Dipak Basu · Victoria Miroshnik

Imperialism and Capitalism, Volume I

Historical Perspectives

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Dedicated to
The memory of Walter Briskyian,
who was our constant source of inspiration

Introduction

This book in two volumes traces the historical development of capitalism and how it is related to colonialism. Without colonialism, capitalism cannot survive. At the same time, we have analyzed the alternatives to capitalism and the techniques associated with these.

There is very close relationship between capitalism and imperialism. The German philosopher thinker Rosa Luxemburg (1871–1919) argued in her book *The Accumulation of Capital* (published in 1913) that capitalism cannot survive without imperialism. She narrated the historical observation that "the extension of capitalism into new territories was the mainspring of the 'vast secular boom' between the seventeenth and the nineteenth centuries." Luxemburg thus realized the essence of imperialism in stating that "Imperialism is the political expression of the accumulation of capital in its competitive struggle for what remains still open of the non-capitalist environment." In her lifetime, competitive colonialism was the result of this historical process.

The idea that imperialism was a natural part of the internal "logic of capitalism" was made famous by J. A. Hobson (1902) and translated into the language of Marxism by Vladimir Lenin (1919), and continues to be influential today. Applying the model to nineteenth-century imperialism would go like this: The European nations found themselves with more resources at their disposal than any nation in history. Empires supplied these resources. The British and the French were not driven by system-level demands for export markets, but they forced open the markets to sell goods produced with the resources obtained from the empires.

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CHAPTER 1

Idea of Imperialism and Capitalism

The current globalization, which began in the 1990s, is not unprecedented: between 1870 and 1914, the opening of national economies went hand in hand with a rapid expansion of trade and investment beyond national borders. The period also saw financial crises comparable to those of the late twentieth and early twenty-first centuries.

As for goods markets, the first globalization was characterized by a growth in trade despite the adoption of protectionist measures in most advanced economies. As for capital markets, the first globalization saw the growing financial integration of the advanced economies. This process was promoted by the exchange-rate stability made possible by the gold standard.

Between 1870 and 1914, the opening of developed and less advanced economies was associated with swift growth in trade, investment, and financing beyond national borders. This period, described as the first globalization, displays similarities with the second globalization, which began in the 1990s.

The first globalization was also characterized by the lack of trade-policy reciprocity and coordination. In countries under colonial domination, home-country products were favored over other goods (British policy of "Imperial Preference"). European countries engaged in uncoordinated tariff revisions in the 1892–1914 period. While Britain practiced free

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trade, its manufactured products were denied free entry into the European markets. This lack of reciprocity fostered the emergence of "fair trade" campaigns in Britain for the adoption of retaliatory tariffs against countries imposing duties on British imports.

The exposure of developing economies manufacturing sectors to competition from more mature economies coincided with the collapse of manufacturing output in those countries. Home-country products enjoyed free access to colonial markets, whereas trade treaties between Britain and independent countries (Latin America, China, Thailand, Middle East) called for the elimination of customs duties or the capping of import duties in developing countries at modest levels—typically, 5% of the value of imports. The inflow of cheaper British and European products entailed the collapse of manufacturing output in the Ottoman Empire, India, and—to a lesser extent—China.

India, a net exporter of textile (cotton) to Europe in the eighteenth century, was importing two-thirds of its textile consumption by the late nineteenth century, chiefly from Britain. After the abolition of the East India Company's trade monopoly in 1813, which had banned textile imports to India, the Indian market was flooded with textile products manufactured more cheaply by the developed countries. This opening hastened the decline of the local textile industry.

Britain did bring free trade to India and China. Britain had extracted large surpluses from India, and forced it into a free-trade pattern, which obliged India to export commodities and become a dumping ground for British manufactures. Historians estimate that the net transfer of capital from India to Britain averaged 1.5% of GNP in the late nineteenth century. The wealth transfer was financed by a persistent trade surplus of India, which was sent back to Britain or spend to expand the British Empire. India's export–import ratio was 172.5% in 1840–1869, 148% in 1870–1912, and 133.4% in 1913–1938. This export orientation was a tool of colonial exploitation, and free trade a British ploy to force its manufactures on India and crush the domestic industry.

