	4.9	11.5	12.4
Portugal	0.5	2.2	2.2	2.2
Netherlands	1.2	2.1	2.1	2.1
Spain	0.4	1.0	0.8	0.8
Germany	—	0.5	3.5	0.5
Italy	—	0.0	2.5	2.8

SOURCE: Clark (1936), pp. 23-28, for 1878, 1913 and 1933 and Bairoch (1989), p. 105, for 1826 only.

During the scramble for Africa, the annexation of territory in Asia and the occupation of islands in the Pacific, far more colonial territory and populations passed under the control of European states than the more modest rate of acquisition that went on between 1815 and the British occupation of Egypt in 1882. Following that defining event an upswing occurred when the number of powers involved in Europe's new wave of imperialism widened not merely when the governments of Portugal (and even Spain) revived their interest in Africa but because other European states (Germany, Italy and Belgium) with no real traditions of colonialism found it politically expedient to build up empires overseas. Meanwhile, the inexorable march of Russian armies overland towards Asia and the Pacific incorporated more and more land, natural resources and populations into the Romanov Empire. That march had commenced in Muscovy in the 1560s and by 1914 had created the largest contiguous territorial empire in the world<sup>29</sup>.

Nevertheless expansion overseas (and overland) came virtually to a close with the outbreak of destructive warfare among the great powers, 1914-18

<sup>28</sup> Clark (1936), pp. 5-6.

<sup>29</sup> White (1997).

-a conjuncture which marked the beginning of the end of five centuries of European imperialism. Only for a brief interlude within that long history had it seemed to make economic and political sense for European statesmen to consider uncoupling metropolitan economies from formal ties with their empires. Between 1846 and 1914, on the context of a viable and sustainable international order for the conduct of great power politics and more or less peaceable conditions for transnational economic relations, the costs, as well as the benefits of empires, could be added up, analysed and marshalled to inform national and international debates concerned with the commercial and imperial policies pursued by major European powers<sup>30</sup>.

Not surprisingly, and because the London government ruled over the very largest of global empires, (and which continued, moreover, upon an apparently irresistible course of territorial acquisition throughout the free trade era) the economics of imperialism became a more central component of the British discourse in political economy than it did on the continent. That discourse, which traced its antecedents back before the American War of Independence, 1776-83, was pursued seriously throughout the liberal free trade period and has recently been revived in the writings of economic and other historians of the United Kingdom. It is in effect a historiography concerned basically to evaluate and measure linkages between imperialism and the relative decline of the metropolitan economy. For that purpose a matrix of national accounts have been used by British historians to analyse connexions between the empire and the macro economic growth of the home economy which include: balance of payments data, estimates of returns received from private capital invested in colonies and dominions overseas, emigration and the allocation of taxes levied upon metropolitan society for purposes of developing and preserving the security of the realm and its possessions overseas as a composite political unit.

In theory the scale and significance of linkages (operating through trade, capital and labour flows and expenditures by metropolitan governments on defence and other imperial objectives) could be defined, quantified and assessed in terms of their impact upon the long term growth of any European economy. Less direct connexions flowing from an «imperial element» in the formulation of a «theoretically separable» and «ostensibly domestic» set of fiscal, monetary and strategic policies are usually discernible but hardly quantifiable. While those more subtle influences shaped by the «infiltration» of an imperial dimension into national cultures,

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<sup>30</sup> Porter (1968).



institutions, consumer preferences and politics, continue to elude measurement and simply promote relevant debates in the ongoing appraisal of European empires.

Alas, a comprehensive data set including: exports of commodities and services, outflows of capital, migrations of people (human capital), allocations of taxes and subsidies from several European economies to their empires; as well as reverse inflows of imports, capital interest and profits, remittances and transfers on government account has not (and for several of these flows probably could not) be constructed.

Shares of commodity exports and imports sold to and purchased from several European empires seems to be the only indicator currently available to compare the economic significance of empires down to 1914.

TABLE 3

*Approximate Shares of Domestic Commodity Exports delivered by European Economies to their Empires (%)*

	<i>Late 18th Century</i>	<i>Mid 19th Century</i>	<i>Early 20th Century</i>	<i>1929-34</i>
Britain	53	26	35	42
France	22	10	13	24
Spain	38	21	6	
Portugal	46	2	15	
Holland	—	9	6	
Germany	—	—	Less than 1	
Italy	—	—	2	3
Belgium	—	—	1	

SOURCES: from several authors referenced included in this volume. The British ratio refers to 1789-90 and *includes* exports to the United States which had formally achieved independence in 1783. The figures for 1929-34 are from Clark (1936). Empires includes: colonies, dominions and dependencies.

Apart from commodity imports tabulations of other indicators required to gauge the full range of economic connexions are not accessible. Nevertheless, a reading of our case studies will reveal that the macro economic significance of empire for the rise, growth and decline of the British economy remained far greater and persisted for longer than it did for any other nation in Europe with the possible exception of Portugal.

By comparison the loss of colonies in Southern America, which severely curtailed the involvement of the Spanish economy with empire after 1824, may have had beneficial effects upon Spain's rate of economic growth.

Although the Spanish State retained and renewed its commitment to its remaining colonies for several decades in the 19th century, any potential for gains from colonialism dwindled to insignificance after further losses of Cuba, Puerto Rico and the Philippines- to the United States in 1898. Since the economic consequences of these losses were small, we may infer that the gains from their retention over the 19th century were of comparable significance. In the twentieth century Spanish colonies consisted of a small amount of territory in north and central Africa but the nation's long tradition of imperialism left a malign heritage of protectionism, nationalism and militarism, which did so much to prolong the retardation of the Spanish economy until the 1960s.

French aspirations to rival Britain as the hegemonic, imperial power suffered serious setbacks in the wars of 1756-63 and 1793-1815. Thereafter France regained ground and assets in Africa and Asia and over the century to 1914 rebuilt an empire which in area, natural resources and population, ranked a poor second to Britain. In terms of macro economic significance the post 1815 French empire probably contributed even less to domestic economic growth than the empires of Holland and Portugal. Furthermore, neither the Italian, German, nor perhaps the Belgium empires lasted long enough or included sufficient cultivable land, labour, natural resources or other opportunities for exploitable investment to have exercised anything other than the short term, minor (and almost certainly negative) impacts on the rate and pattern of economic growth achieved by economies who entered Europe's imperial venture only in its final phase from 1882 to 1903.

