The Problems of the British Empire

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THE statesmen of the leading countries which were involved in the catastrophic conflict of 1914-1918, have not yet settled their account as regards the responsibility for the war. The effort to shake off that criminal responsibility on to the shoulders of others has not been convincing, on either side. The dictated peace treaty of Versailles lays the responsibility at Germany's door. But this legal responsibility depends upon the legal validity of that international diplomatic instrument. Today the impractibility of the Versailles Treaty is generally admitted in deed, if not in words. It formally concluded the war, but did not—could not—solve the contradictions of the modern world that led to the war. Consequently, when the death and destruction caused by the war still defy reparation, the contradictions of capitalist civilization again raise their hydra-head. The Versailles Treaty becomes a mere scrap of paper, no more venerable than many other diplomatic instruments. The hair-splitting bickering over the responsibility for the past is brushed aside by the all-consuming anxiety for the problem of the future—indeed of the present.

The statesmen with guilty conscience could not settle the contentious question about the responsibility for the war; but history has given her verdict. And it is this objective judgment that will be abiding. None of the belligerent states was more responsible than the others for setting the world on fire. All of them were equally responsible. They plunged headlong into the maelstrom by virtue of their very existence. The war was the result of the ruthless rivalry among imperialist states for the domination of the world. Race for the world market—scramble for colonies—led inevitably to the fierce clash of arms.

The fact that these root-causes of the war are again operating upon the world situation in ever-increasing degree, proves that the conclusion of the war was but an armed truce, and the Treaty of Versailles is but a scrap of paper. The war caused by imperialist rivalries, of course, could not solve the problems of imperialism; but it seriously undermined the basis of imperialism and involved it in new contradictions more inextricable than the previous ones. This is particularly true in the case of Great Britain—the classical type of imperialist state. An examination of the post-war problems of the British Empire is, therefore, the correct approach to the situation of the contemporary.

The chronic industrial depression in the old "workshop of the world" is a phenomenon of historic importance comparable only to the Roman Empire in decay. Year after year, the rulers of the country, political and economic, deplored the depression, but with cheerful optimism held out the hope of coming recovery. The year 1928 was heralded as the turning point. This optimism was based upon the slight improvement noticeable in the beginning of the year. But the new year began with high hopes dashed to the ground, the leaders of imperialist Britain proving false prophets.

Traditionally, the pronouncements made by the heads of the big banks in the beginning of the year, are taken as indicating the general line of the development. In the last successive years of obstinate depression, the new year's message of the mentors of Britain's economic destiny, in spite of everything, was toned to the tune of subdued optimism—pointing out the silver lining of the black cloud. This year, they without exception, spoke a different language. Hardly any hope was held out, all practically endorsing the finding of the Liberal Industrial Enquiry of the last year—"we cannot be sure that our staple trades will revive to their old dimensions." This remarkably pessimistic tone of the men who still hold in their hand a considerable portion of the world's purse-string, certainly does not mean admission of defeat, declaration of the failure of capitalist economy to reconstruct itself. This was the swan-song of the old conservative lady of Threadneedle Street.

With this tone of pessimism regarding the "normal recovery" of trade, the British bankers break away from their traditional policy of financing industry through loan and debenture capital, and adopt the more modern method of direct control. The reluctance on the part of the banks to discard the old method of operation in favor of the new was largely responsible for the inability of the oldest and most depressed British industry, namely cotton textile, to rationalize production. The fateful change has at last come. The bankers struck the note of pessimism in order to prepare the numerous army of middle-class bond-holders—the bed-rock of British conservatism—for what is coming.

The new operation of the banks as monopolistic finance capital will ruin the small bond-holders whose particularist interests and conservative outlook today are a dead-weight upon industry. The basic principle of the financial reconstruction of the depressed industries—not only cotton, but iron, steel and coal also—is the transference to the banks of large blocks or shares in liquidation of past loans and in payment for further financial assistance. By heavily cutting down the nominal capital of a concern its shares are transferred to the banks at a small fraction of their price. Virtually, this is expropriation of the middle class by finance capital.

This change in the operation of finance in industry is a fateful event in Britain, for its result will be much more far-reaching than the ruin of the small owners and bond-holders. This change will further weaken the already undermined basis of the empire. Ownership of capital invested abroad is the cornerstone of the imperialist structure. To maintain and increase this ownership, therefore, is the principle which determines the operation of British finance. Owing to the fact that the small group of islands on the western outskirts of the European continent was for decades the industrial center of a world-wide empire, in varying grades of industrial backwardness, the operation of British banking assumed forms different from the continental. The monopolist control of industries by capital was not similar to that in the United States or Germany. It was exercised through over-seas investments which opened up markets for the products of home industry.