Instead of enriching the world, the British Empire impoverished it. The empire was run on the cheap. Instead of investing in the development of the countries they ruled, the British survived by doing deals with indigenous elites to sustain their rule to extract maximum amount of revenues for Britain itself, which the British historians now deny. Whether in eighteenth-century India, nineteenth-century Egypt, or twentieth-century Iraq, the story is the same. As long as taxes were paid, the British cared little about "the rule of law." They turned a blind eye to Indian landlords who extracted rent by coercion or indigo and opium—planters who had forced Indian farmers to cultivate and their products were forced upon the Chinese. Unable to sell anything to the Chinese, Britain sent in its gunboats, seizing Hong Kong and opening up a market for opium grown in India (Davis 2001)

India is the prime example. Ruled by Muslims before the British, India was a prosperous, rapidly commercializing society. The Jagat Seth, India's biggest banking network and financier of the East India Company, rivaled the Bank of England in size. British rule pauperized India. The British restricted Indian weavers' ability to trade freely and the result was a drastic drop in living standards. Dhaka, now the capital of impoverished Bangladesh, was once a state-of-the-art industrial city. Its population fell by half during the first century of British rule.

Rabindranath Tagore wrote in 1941, "The chronic want of food and water, the lack of sanitation and medical help, the neglect of means of communication, the poverty of educational provision, the all-pervading spirit of depression that I have myself seen to prevail in our villages after over a hundred years of British rule make me despair of its beneficence" (Tagore 1997).

The Impact of British Rule in India

As Davis (2001) concludes: "If the history of British rule in India were to be condensed to a single fact, it is this: there was no increase in India's per capita income from 1757 to 1947." In fact, incomes may have declined by 50% in the last half of the nineteenth century (Table 1.1).

India and China together in 1700 used to contribute almost half the world production, which declined to 14% in 1890 and 9% in 1952. At

Table 1.1 Shares of world GDP (percent)

	1700	*1820*	*1890*	*1952*
China	23.1	32.4	13.2	5.2
India	22.6	15.7	11	3.8
Europe	23.3	26.6	40.3	29.7

Source Davis (2001)

the same time the share of Europe went up from 23% in 1700 to 40% in 1890 and 29.7% in 1952.

India had suffered most. Its share of the world production came down from 22.6% in 1700 to just 3.8% in 1952. China's share came down from 23% in 1700 to only 5% in 1952.

Destruction of Agriculture

Karl Marx (1957) wrote in Consequences of British Rule in India,

England has broken down the entire framework of Indian society, without any symptoms of reconstitution yet appearing. The British in East India accepted from their predecessors the department of finance and of war, but they have neglected entirely that of public works.

> There have been in Asia, generally, from immemorial times, but three departments of Government; that of Finance, or the plunder of the interior; that of War, or the plunder of the exterior; and, finally, the department of public works. Climate and territorial conditions, especially the vast tracts of desert, extending from the Sahara, through Arabia, Persia, India, and Tartary, to the most elevated Asiatic highlands, constituted artificial irrigation by canals and water-works the basis of Oriental agriculture. Hence an economical function devolved upon all Asiatic Governments, the function of providing public works. This artificial fertilization of the soil, dependent on a Central Government, and immediately decaying with the neglect of irrigation and drainage, explain the otherwise strange fact that we now find whole territories barren and desert that were once brilliantly cultivated, as Palmyra, Petra, the ruins in Yemen, and large provinces of Egypt, Persia, and Hindostan; it also explains how a single war of devastation has been able to depopulate a country for centuries, and to strip it of all its civilization.

Destruction of Self-Sufficient Rural Economy

"British steam and science uprooted, over the whole surface of Hindostan, the union between agriculture and manufacturing industry."