For the majority of European economies (and particularly for Italy, Germany and Belgium) but also for other states which had retained rather small and economically insignificant territories and populations overseas, the economic case for any involvement in late imperialism now lacks all credibility. Even at the time the economic case for imperialism looked spurious simply because the share of national wealth and populations included within the boundaries of several European empires was small and any potential losses of national income (emanating even in worst case scenarios from disengagement) could only have been small.

Neither modern conceptual categories (like national income and national wealth) nor other relevant statistics were available to contemporaries who still managed to argue about the burdens and potential profitability of empires. Furthermore, liberal observations that the overall scale of imperial enterprise had become rather tangential for Italian,

Spanish, Portuguese and French domestic economic progress, carried less currency for Dutch and even less conviction for British debates- if only because the material gains from empire looked tangible and visible for certain regions, industries and for politically powerful groups within those two kingdoms.

Furthermore, even the *post hoc* evaluations of the macro costs and benefits derived from the retention of empires during the era of free trade specialisation and increasing integration among European countries cannot be conducted without recourse to several contestable counterfactual assumptions. In short the economic grounds and assumptions for Cobdenite/Hobsonian antipathies to empire needed then and now to be spelled out and discussed country by country.

The papers here attempt to do just that and our essay proposes simply to summarise the major assumptions, the methods and the counterfactuals that explicitly, or implicitly, formed the scaffolding for an exercise in comparative imperial history. As usual more research should be undertaken. Many questions are not answered and several will probably remain unanswerable. Nevertheless, the taxonomic separation and classification of the major problems to be addressed became clearer during the preliminary conference in Madrid.

Firstly, the precise economic significance of empires for the development of any national economy is best exposed by a three-way comparison of: the relative scales (ratios) of commodity, factor and fiscal flows within the home economy compared to flows to and from the domestic economy and its empire and contrasted with flows between the home country and the rest of the international economy. In every case considered here interconnexions through (i) the export and import of goods and services, (ii) migration, (iii) net flows of investible funds, interest, profits and dividends and other economic links with the rest of the *world economy* look immeasurably more important than links with *national empires*. Even for Britain (the European economy most interconnected with its colonies and dominions overseas) economic relations with countries and territories outside the empire remained more important by a large, if diminishing, margin throughout the long nineteenth century, 1815-1914. In short for any European country international economic linkages, including those with the empires of rival powers, were always far more significant.

Just how important their empires might have been for the development of particular national economies implicitly raises the counterfactual question of how and to what extent the interconnexions could have changed if

European states had relinquished political control over their colonies and dependencies sometime before 1914?

For each country the scale of these interconnexions varied from minor to small. Possible scenarios for each and every case would be too detailed to summarise here. Probable sequences can only be discussed by historians with the empirical knowledge required to engage in plausible conjectures about paths and patterns of national (including colonial) economic histories that they understand. For example, pessimistic scenarios generate assertions that: colonies granted independence could have fallen into anarchy (a popular British perception of India in Victorian times); that independence would have led to higher tariffs against exports from the metropolitan and other European traders; that colonies uncoupled from imperial rule could only have developed more slowly and thereby lowered overall levels of world trade.

Some combination of protectionism and slower growth seemed to be a more realistic and fruitful conjecture to pursue than dire warnings of relapses into anarchy and prolonged delinking from world trade. On this assumption a paradigm paper by Edelstein offers estimates that the short term decline in national income that might counterfactually, have followed from loss of political control over the very largest of European empires - the British empire. His estimates come to somewhere between 1.6 per cent and 4.3 per cent of G.N.P. for 1870 and 4.9 per cent to 6.5 per cent for 1913. These ratios are not small but they depend upon a specified set of assumptions about tariff rates, elasticities of demand and levels of trade that might have been obtained in the absence of British rule and influence. They are, moreover, upper bound numbers because the resources used to produce exports for the colonies are assumed to have zero opportunity cost and are not reallocated in Edelstein's heuristic model to their second best alternative uses<sup>31</sup>. Yet the example of Spain after the loss of Cuba, the Philippines and Puerto Rico in 1898 shows how quickly Spanish exporters recovered from the sudden loss of protected markets. There is no reason to suppose that the more flexible and efficient export industries of Britain, France and Germany (even Portugal) would not have adjusted even more readily to a «phased withdrawal» from empire or any involvement in imperial enterprise over the latter half of the long nineteenth century.

By that time, it is, also difficult to find examples of imports from European empires that could not be procured from non imperial sources

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<sup>31</sup> Edelstein (1994).



at similar and, for several 'exploited' European populations, at even lower prices. To sum up: the hypothetical but plausible estimates for the net benefits derived by the British and other economies from trade with empires suggest that after mid century the net benefits could not have been other than «small», possibly below 2 per cent of G.N.P. If that argument can be sustained for Britain, it follows that during the liberal order, the gains from trade accruing to European economies with a far more limited involvement with empires (especially Italy, Germany and Belgium) but also Portugal, Spain, France and even Holland can be represented as negligible and dispensable. This conclusion does not preclude interesting variations across countries and through time or deny that colonial markets and sources of supply could be important, as our case studies show, for some European regions (e.g. for rural Castile) and for some cities (e.g. Barcelona and Amsterdam) and for particular industries, (such as Catalan cotton textiles, Portuguese shipping and for ship building, and textile production in Holland). The multiplication of local examples does not aggregate, however, to macro economic significance.

But if, as proponents of empire insisted, the diffusion and maintenance of a liberal international economic order depended on the Pax Britannica, which in turn rested upon the survival of the British Empire, then the gains from trade flowing from the survival of British imperialism could have been correspondingly greater. They could be even larger if that other counterfactual (deployed by imperialists at the time to strengthen the economic case for the extension and maintenance of European empires) is accepted; namely, that local economies in Asia, Africa and Southern America would have been less developed and more delinked from international trade and specialisation in the absence of colonial rule. But writing after decolonisation, historians from those continents are more inclined to entertain the opposite counterfactual.