The war wiped out a very considerable portion of British foreign investment. This was partly repaired by heavy export of capital during the short period of post-war boom. In the following years of stagnation and decline, Britain was very hard put to it to maintain her already reduced share of the ownership of capital abroad. This she could do by starving home industries—by delaying the reconstruction of her productive apparatus so as to meet the new conditions of competition in the world market. While Germany and other continental countries were "rationalizing" their industries on the basis of inflated currency, Britain, in order to maintain her threatened ownership of capital abroad, had to deflate. The premature (from the point of view of industry and trade) return to gold-standard was a great obstacle to industrial recovery.

The belated agreement of the banks to undertake financial reorganization of industries indicates deviation from the traditional policy of imperialist finance. But this deviaton again is not of choice; it is a forced move. The empire was built on capital exported in ever-increasing volume. The exportable surplus was the result of capital accumulated in the industries at home. So after all, the stability of the empire cannot be maintained while the basic industries in Britain wither and decay. Hence the necessity for British finance to deviate from the old channel of operation to a new one. The fatefulness of this deviation lies in that it will increase Britain's inability to maintain her already depleted share of the ownership of capital abroad.

Some basic facts about the economic position of Britain explain the difficulty of the situation she finds herself in. First let us quote briefly from the new year's pronouncements of the leading bankers.

> "It is a matter of grave concern that in any survey of the trade of the country during the past year the picture should be overshadowed by the cloud of depression which still hangs over our great basic industries."
>
> (Sir Harry Goschen, Chairman, National Provincial Bank)

> "The year which has elapsed since I last addressed you has been disappointing in many respects. The difficulties in respect of our basic industries have proved very stubborn. . . . Ours is the only country which has suffered marked diminution in output since 1913, arising almost entirely from the lessened demand from abroad, and from our own iron and steel industries."
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> (R. H. Tennant, Westminster Bank)

> "The four great industries chiefly affected are those of iron, and steel, coal, textile and agriculture. . . . I confess I do not see any speedy method of improving the position. I am much afraid that the process will be painful and slow."
>
> (I. Beaumont Pease, Lloyds Bank)

> "The country has lost much of the cheaper trade and its once-vaunted safeguards of climate and skill are no longer invulnerable. . . . The recital of the course of trade in 1928 is gloomy reading. It has undoubtedly been a bad year. . . . Our post-war trade depression cannot be judged or dealt with on the lines of pre-war depression, for the war has changed the world and our place in the world is no longer such that trade will come back of itself even if we produce the best goods."
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> (Holland-Martin, Martins Bank, Liverpool)

These are authoritative pronouncements made with expert and intimate knowledge of the situation. At last it is admitted that the present depression is not a "normal" passing crisis of capitalist production, but a lasting phenomenon demanding radical readjustments.

The secret of the situation is the fact that imperialist rivalry for market and colony (not in the limited territorial sense, but in the wider sense of financial domination) has become much greater than before the war. While the productive capacity of the world has increased tremendously, and most of the leading industrial countries actually produce more than before the war, the world market has been contracted. There are many reasons for this contraction. The present crisis is not a normal passing crisis, because it is a crisis of potential over-production and (in some cases) actual under-production at the same time. The difficulty of Britain is that while she is steadily losing ground in the world market, the reconstruction of her industries necessarily implys further reduction of production.

Take for example the cotton textile trade. The export of this commodity, which for a long time constituted a very considerable portion of British export trade, is now approximately 65 per cent of the pre-war amount. Britain has lost her monopoly of the eastern market. The rationalization of Lancashire industry does not include a plan to recapture the lost market, but to cut down production still more. Only on this condition can the industry be saved from complete bankruptcy. This loss accruing from the decay of the industry at home, could be compensated in only one way: by the investment of British capital in the industry of the new countries that have appeared on the world market with greater competitive power. But precisely in consequence of the industrial decay at home and the decline of foreign trade, Britain's ability to export capital is seriously affected. A country exports capital when its accumulation exceeds the limits of profitable investment at home. So, the problem of the British empire today is the problem of accumulation of capital at home.