"The third form of destruction was the destruction of the self-sufficient village society of India. Under this simple form of municipal government, the inhabitants of the country have lived from time immemorial. These small stereotype forms of social organism have been to the greater part dissolved, and are disappearing, not so much through the brutal interference of the British tax-gatherer and the British soldier, as to the working of English steam and English free trade."

"Those family-communities were based on domestic industry, in that peculiar combination of hand-weaving, hands-spinning and hand-tilling agriculture, which gave them self-supporting power. English interference having placed the spinner in Lancashire and the weaver in Bengal, or sweeping away both Hindoo spinner and weaver, dissolved these small communities, by blowing up their economical basis" (Marx 1957).

Deindustrialization of India Under the British

After destroying its agriculture, British had embarked upon the destruction of the Indian industry. Several Indian historians have argued that British rule led to a deindustrialization of India. By Act 11 and 12 William III, cap. 10, it was enacted that the wearing of wrought silks and printed or dyed calicoes from India, Persia, and China should be prohibited, and a penalty of £200 imposed on all persons having or selling the same. Similar laws were enacted under George I, II, and III, in consequence of the repeated lamentations of the afterward so "enlightened" British manufacturers. And thus, during the greater part of the eighteenth century, Indian manufactures were generally imported into England in order to be sold on the continent, and to remain excluded from the English market itself.

Ramesh Chandra Dutt (1887) argued: "India in the eighteenth century was a great manufacturing as well as a great agricultural country, and the products of the Indian loom supplied the markets of Asia and Europe. It is, unfortunately, true that the East India Company and the British Parliament, following the selfish commercial policy of a hundred years ago, discouraged Indian manufacturers in the early years of British rule in order to encourage the rising manufactures of England. Their fixed policy, pursued during the last decades of the eighteenth century and the first decades of the nineteenth, was to make India subservient to the industries of Great Britain, and to make the Indian people grow raw produce only, in order to supply material for the looms and manufactories of Great Britain."

According to Karl Marx (1957), "However changing the political aspect of India's past must appear, its social condition has remained unaltered since its remotest antiquity, until the first decennium of the

19th century. The handloom and the spinning wheel, producing their regular myriads of spinners and weavers, were the pivots of the structure of that society."

"It was the British intruder who broke up the Indian handloom and destroyed the spinning wheel. England began with driving the Indian cottons from the European market; it then introduced twist into Hindostan, and in the end inundated the very mother country of cotton with cottons."

"From 1818 to 1836 the export of twist from Great Britain to India rose in the proportion of 1 to 5,200. In 1824 the export of British muslins to India hardly amounted to 1,000,000 yards, while in 1837 it surpassed 64,000,000 of yards. But at the same time the population of Dacca decreased from 150,000 inhabitants to 20,000. This decline of Indian towns celebrated for their fabrics was by no means the worst consequence."

There is a good deal of truth in the deindustrialization argument. Moghul India did have a bigger industry than any other country, which became a European colony, and was unique in being an industrial exporter in precolonial times. A large part of the Moghul industry was destroyed in the course of British rule.

The second blow to the Indian industry came from massive imports of cheap textiles from England after the Napoleonic wars. In the period 1896–1913, imported piece goods supplied about 60% of Indian cloth consumption and the proportion was probably higher for most of the nineteenth century. Home spinning, which was a spare-time activity of village women, was greatly reduced.

It took India 130 years to manufacture textiles and to eliminate British textile imports. India could probably have copied Lancashire's technology more quickly if she had been allowed to impose a protective tariff in the way that was done in the United States and France in the first few decades of the nineteenth century, but the British imposed a policy of free trade. British imports entered India duty free, and when a small tariff was required for revenue purposes Lancashire pressure led to the imposition of a corresponding excise duty on Indian products to prevent them from gaining a competitive advantage. This undoubtedly handicapped industrial development. If India had been politically independent, her tax structure would probably have been different. In the 1880s, Indian customs revenues were only 2.2% of the trade turnover, i.e., the lowest ratio in any country. In Brazil, by contrast, import duties at that period were 21% of trade turnover.