Several assumptions emerged as implicit in the debate concerned with the interconnexions between international and imperial trade and they surfaced again in discussions about costs and benefits of migration of European labour to and the investment of capital in Europe's empires. For labour, the British empire acted as a safety valve and source of upward mobility for ambitious and potentially unruly Celts from Scotland and Ireland. As places of settlement for underemployed agricultural labour, Italian and Spanish colonies turned out, however, to be disappointing venues for emigration and large scale migration to Cuba only occurred

after the colony became independent<sup>32</sup>. Return flows of remittances seem to be higher from migrants employed in the United States and independent republics in Southern America. Two features of these international factor flows now seem reasonably clear. Firstly, neither colonies nor dominions emerge from British, Dutch, French and Italian statistics as particularly well favoured destinations for emigrants or for the flow of savings placed outside their home economies by British or Dutch, let alone by French, Portuguese and Spanish investors.

Secondly, there is now a body of data and case studies in business history that effectively refutes Marxist assertions that by the late nineteenth century imperial outlets had become necessary to stave off diminishing returns to capital invested within Western Europe. It also undermines the assumption that «supernormal» profits accrued to funds placed within safer imperial locations, where, in theory at least, colonial power could have been deployed to secure «exploitative» rates of profit for European capitalists. Tabulations for British, French and Dutch stocks of capital invested overseas in the early twentieth century do not display any marked preference on the part of European investors for imperial compared to foreign locations. Although there are examples of extremely high profits accruing to risky private ventures in several European empires, modal rates of return on either portfolio and/or direct investment do not seem (on admittedly limited evidence) to have been extraordinary.

Meanwhile, the British debate that the massive outflows of investible funds allocated to the rest of the world (including its empire) operated to retard the structural adjustments required for the long term growth of domestic industry has been vigorous if inconclusive. At very least there is now a presumption for the United Kingdom (and also perhaps for Portugal, Holland and France) that significant shares of both public and privately funded capital formation undertaken to acquire, develop and defend imperial economies overseas generated sub optimal returns for most if not all European economies.

Hobson's prediction, made as early as 1902, that investment at home (or in independent countries outside European empires) would turn out to be a superior allocation of capital for a nation's economic growth seems unequivocally clear for Germany and Italy whose imperial assets were expropriated without compensation following defeats in the two world wars of the twentieth century. Spanish property in Cuba, the Philippines and

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<sup>32</sup> Sánchez-Alonso (1995).

Puerto Rico was not seized by the United States in 1898 and the immediate and measurable losses from defeat in that conflict do not appear to have been particularly large. Although it has been argued that the long term political repercussions of the war turned out to be serious for Spain's economic development over the present century.

After 1873 the taxes levied to retain, expand and defend the British, French, Portuguese and Dutch possessions overseas began to increase at rates which worried governments and strengthened the case made by liberal critics that the costs of empires to metropolitan taxpayers may well have been steadily exceeding the benefits that they received by discernable and growing margins.

Despite an abundance of budgetary records, for most states the fiscal burdens of empire are not simple to define, amenable to measurement and above all are not easy to relate (in any unambiguous way) to compensating streams of economic, psychic and strategic benefits accruing to metropolitan economies and societies over time.

Although budgetary sources often prove rather intractable in use, annual outlays made by metropolitan governments on behalf of their empires can usually be estimated. Very large shares of public expenditure for this purpose consisted (not surprisingly) of the military and naval costs of imperial conquest, pacification, law and order and defence of colonies and dominions from threats of enemy attack. Initial or threshold costs of acquiring territory, bases, populations and resources overseas usually appear in national fiscal data as once and for all outlays on warfare (e.g. upon Algerian, Maori and Ethiopian wars). Pacification could, however, take many years and the opportunity costs of manpower and other resources «used up» in conquest are usually regarded as by-gones by governments prone to draw lines under past records of profligacy by the state. Unfortunately they appear all too seldom on *post hoc* balance sheets for European Empires drawn up by historians. Unless expenditures by governments upon conquest had been funded by borrowing, they matured in official perceptions into «sunk» costs and have disappeared from view. Except that is for the British case where the presence throughout the liberal era of a extraordinarily large national debt with massive debt servicing obligations (absorbing 56 per cent of tax revenues in the 1820s, falling to 16 per cent over the first decade of the twentieth century) served to remind statesmen (and historians) how costly the acquisition and extension of the British empire had been. Thus and while any ratio cited would be somewhat arbitrary, there is clearly a case for adding some share of

annual governmental expenditures on debt servicing to the familiar calculations for the fiscal costs of acquiring, defending and developing empires overseas.

Even «current outlays» on empire are not, however, classified clearly enough in published government accounts. For example, departmental expenditures are seldom separated into their domestic and colonial components. Figures for the latter are «hidden» away under several kinds of official headings that implicitly recirculate metropolitan taxes in order to subsidise territories overseas. Although acceptable assumptions can be made in order to expose allocations for empire, the problems of reclassifying the military and naval expenditures made by European states into outlays «required» for the defence of the metropolis and its overseas trade on the one hand, and expenditures incurred for the protection of possessions, located beyond the borders of national states on the other, are not easily surmounted. What seems clear (with the possible and partial exceptions of India and Indonesia) is that the economies and populations of nearly all European colonies and dominions contributed very little towards the costs of their own defence from external aggression or from internal insurrection. Furthermore, in several cases (e.g. Italy and Portugal) a scrutiny of budgetary accounts reveals that the taxes levied upon local, indigenous populations and economies covered only fractions of all public expenditures incurred for civil administration and investment in infra-structural facilities and services required for the governance of Europe's colonies and dominions.