The disagreeable fact of the situation is that the present national savings of Britain hardly leave any exportable surplus if the capital requirements of the home industry are fully met. The rationalization of production was so long delayed, among other facts, by this contradiction. Now that the process of rationalization has at last begun, it does not relieve the situation. On the contrary, it sharpens the contradiction. In the past, British foreign trade expanded on the basis of capital export. At present the lower level of foreign trade can be maintained also by continuing the export of capital. For, otherwise, countries with exportable capital will further encroach upon the market by extending credit. This is evidenced by the heavy decline of British trade in Canada. Britain still owns a considerable portion of the capital invested in that country; but in proportion as she cannot keep pace with the penetration of American capital she loses her ground, in spite of the vast capital she exported there in the past.

The employment of the larger portion of her declined national saving for the reconstruction of home industries will, therefore, still more weaken Britain's position as an imperialist power. A top-heavy parasitic imperial structure hindered, until now, the reconstruction of the home industry; and now the attempt to stabilize the basis will dangerously shake the super-structure. The problem of the British Empire is to be found in this contradiction.

Now let us illustrate this contradiction with facts. The victory in the Napoleonic War marks the rise of Britain as a modern imperialist power. It is true, before that time, through monopolist trading companies, Britain had acquired extensive colonial possessions. But the British bourgeoisie as a whole was at that time adverse to colonial expansion, because capitalist development had not yet overgrown national limits. Foreign trade was governed by mercantile interests, and colonial conquest was sheer plunder, aiding accumulation of capital through violent means. Treasure robbed from the Spanish conqueror of South and Central America, as well as from India, was a great impetus to the industrial revolution in Britain; the booty from America and India enabled England to free her economic life from the control of Dutch financiers. Towards the end of the eighteenth century Britain paid over a million pounds a year as interest on capital borrowed from Amsterdam. The French aristocracy invested in British government bonds what they could save from the Revolution.

According to Adam Smith, in the beginning of the nineteenth century eighteen million pounds of the British national debt was held by foreigners. The situation had changed already in 1817, from which year foreign borrowers appeared on the London market. London had taken the place of Amsterdam, ruined by the Napoleonic Wars. After Waterloo, British capital began to flow in the continental countries, devastated by the wars. In 1860 Britain had seven hundred and fifty million pounds invested abroad. She had become an imperialist country in the modern sense of the term.

During the latter decades of the nineteenth century the export of capital from Britain increased rapidly in volume. In the beginning of the new century, Great Britain owned no less than two billion pounds of capital invested in her own colonies and foreign countries. But still the greater part of her national savings was absorbed in the country. Imperialism had not yet become a top-heavy parasitic structure. In 1903 British imperialism entered a new stage of development. Since then, till the World War, a larger and larger portion of capital, accumulated in Britain, could not find a sufficiently profitable employment at home and therefore had to be sent abroad. In the meantime, other countries had reached a similar state. France and Germany had become capital-exporting countries. The result was the fierce scramble for colonies. The imperialist powers plunged the world into the bloody holocaust of 1914-18 because they had no place to keep their money. The clash of gold resulted in the clash of steel. The war, however, did not solve the problems that had caused it. On the contrary, it revealed more glaringly than ever that they cannot be solved. As far as England is concerned, as a result of the war she is pushed back to a position similar to that she occupied previous to 1903; today, by far the greater part of her national savings are needed by the home industry. The margin left for export is very narrow. But this similarity is only superficial. Before 1903, the greater part of capital accumulated in Britain was absorbed in the country to lay and broaden the foundation on which the imperial super-structure was subsequently reared. Now also the greater part of her new capital must be kept in the country; but the result will be entirely different.

In the present world conditions the inability to export capital in a sufficient amount will seriously prejudice the stability of the super-structure. Empire no longer serves the purpose of the home industry. Its parasitic existence can be maintained by eating into the vitals of the home industry, which after all is its foundation. So the existence of the empire is as anomalous as that of a tree living at the expense of its root. No example of parasitism can be more classic.

On the background of this gloomy picture there is much controversy about the actual state of Britain's national saving, and the amount of capital available for investment at home and abroad. The most optimistic and generally accepted estimate is approximately four hundred and seventy-five million pounds a year, which, calculated in real value, represents a fall of over 30 per cent from the 1913 level. This estimate of the Colwyn Committee has lately been corroborated by the report of the industrial census of 1924. On the basis of this rate of national saving no more than one hundred million pounds can be actually available as *new capital* both for home and foreign investment. (*Calculation of the Liberal Industrial Enquiry; also of the Colwyn Committee appointed by the Conservative government.*) There are authorities who place the figure much lower. For example the president of the National Savings Committee, Sir R. Kinderslay, believes that the actual amount of new capital did not exceed sixty million pounds in 1927.