British rule had not promoted industrialization in India either. Japan and China were not colonized by the British; they remained independent. The Indian steel industry started fifteen years later than in China, where the first steel mill was built at Hangyang in 1896. The first Japanese mill was built in 1898. In both China and Japan the first steel mills (and the first textile mills) were government enterprises, whereas in India the government did its best to promote imports from Britain.

Until the end of the Napoleonic wars, cotton manufactures had been India's main export. They reached their peak in 1798, and in 1813 they still amounted to £2 million, but thereafter they fell rapidly. Thirty years later, half of the Indian imports were cotton textiles from Manchester. This collapse in India's main export caused a problem for the Company, which had to find ways to convert its rupee revenue into resources transferable to the UK. The Company therefore promoted exports of raw materials on a larger scale, including indigo and opium, which were traded against Chinese tea. These dope-peddling efforts provoked the Anglo-Chinese war of 1842 in which the British drug-pushers won and forced China to accept more and more opium.

Financial Exploitation of India

Until 1898 India, like most Asian countries, was on the silver standard. In 1898, India under British rule, had to adopt a gold exchange standard which tied the Rupee to Pound at a fixed value of 15–1, thus forcing India to export more for smaller amount of British goods. This was another kind of exploitation of the Indian people making them poorer and poorer.

Another important effect of foreign rule on the long-run growth potential of the economy was the fact that a large part of its potential savings was siphoned abroad. There can be no denial that there was a substantial outflow, which lasted for 190 years. If these funds had been invested in India they could have made a significant contribution to raising income levels.

The first generation of British rulers was rapacious. Clive took quarter of a million pounds for himself as well as a *Jagir* (land and houses) worth £27,000 a year, the Viceroy received £25,000 a year, and governors £10,000. The starting salary in the engineering service was £420 a year or about sixty times the average income of the Indian labor force. From

1757 to 1919, India also had to meet administrative expenses in London, first of the East India Company, and then of the India Office, as well as other minor but irritatingly extraneous charges. The cost of British staff was raised by long home leave in the UK, early retirement, and lavish amenities in the form of subsidized housing, utilities, rest houses, etc. Under the rule of the East India Company, official transfers to the UK rose gradually until they reached about £3.5 million in 1856, the year before the mutiny.

In addition, there were private remittances. D. Naoroji (1901), (in *Poverty and Un-British Rule in India*, London, 1901) suggests that the annual remittances including business profits from mainly India and to a limited extent from China were already 6 million in 1838. R. Palme Dutt (1939) argues that "the spoliation of India was the hidden source of accumulation which played an all important role in helping to make possible the Industrial Revolution in England."

In the twenty years from 1835 to 1854, India's average annual balance on trade and bullion was favorable by about £4.5 million a year. During the period of direct British rule from 1858 to 1947, official transfers of funds to the UK by the colonial government were called the "Home Charges." They mainly represented debt service, pensions, India Office expenses in the UK, and purchases of military items and railway equipment. Government procurement of civilian goods, armaments, and shipping was carried out almost exclusively in the UK. By the 1930s these home charges were in the range of £40–£50 million a year. Some of these flows would have occurred in a non-colonial economy, e.g., debt service on loans used to finance railway development, but a large part of the debt was incurred as a result of colonial wars. Some government expenditure was on imports, which an independent government would have bought from local manufacturers. Of these official payments, we can legitimately consider service charges on nonproductive debt, pensions, and furlough payments as a balance of payment drain due to colonialism (Naoroji 1901).

There were also substantial private remittances by British officials in India either as savings or to meet educational and other family charges in the UK. In the interwar period, these amounted to about £10 million a year, and Naoroji estimated that they were running at the same level in 1887. These items were clearly the result of colonial rule.