Net transfers of tax revenues from the metropole to empires overseas for non-military purposes are, however, more measurable than expenditures on the armies and navies, incurred strictly for the defence of colonies and dominions. And the attempt by Davis and Huttenback to provide estimates for the «feasible sums» that colonies and dominions might have allocated for their own defence (if they had been granted full independence) is not considered to be a convincing exercise in counterfactual history because «normal» levels of defence expenditure by autonomous states seem impossible to define<sup>33</sup>. Although inferences could be drawn about costs for Spanish taxpayers from the post independence outlays on armies and navies by the independent governments of South America between 1825-1914. On the other hand, the sequence of late nineteenth negotiations between the British government and the governments of its dominions

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<sup>33</sup> Davis and Huttenback (1986).

suggests, there can be no presumption that if, say, Australia, Canada, New Zealand and South Africa had assumed full responsibility for funding their own armies and navies that the burdens on British taxpayers would have fallen by commensurate amounts.

Expenditures by the British government on troops, sailors, weapons, equipment, fortifications, bases and ships located outside the kingdom and its home waters, might, in theory, be divisible into the proportions required for the defence of the realm and its trade on the one hand and allocations for the protection of its dominions and colonies on the other. In practice that distinction became more blurred in the perceptions of statesmen, admirals and generals responsible for strategic planning. Any such division will be difficult, moreover, to transform into estimates that might approximate to the fiscal burden borne by metropolitan taxpayers purely for imperial defence.

As long ago as 1936 Grover Clark produced the data to show that annual expenditures by the British, French, Italian, German and Japanese governments on the formation of capital in their colonies and upon the armies and navies required for the protection of imperial commerce exceeded by a large margin any possible gains from imperial trade. In his calculations, Clark assumed that the expenditures by the French government on the military and naval capacity required to protect commerce with its empire would be proportionate to the share of total French trade conducted with the colonies between 1894 and 1934. To that sum he added direct expenditures by the French government on civil expenditures and showed that total outlays funded by taxpayers amounted to 21% of total colonial trade<sup>34</sup>. Offer complicates and lengthens the balance sheet by arguing that the «voluntary» contributions of manpower and other resources made by the dominions and colonies towards the defence of the realm and the British empire in the course of four years of warfare against Germany and the central powers, 1914-18, represented some recognition that the metropole had borne the burdens of imperial defence in peacetime and could not be expected to meet the entire cost of repelling the threat of German aggression in wartime<sup>35</sup>. Another way of expressing the same reservation is (as Cain suggests) to represent the costs of acquiring and maintaining an empire as annual insurance premiums incurred against the risk of a breakdown in the international economic

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<sup>34</sup> Clark (1936).

<sup>35</sup> Offer (1993).

order and that Britain (and France) collected payment on these premia during two world wars, 1914-18 and 1939-45.

Loyalty and patriotism to the motherland matured into priceless assets but this acceptable argument does not mean that the empire somehow carried a «crucial» or «disproportionate» share of the costs incurred to defeat the *Kaisereich*, or that wartime contributions from the colonies and dominions somehow in clear economic terms compensated for the higher levels of taxation imposed on British (and French) citizens for imperial defence for many decades before 1914. Furthermore, the long and persistent obfuscation of any clear distinction between the defence of the realm and the defence of its imperial assets overseas led to a context in which for several decades before the war, Britain's strategic planning remained too detached from involvement with the balance of power on the mainland of Europe. British statesmen failed to forge the diplomatic alliances and to build up the military force required to deter German aggression. On this kind of open-ended historical accountancy, British (and to a more limited extent the French) preoccupations with empire overseas can be represented as failures of the liberal imagination, which perhaps added up to the most costly strategic error in European history.

Such arguments will run and run. Meanwhile, it is surely pointless to deny that the extension and defence of European empires against threats of external aggression and internal subversion cost metropolitan taxpayers real money; and that throughout Europe their burdens increased following the unification of Germany in 1871. The incidence of such taxes was not, moreover, calibrated to fall upon the incomes of taxpayers who derived most of the material gains from state expenditures on possessions overseas. All in all the fiscal costs of European empires are not easily defined or measured because public goods, like defence, diplomacy and strategic planning, cannot be accommodated into the framework of cost-benefit analysis, as normally applied to the evaluation of private and public investment decisions. There seem to be several unknowns, too many unpriceable externalities and strategic ramifications that are too widespread for the categories to contain measurable, as distinct from plausible, propositions about the allocations of metropolitan taxes for purposes of acquiring and maintaining European empires.

Nevertheless, cost-benefit metaphors still provide some useful vocabulary that helps us order the argument about fiscal policies and prompts historians to measure and compare what is quantifiable. For example, it now seems clear that in *per capita* terms, British taxpayers paid

considerably more for the defence of the realm and its large empire overseas than the citizens of all other great powers and potential economic rivals. Quantified in terms of 'specified' shares of gross national product allocated by the state for the extension, defence and development of empire, Britain again would surely be at the very top of European league tables? This may not mean that the British economy and British taxpayers carried «excessively high» burdens for national and imperial defence. John M. Hobson's recently constructed estimates suggest that the «military extraction ratios» (overall defence expenditures as a share of net national product) for the period, 1870-1913, were some two percentage points higher for Russia and one percentage point larger for France and that the British ratio stood on a par with ratios for Germany, Italy and Austria but had risen to more than three times the extraordinarily low ratio (0.9 per cent) maintained by the United States after its costly civil war<sup>36</sup>.

Although resources could certainly be wasted in futile imperial conflicts and squandered in unprofitable diplomatic incidents (e.g. the wars between the United States and Spain in 1898 and Russia and Japan in 1904 as well as the Moroccan crises of 1905 and 1911), before 1914 the volume of resources allocated year after year by European governments specifically and clearly for the maintenance and defence of empires could not have constituted anything other than smallish shares of their national products. Represented in the most unfavourable light as a lost opportunities for investment within metropolitan economies, the shares of domestic capital formation hypothetically foregone must have been relatively large in the British case. Thus in 1902 J. A. Hobson was addressing a significant item of public expenditure that seemed to him profitable to reallocate for domestic purposes. It would certainly be interesting (if and when the fiscal costs of European empires are properly added up) to compare the amounts as estimated with gross domestic capital formation and to calculate their hypothetical impact on growth rates of real national incomes. Even for the United Kingdom could the scale of potentially negative effects have been anything other than economically significant for its longer term growth?