In addition, there were dividend and interest remittances by shipping and banking interests, plantations, and other British investors. The total "drain" due to government pensions and leave payments, interest on non-railway official debt, private remittances for education and savings, and a third of commercial profits amounted to about 1.5% of national income of undivided India from 1921 to 1938 and was probably a little larger before that. Net investment was about 5% of national income at the end of British rule, so about a quarter of Indian savings were transferred out of the economy, and foreign exchange was lost which could have paid for imports of capital goods.

As a consequence, foreign drain the Indian balance of trade and bullion was always positive. In spite of its constant favorable balance of trade, India acquired substantial debts. By 1939 foreign assets in India amounted to \$2.8 billion, of which about \$1.5 billion was government-bonded debt and the rest represented direct investment (mainly tea, other plantations, and the jute industry).

India did not reduce its foreign debt during the First World War as many other developing countries did. Instead, there were two "voluntary" war gifts to the UK amounting to £150 million (\$730 million). India also contributed one and a quarter million troops, which were financed from the Indian budget. The "drain" of funds to England continued in the interwar years because of home charges and profit remittances.

There was also a small outflow of British capital. In the depression of 1929–1933, many developing countries defaulted on foreign debt or froze dividend transfers, but this was not possible for India. The currency was kept at par with sterling and devalued in 1931, but the decisions were based on British rather than Indian needs. Furthermore, the salaries of civil servants remained at a high level, and the burden of official transfers increased in a period of falling prices.

During the Second World War, India's international financial position was transformed. Indian war finance was much more inflationary than in the UK and prices rose threefold, so these local costs of troop support were extremely high in terms of Pound, as the exchange rate remained unchanged.

For the last fifty years of British rule, there is no increase in per capita income. The most noticeable change in the economy was the rise in population from about 170 million to 420 million from 1757 to 1947. Very little incentive was provided for investment and almost nothing was done to promote technical change in agriculture. At the bottom of society the position of sharecropping tenant and landless laborers remained wretched.

Meanwhile Indian taxes funded Britain's Indian army, which was used to expand the empire into Africa and Asia and which made a major contribution to defending the same empire in two world wars—all at no cost to the "home" country! Lord Salisbury said India "was an English barrack in the Oriental seas from which we may draw any number of troops without paying for them."

Man-Made Famines in British India

The British brought an unsympathetic and ruthless economic agenda to India and that "the creation of famine" was brought about by British "sequestration and export of food for enhanced commercial gain." Three important factors caused devastating famines in India under British rule. First, India's indigenous textile industries were destroyed by London's high tariffs and the import of cheap British manufactured products, impoverishing millions of town dwellers, who were forced into the countryside to compete for dwindling land. Second, India's traditional granary reserve system, designed to offset the impact of bad harvests, was dismantled. Third, India's peasants were pressured into growing crops for export, making them dependent on fluctuating world market prices for their means of subsistence. As a result, tens of *millions* of people died of starvation. These famines were not caused by shortages of food. They took place at the very same time that annual grain exports from India were increasing.

One-third of the population of the then province of Bengal, which includes today's Bangladesh, West Bengal, Orissa, Bihar, and South Assam, were wiped out in the famine of 1770, immediately after Bengal was occupied by the British East India Company, due to their inhuman tax system. According to Davis (2001), during the famine of 1876, "the newly constructed railroads, lauded as institutional safeguards against famine, were instead used by merchants to ship grain inventories from outlying drought stricken districts to central depots for hoarding…In Madras city, overwhelmed by 100,000 drought refugees, famished peasants dropped dead in front of the troops guarding pyramids of imported rice."

The British refused to provide adequate relief for famine victims on the grounds that this would encourage indolence. Sir Richard Temple, who was selected to organize famine relief efforts in 1877, set the food allotment for starving Indians at 16 ounces of rice per day—less than the diet for inmates at the Buchenwald concentration camp for the Jews in Hitler's Germany. "British disinclination to respond with urgency and vigor to food deficits resulted in a succession of about two dozen appalling famines during the British occupation of India. These swept away tens of millions of people. The frequency of famine showed a disconcerting increase in the nineteenth century," under the British rule (Bhatia 1963).