To sum up: between 1846-1914 European powers extended, maintained and defended empires «on the cheap». A phased withdrawal from formal rule would not, as radicals at the time suggested, have resulted in diminished gains from trade, lower returns on investment overseas, or

<sup>36</sup> Hobson (1997).

any closure of opportunities for emigration. Some but perhaps no sharp reductions in tax burdens might have occurred. In a free trade world integrating factor markets and stable arrangements for international payments, empires had become economically irrelevant for the development of Europe. Paradoxically, empires were growing and colonial disputes certainly played their part in the slide towards the most costly war in the continent's history.

*Global Warfare, Neo Mercantilism and the Reintegration of European Empires from 1914 to the Treaty of Rome*

Unfortunately, the relevance of empires grew far stronger over the half century between the outbreak of global warfare among the great powers in 1914 and the formation of the European Economic Community in 1958. The Great War, which effectively brought European expansion overseas to an end, can be represented as another significant conjuncture in the history of imperialism. Four years of destruction ended with the Treaties of Versailles and Sevres, which (like the Treaty of Vienna a century earlier) redistributed the provinces and colonies of defeated nations (this time Germany and Turkey) among the victors, France, Britain and Italy; dismembered the former Habsburg Empire and created the independent republics of Poland, Finland, Latvia, Lithuania and Estonia from territories of the former Romanov Empire.

In 1919 the victorious European states assumed responsibility for larger empires and dependencies at a time when the international economic order began to move rapidly away from the unregulated arrangements for commodity trade, capital movements, technology diffusion, labour migration and transfers of payments across frontiers that had characterised international commerce for several decades before 1914. Of course, «tendencies» towards «new protectionism» had been observed in the laws effecting foreign trade and payments promulgated by several governments between 1876 and 1914. Almost everywhere, including Britain, lobbies and ideologies, worked to undermine the liberal order that had promoted integration and more efficient international economic relations for three decades after 1846. Although free trade existed only as an «untried utopia» and political constraints on flows of commodities, services, capital, labour and technology around the world economy certainly increased over the last quarter of the nineteenth century, in general tariffs and other controls



remained bounded enough to allow for the continued expansion of international commerce and factor mobility right down to the outbreak of war in 1914<sup>37</sup>. Indeed the years 1899-1913 witnessed an upswing in the growth of trade, capital flows and migration that was only surpassed in scale and intensity by the famous, long boom, 1948-73, that formed the economic background to decolonisation after the Second World War. Before the Great War opportunities to trade and invest within the international economy as a whole continued to be relatively unconstrained and economic arguments for closer imperial integration that emerged even before the end of the nineteenth century, did not seem compelling enough to shift national, commercial policies in radically new directions. For more than a decade after *la fin de siècle*, the appeal of empire looks more atavistic and xenophobic than material.

Unfortunately, the Great War pushed almost all European economies towards autarky, constricted the political boundaries of commodity and factor markets and reintroduced entirely serious military considerations into the discourse about the costs and benefits of empires. That occurred because during and in the wake of war, sales of surpluses, the procurement of food, raw materials and military goods, the recruitment of manpower from protected and secure sources of supply provided by colonies had become «strategic necessities».

Colonial contributions to the metropolitan war effort cannot have accounted for more than a fraction of the resources allocated by the victorious alliances of Britain, Russia, America, France and other European powers to defeat Germany and the central powers in the First World War. Nevertheless, wars on that scale are not easily factored out of or into economic assessments of empire. At very least, the course, costs and consequences of the Great War altered European perceptions and parameters within which the economics of empires came to be discussed and assessed. First and foremost ideological and popular support for strengthening imperial connexions became far stronger as a result of bonds forged during four to five years of shared sacrifices for the defence of mother countries. Ties with kith and kin and an already deepening sense of responsibility towards «our» people and territories overseas all intensified in wartime. Secondly, the war disrupted intra-European trade and factor flows and promoted both moves towards autarky across countries and led to greater degrees of reliance on imperial trade and investment among

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<sup>37</sup> Williamson (1996).

those European nations (Britain, France, Belgium, Holland, Italy, Spain and Portugal) who controlled alternative possibilities for trade within the frameworks of political security, economic protection and regulation provided by their colonies, dependencies and dominions. Thirdly the enormous costs incurred by European economies to mobilise for war and to demobilise for peace, the massive destruction of capital assets and the lost generations of dead and disabled workmen amounted to a sum roughly equivalent to four to five times Europe's national output for 1913<sup>38</sup>. Even on the most favourable assumptions about prospects for renewed growth after the war, losses of that magnitude would have taken a generation to make up. More rapid rates of recovery often depended upon importing capital goods, raw materials and skilled manpower, which rendered foreign trade and/or capacities to borrow on international money markets even more important after than they had been before the war.

That long and expensive conflict depleted Europe's stocks of physical and human capital and seriously dislocated the system of international trade and payments upon which investment and future growth depended. For many years after 1918 international economic relations continued to be afflicted by the consequences of the Versailles Treaty, by state controls enacted to wage war and above all by the malign legacies of financial strategies pursued by governments to fund massive expenditures on their armed forces between 1914-18. For example (and while taxes per head had more than doubled in real terms) European states borrowed most of the money they needed from their banks. Thus the problems of how to squeeze inflation out of the system and how to bring national price levels and paper currencies back into some kind of sustainable relationship with one another emerged as the major preoccupation of statesmen and central bankers in the post war years. Their difficulties were compounded by the conjoined problems of inter-allied debts and German reparations. Political disagreements about the status of these debts led to recrimination among former allies (as well as deep resentment in Germany), which complicated the already difficult task of reconstructing an international trade and payments system.

War also reinforced tendencies to protectionism, latent but already evident before 1914. For example, the Versailles Treaty provided for the dismemberment of three multinational free trade empires and the creation of several new states in Europe with autonomous control over tariffs and

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<sup>38</sup> O'Brien (1996).

foreign trade. Cut off by blockades and exorbitant transportation costs from supplies of manufactured imports, a long list of countries embarked upon programmes of accelerated import substitution. At the close of hostilities when governments found their young industries under threat from renewed international competition, they raised tariff barriers<sup>39</sup>. Self sufficiency in foodstuffs and raw materials, which also became a matter of national security in wartime, proved politically difficult to reverse once peace returned.