Very few would be aware of the horrendous calamities inflicted on Indians by the British. The annual death rate in 1877 in British labor camps during the Deccan famine was about 94%. Extraordinarily low population growth between 1870 and 1930 (due to famine, malnourishment-exacerbated disease and cholera, plague, and influenza epidemics) was due to this exploitative policy. In 1943 Bengal Famine in British-ruled India about 5 million people perished, but it was never mentioned in the British history books, because it was caused by a deliberate British "scorched earth policy" to deprive the Azad Hind Army and the Japanese to receive any support from the local people (Bhatia 1963).

The annual death rate in India before 1920 was about 4.8% but this declined to 3.5% by 1947 and is presently about 0.9% (http://countrystudies.us/india/32.htm). Using a baseline "expected" annual death rate value of 1.0% and assuming an "actual" pre-1920 value of 4.8%, one can estimate that the avoidable (excess) mortality was about 0.6 billion during 1757–1837, 0.5 billion during 1837–1901, and 0.4 billion during 1901–1947. Thus, the British rule of India was associated with an excess (i.e., avoidable) mortality totaling 1.5 billion—surely one of the greatest crimes in all of human history (Davis 2001).

An extraordinary feature of the appalling record of British imperialism with respect to genocide and mass, worldwide killing of huge numbers of people (by war disease and famine) is its absence from public perception. There is no mention of famine in India or Bengal in the British textbooks of history. New historians in India are now putting the blame on the victims. Meghnad Desai (1983) in his article in *Cambridge History of India* puts the blame on the Indian speculators; Amartya Sen (1981) suggested that people in that area had eaten too much to create the famine.

The progress made in India under British Rule like the coming of railways, Postal System, Telegraphic communications, etc., were all undertaken by the British Administration to facilitate their rule. The aim of British policy was to integrate the Indian economy with that of the British in such a way that India supplied Great Britain with cheap raw material for being manufactured into valued-added (costly) finished products. It is not true that if India remained independent it could not have developed railways or telegraphic system; Japan or Thailand was never colonized but they have today much better infrastructure than that in India.

India during the British rule was to provide a ready captive market for British goods made from Indian raw materials. The resultant enrichment and industrial development was to take place in Britain and not in India. Thus at the dawn of independence, India inherited an economy that had the worst features of both the feudal and the industrial ages without the advantages of either. As Rabindranath Tagore wrote in 1941, in his letter from his deathbed to a British member of parliament Mrs.Rothbone, that "…in the Soviet Union illiteracy was eradicated with two decades but in India even after two centuries of British rule only 15 percent of the Indians were literate" (Tagore 1997).

Nature of Capitalism

Capitalism is an economic organization that encourages individuals to engage in economic activities in different capacities on a large scale to produce, distribute, and consume in collaboration with smaller-scale enterprises within the existing legal and institutional characteristics. The elements of production such as raw materials, machines, and labor are private with no or restricted state interference.

Private motive is the biggest incentive behind the functioning of a capitalist system. It induces the owners to produce more to maximize their gain. The prices are not controlled by any regulatory body or the Government. If the prices are high, producers gain more profit, but at the same time consumers will buy less (Adam Smith 1776).

Competition is also a major characteristic of capitalism that influences the production, distribution, and consumption of goods. Individual buyers and sellers cannot influence the market decisions, in theory, the tendency of the producers or sellers to monopolize the system can undermine that. That can make flexible prices rigid which do not adapt themselves to the changes in demand and influence supply.

Imperialism, on the other hand, is a concept of expanding a country's power through colonization, use of military force, or other means. Imperialism is of three types basicallypolitical, economic, and cultural. Imperialism can be "formal" which means complete control over another