While it would be impossible to predict how the international order might have developed without the catastrophe of the Great War, from the vantage point of that boom in the world economy, from 1899-1914, there would seem to be no need to be other than optimistic about future prospects. Growth rates for production and foreign trade, for migration and capital flows across frontiers, had attained record levels. European economies seemed to be adjusting to the realities of international competition, including the appearance of Japan but more importantly to the rapid rise of the United States, which as early as the 1890s had emerged as the hegemonic industrial power of the twentieth century.

Europe's inevitable decline in relative terms became much more of a problem after a major war which had witnessed massive destruction of human and physical capital, the exhaustion and pillage of the German and Austrian economies and the economic chaos which attended revolution in Russia. Meanwhile, wartime shortages had promoted the more rapid rise of several new industrial economies: notably the United States but also Canada and Japan and several economies in South America. Called upon to face discontinuous jumps in the competitive position of American industry at a time of disorder in international economic relations, heightened levels of protection and recovery from the most costly war since Napoleon proved in the event to be too difficult for European capitalism and liberalism. By the 1930s the system had succumbed to depression, communism, fascism and to the implementation of programmes for imperial integration.

Such programmes, forged during the war and evolving throughout the 1920s, came towards the top of political agendas in the wake of the Great Depression and after the failures of statesmen and central bankers to reconstruct a viable international economic order, free from inflation and with stable rates of exchange, with moderate levels of protection and

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<sup>39</sup> Capie (1994).

minimal interference by governments with flows of commodities, capital and labour across frontiers. Thus for several European economies (Britain, France, Portugal, Spain and Italy but not for Holland) imperial integration appeared as a viable substitute for a more open international order at a time when the growth of world commerce had slowed down and trade across frontiers became afflicted with degrees of risk and instability not witnessed since the early nineteenth century.

Then for the third (or perhaps the fourth time if the thirty years of religious conflict, 1618-48) is included in our chronology) another world war and its aftermath during the 'forties led to the final conjuncture in the long history of economic interconnexions between European states and their colonies, assets and possessions overseas. Most of the short term changes in nature and scale of these connexions that flowed from the Second World War, 1939-45, (and the post war period of recovery) mirrored the experience of the Great War and its aftermath.

For example, Spain and Portugal had remained neutral during both world wars. But during the great depression in the 1930s and the period of warfare and recovery from destructive warfare that afflicted the international economy in the 1940s, their dependence on colonies as markets and as sources of supply for food, raw materials, minerals and fuel, increased as markedly as anywhere else in Europe. Although Spain's dependence on empire was much less than Portugal's, Franco's military rebellion which plunged Spain into civil war and isolation was launched from (and during its early stages armed with the aid of hard currency provided by) Spanish colonies in Africa.

Between 1939-45 the manpower and resources of the entire British Empire were once again mobilised to defeat the armed forces of Germany, Japan, Austria, Italy and other axis powers on battlefields, airways and sea lanes in Europe, Asia, Africa and the Americas. Such assistance in times of grave national danger had always been deeply appreciated but it has not yet been measured in terms that might provide us with a precise idea of its economic magnitude. Meanwhile, the heritage and frequently revived memory of the empire's contribution to: victory in two world wars; the stabilisation of the home economy during periods of instability and depression between the wars; and to its recoveries after 1918 and again after 1945 evolved into omnipresent parts of the political culture informing and moulding strategic, monetary, fiscal and commercial policies pursued by successive British governments between the wars and for several decades after 1945.



Imperial preferences, fiscal subsidies and exemptions, sterling areas, commercial treaties, bilateral arrangements, programmes of aid and development and exchange agreements all became a much stronger and a steadily more constricting framework of «imperial» laws, rules and regulations within which the British economy operated after 1914.

Responding in more or less similar ways to changes in the balance of power, to violent disruptions, to the liberal international economic order and to the scale and rapid rise of industrial might on the continent of North America, governments in France, Belgium, Portugal, Spain and Italy also embedded their domestic economies in treaties, regulations, agreements, regulations and monetary blocs designed to foster imperial integration. For some continental societies (notably France but also Belgium) the heritage of empire and the positive role played by their colonies in the defeat of Germany again formed part of popular sentiment in favour of «France outre mer». In other countries, especially Britain (but also Italy under Mussolini), pretensions to great power status were conceived to be dependent upon the possession of empire or upon the traditions and influence required to «line up» a commonwealth of states that had once been colonies. For long stretches of the 20th century the cultures and politics of imperialism reinforced strategic and economic pressures on European governments to integrate with and to make the most of their empires.

Meanwhile, the Cobdenite discourse in favour of free trade and for disengagement from empire faded but it did not die away. Indeed antipathies to empire embodied in classical liberalism became complemented by socialist doctrines with their sympathies for movements for colonial freedom that emerged in Asia, Africa and the Caribbean between the wars. Nevertheless, the post 1914 climate of hostility and suspicion among states, the depressed state of world trade and the almost universal trend towards the political regulation of international economic relations, all combined to lead governing elites to conceive of empires as solutions to their strategic problems and domestic economic difficulties. Cobdenite prescriptions for disengagement from empires became as remote from centres of power and policy as the sermons of socialists preaching for colonial freedom.

For every set of national data that is available related to commodity trade, to the sale and purchase of services, to flows of investment and labour overseas, (as well as national surveys on the operation of monetary systems and payments), statistical and other evidence of closer integration

between metropolitan economies and their colonies and commonwealths overseas is unmistakable. Of course, degrees of integration varied and was far less obvious in, say, the Dutch than the French case. Nevertheless, on most indicators, trends towards imperial integration (which had been initiated during the Great War) gained momentum during the world depression of the 1930s and reached their apogee during and for roughly a decade after the Second World War, when a dislocated international economy and severe shortages of hard currencies (especially dollars) increased the dependence of European powers on their colonies and commonwealths.

During more than four decades of civil war, neo mercantilism and instability, 1914-58, European states turned (or perhaps in the long stream of history we should say returned?) to their colonies and dominions for strategic help and economic assistance. It could be argued that imperial options diverted the attention of statesmen away from the more difficult problem of reconstructing an international order. Nevertheless, there can be no doubt that the contributions of empires to the security of mother countries and to the stability and growth of metropolitan economies was perceived at the time (and has been represented by many historians ever since) as positive and significant. For long stretches of the twentieth century, as counterfactuals, Cobdenite and socialist prescriptions against empires looked increasingly unrealistic.

Yet, and simply as a prelude to European decolonisation, the prolonged attempts at imperial reintegration still seems worth considering within the matrix of national accounts favoured by economists because that experience can only be represented as a second best and more costly solution to the problems created by war and to the dislocation of an international economic order that had functioned effectively for several decades before the First World War.

For example, intra-imperial trade and flows of investment conducted within systems of preferential tariffs, currency blocs, multi-lateral bargaining and political arrangements which all became prevalent for roughly forty years after 1914, always remained as sub-optimal solutions compared to open international trade. Such systems could certainly generate some gains from exchange and specialisation. Imperial commerce does, moreover, represent an improvement on the dominant alternative of the period—national and regional tendencies towards autarky— particularly if colonies could be induced (or even forced) by metropolitan governments to participate in exchanges on wider markets. Nevertheless, the benefits

derived from trade creation within imperial trading blocs are unlikely to have exceeded the costs of trade diversion, simply because disparities in political power among the various levels of central and local authority that were included within European empires or commonwealths normally attempted to promote complementarity across economies, countervailed competition and maintained national and regional comparative advantages within historical and broadly static patterns of specialisation. As several of our national case studies reveal, more often than not systems of imperial preference operated to sustain traditional staple industries or segments of European agricultures that had lost comparative advantages to more efficient competitors from elsewhere in the world economy. At the same time some metropolitan populations (and especially French and Portuguese families) paid relatively high prices for the privilege of consuming food and raw materials from their colonies. Empires normally supported divergent but complementary forms of interregional trade. However politically constructed, as institutional frameworks for trade and specialisation, they could not become as efficient for European growth and development as customs unions and free trade areas which sustained competition and lead to convergence and differentiated patterns of specialisation among economies that are geographically contiguous, culturally homogeneous and not too dissimilar in structures and levels of industrial development.

Unfortunately research in twentieth century business history has not yet produced the samples of case studies required to test the proposition that the observed reallocation of metropolitan investment towards imperial (compared to domestic and foreign) locations generated sub-optimal returns for European economies. Extraordinary rates of profit certainly accrued to some British, French, Dutch, Belgian, Spanish and Portuguese companies engaged in the prospecting and mining of minerals and crude oil. Cash crop plantations are another sector where European investors are perceived to have made supernormal profits. The numerous examples of favourable leases and other contracts and concessions for land and mineral rights, under which European owned companies operated for several decades after 1914, originated in political contexts of colonial governance and mandatory power. Nevertheless, comparable returns on investments in Asia, Africa and Southern America seem to have accrued to American, Swiss, German and other European companies and investors without the privileges (or the costs!) of formal imperial rule. There is (as yet) too little evidence that colonial power was directly and systematically

used to secure «economic rents» for metropolitan capital placed in Europe's colonies, protectorates and dependencies. In the absence of hard statistics rates of profit earned on such capital can still be plausibly represented as «normal» for investments of comparable risk located within the borders of sovereign European and/or foreign states. Furthermore, once indigenous movements for colonial freedom emerged as serious threats to colonial rule and the military and political capacities of European states to resist had been undermined, democratic antipathies towards empires, the risks (indeed the recorded losses) of European capital from violence and expropriation increased enormously. By mid century there were few places left where European capitalists could depend for long on colonial authorities to help them obtain «exploitative» rates of profit. With decolonisation under way, European governments concentrated upon securing compensation (often without success) for the fixed assets that their nationals lost through forced transfers and nationalisations of property that followed almost everywhere from the end of empires. Whatever the flows of psychic or strategic benefits might have been there can be little doubt that the fiscal costs of maintaining imperial rule increased dramatically during and after the First World War. Burdens levied on metropolitan taxpayers to meet expenditures incurred by European states for the external defence, for the maintenance of internal order and for the economic and social development of their colonies and protectorates went up and up.

Furthermore, such burdens could not, moreover, be easily shared. For example, Britain's dominions continued to resist pressures to contribute a greater share towards the costs of imperial defence and mindful of the sacrifices that they had made during the First World War, London did not push that demand too hard. Meanwhile, the failure of the Treaty of Versailles to restore the balance of power in Europe and the predatory intentions of Germany, Italy and Japan towards the interests and empires of Britain, France, Holland and Portugal in Africa and Asia became ominous and maintained expenditures to deter threats from external aggression at relatively high levels. British and French strategic planners became more and more aware than they had been before 1914 of the tensions involved between the defence of homelands in Europe and the protection of far flung possessions against attacks from such potentially effective antagonists as Germany and Italy in Africa and Japan in Asia and the Pacific.

At the same time, and stimulated by Wilsonian ideals of self determination, Marxist theories of exploitation and older European ideas of democracy, national movements for colonial freedom began to raise



the costs of maintaining internal order, particularly in India but also in Africa. After the foundation of the League of Nations, «progressive» statesmen and colonial administrators saw European imperialism as entering a phase of responsibility for the constructive economic and social development of indigenous peoples. Ideas of trust, of mission, of mandate appeared and built upon older Christian traditions of paternalism towards backward and poorer peoples. Although colonial expenditures on infra-structural development and social welfare did not leap forward during the years of fiscal constraint that followed the Great War, the sense that supranational responsibilities would inevitably cost European taxpayers more and more money, led to a new wave of questioning and writing on the theme of *Do Empires Pay?* With the spread of democracy in Europe more people began to perceive and to vote on the assumption that they might not and a spate of reports by journalists and intellectuals exposing the costs, injustices and occasional brutalities of colonial rule strengthened doubts about the value of the entire imperial enterprise.

### *Decolonisation and the Malign Legacies of Empire*

Global warfare from 1939-45 postponed discussions about the economic value of Europe's empires. In the event the Axis powers suffered total defeat and lost, without compensation, all the national assets acquired through expenditures on conquest followed by years or (as in the Italian case) decades of investment in: facilities for defence and internal order, infrastructures, fixed capital formation in colonial agricultures, industry and services and expenditures upon the acculturation, training and education required by local workforces in order to establish productive and stable commercial relationships between a metropolis and colonies overseas. Neither Italy nor Germany (nor Japan) ever recouped more than a fraction of their investments in colonisation. There can be little doubt that, except perhaps in psychic terms, the accumulated material benefits accruing to Italian, German (and Japanese societies) from their engagement with empires overseas fell short of the costs of conquest and investment in infrastructures by very large margins. Fortunately, their fiscal expenditures and public and private investments in colonies does not seem to have been massive and prolonged enough to have constrained their long term rates of economic growth to any significant degree.

For other European countries, including France, Holland, Belgium and Portugal, with deeper traditions of colonisation and cultures permeated by imperialism, tendencies towards closer integration of domestic and colonial economies overseas that had reappeared between the wars became even stronger and more popular and matured into one of the more malign political legacies of the Second World War<sup>40</sup>. For example, the involvement of the French, Dutch and Portuguese states in fighting wars in order to reclaim and pacify their empires from indigenous nationalist movements in Morocco, Tunisia, Algeria, Indo China, Indonesia, Congo, Angola, Mozambique and elsewhere outside Europe, turned out to be futile and very expensive. When all the accounts come in and the expenditures upon a long series of late colonial rearguard actions fought by European armies and navies in Africa, Asia, the Middle East and the Pacific, will surely be represented by historians as costly mistakes and more than likely as «all costs and no benefits». That conclusion will be reinforced when historians add to the malign legacy of the attempt at imperial renewal, quantified conjectures for the economic value of metropolitan property destroyed and expropriated by nationalist movements, as well as the costs of the disorder and depression that invariably afflicted former colonial economies for many years after their armed struggles to «seize» independence. Algeria has now become simply the most dramatic case in point.

Given the size of its empire, the United Kingdom decolonised more cheaply than other imperial powers. Furthermore, Britain had also drawn far more heavily than any other European nations upon the resources of its empire and commonwealth to defeat Germany and (through the sterling area) to assist the home economy to recover after the Second World War<sup>41</sup>. Nevertheless, the imperial contribution towards victory in Europe, the security of the realm and post war recovery needs to be compared with resources supplied to wage war by the kingdom itself, by Russia and other allies and above all by the United States. Although historians might regard any attempt to draw distinctions between imperial and national defence as moot, economists might realistically suggest that Britain's dominions and the colonies participated in a «virtual alliance» of quasi autonomous political units constructed and funded to protect their own independence and integrity against the predatory intentions of Germany and Japan. If

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<sup>40</sup> Holland (1985).

<sup>41</sup> Darwin (1988).



this «economistic representation» is valid, then the imperial contribution need not be depicted without question as altruistic and economically important for the survival and continued development of Britain (or France) during the world wars of the twentieth century. Furthermore, the cultural legacy of imperialism which gave credence and support to repeatedly reasserted claims for the material significance of empire might at the end of the century be represented as an important and persistent constraint upon the adjustments required for the competitive vitality of the British economy.

For example, the legacy of empire permeated the formulation of the kingdom's strategic fiscal, monetary and commercial policies in ways that retarded and hampered the adaptation of the economy to the realities of international power and competition after 1945<sup>42</sup>. Only Portugal and, to a more limited extent, France seems to have been economically afflicted (and not to the same degree) by the cultural and political legacies of empire.

How different and economically superior modern history might have turned out for Britain and the rest of imperial Europe if Cobden's and Hobson's recommendations for decoupling from empires had occurred in the late nineteenth rather than at the end of this turbulent century?

#### PART IV. RETROSPECTIVE AND SPECULATIVE CONCLUSIONS

Meanwhile, the thrust of our essay has been concerned to qualify, indeed to challenge, the widespread perception that European economies made gains from conquest and colonisation in Africa, Asia and Southern America that were palpably significant for their long term development. Thus in conclusion it may be interesting to speculate why imperialism turned out to be less than profitable for several European states most actively and consistently involved in expansion and enterprise overseas.

Since European governments together with private investors persisted with various forms of colonial rule on and off for nearly five centuries, it must be the case that they believed that their policies and actions would pay. With hindsight, our essays (which deal with outcomes and not with motivations, aspirations and perceptions) make the point that time and again statesmen, generals, admirals, projectors, entrepreneurs and investors involved in the promotion of Europe's imperialistic enterprises overseas

<sup>42</sup> Feinstein (1997).

underestimated the expenditures and risks involved. Costs of conquest often turned out to be much greater than first anticipated. Prospects for loot and plunder promoted the venture and could produce immediate and sometimes large gains but the pacification and persistent coercion of native populations denuded the economic basis for long term exploitation of the natural resources, tradeable commodities and markets that Europeans hoped to turn into flows of material benefits for themselves, their societies and their power within the international order of competing states.

Furthermore, and until very late in the day, European governments, merchants and businessmen failed to invest at anywhere near the levels required in the infrastructural facilities and human capital formation in order to ensure that their supposed control of colonial populations, natural resources and under-exploited assets of Africa, Asia, and South America became really profitable. North America was another story and the discovery but exploitation of that sub continent crowded out European investment elsewhere in the world economy.

Meanwhile, and for two reasons, the costs of control (including coercion and the extension of incentives designed to secure collaboration between the colonised and the colonisers) increased through time. Even among the more ruthless of imperial rulers, their capacity for control remained geographically, politically and economically constrained by the resources and instruments for coercion and exploitation at their disposal. When the technologies for stronger more pervasive government gradually improved, they faced growing resistance from nationalistic movements for colonial freedom which raised the costs of coercion within the empire and also at home within the metropolis.

Local resistance certainly mattered particularly when it came to time to depart during the era of decolonisation and when the reluctance to leaving by some European governments inflicted a final round of heavy costs upon several metropolitan economies. Finally, throughout the five centuries or more of European expansion overseas, the context of great power politics within which imperialism occurred lead and contributed to rivalry, mercantilism and warfare, which is perhaps the major reason why the potential gains to Europe from overseas expansion, colonisation and trade were dissipated and at this end of the twentieth century look so disappointing.

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