For the complexity of the subject, considerable margin should be left for the accuracy of the estimate, one way or the other. Nevertheless, the general picture does not change materially. The two basic facts are: 1. Capital accumulates at a lower rate; and 2. By far the larger portion of this reduced new capital is required at home. The consequence is evident; exportable surplus of capital is less than before the war. And as the empire was built on the export of capital, the operation of these two basic facts of the situation is highly dangerous and disruptive.

For years, parasitic imperialist finance obstructed the reconstruction of British industry. From all sides came the cry that "banks are starving the industry." The policy of a return to the gold standard, dictated by banks holding extensive foreign investments was introduced and maintained in the face of powerful opposition from industrial and commercial interests. Nevertheless, the logic of the situation was inexorable. New capital was absorbed at home at an ever-increasing rate and the outward flow relaxed. The ratio of home and foreign investments in 1928 was 70 : 30 in contrast to 20 : 80 in 1913. When we remember that in 1928 the international balance-sheet was made to show a credit of about one hundred million pounds in Britain's favor, while in the previous year it showed an actual debit, it becomes clear that the situation actually is worse than it is represented by this ratio. An examination of production and trade in the intervening period does not show any basis for this unexpected credit in 1928. So it is evident that in order to show that she is not "living on her capital," Britain must have adopted the policy of "borrowing short to lend long." Whatever it may be, in both cases the result is the same—Britain's share in the actual ownership of capital abroad is declining. This is decisive for the future of the empire.

Production is the basic denominator of the situation. In spite of the activity towards the end of the year, in 1928 the index fell below the level of the previous year, being 89 compared to 1913. The index of production per capita is still worse—84 per cent. So, after a short upward curve violently disturbed by the general strike of 1926, the line of prosperity, rather of depression, has sunk back to the level of 1925 which year furnished the data for the investigation by the Colwyn Committee. In other words, today, as during the last several years, new capital for investment at home and abroad available in Britain is hardly more than one hundred million pounds, which represents the minimum needed by home industries "if we are to employ our population, not a full stretch, yet reasonably well." (J. M. Keynes.) That is, Britain has no capital to export and the income from her previous investments abroad is barely sufficient to cover the adverse balance of her merchandise trade.

Yet, we find foreign issues in London growing steadily from eighty-eight million in 1925 to one hundred twelve in 1926 and one hundred thirty-nine in 1927. It is interesting to note that in 1928 the amount fell to one hundred and two, although the year as a whole was no worse than the previous. Evidently the dangerous effect of these fictitious foreign issues has been felt, and it was necessary to call a halt.

An examination of Britain's international balance sheet reveals the fictitious nature of the foreign issues during the last years. Counting the visible and invisible items, the net balance in favor of Britain was forty-four million pounds in 1925, two in 1926 and ninety-six in 1927. Last year shows a passive balance of two hundred twenty-eight million pounds in the merchandise account. Counting that the income on the invisible items will be the same as in the previous year, the net surplus for 1928 becomes one hundred fifty-five millions. That is, the margin for foreign investment is greater; still, actual investment was less. This is an attempt to bring things within the limits of reality, as is illustrated by the following table:

	Net surplus available for investment	*Actual foreign issues (mill. Pounds)*	*Balance*
1925	44	88	=44
1926	2	112	=110
1927	96	139	=43
1928	155	102	+53

In 1924, the balance was also passive. So, after four years, the foreign issues in London are covered by Britain's exportable surplus of capital. The foreign issues in London exceeding the limits of the net exportable surplus represented a corresponding decline in Britain's ownership of capital abroad. For, these transactions meant transfer of foreign securities held in London to other centers of world finance, mainly New York. Britain was forced to forego an increasing portion of her ownership of capital abroad, in order to maintain international credit which is essential for a country dependent so largely on foreign trade. Besides, it is equally essential for Britain's position in the world economy that the exchange value of the pound sterling should not go down. For in that case London would lose entirely her control of international finance.

In 1928 the position improved slightly; but the improvement is only apparent. The adverse balance of merchandise trade was only thirty-four million pounds less than in the previous year, which does not cover the portion of capital actually exported from Britain. Then, there is much bookkeeping jugglery in the international balance sheets of the last year. In 1926, the net surplus in favor of Britain sank to the vanishing point. The next year it was suddenly brought up to ninety-six million, although there had been no improvement in trade. The favorable balance was maintained last year and it is on the basis of this mysteriously manufactured favorable balance that the improvement as regards foreign investment takes place. Whence does this favorable balance suddenly appear? Evidently, the reserves of imperial finance are tapped. This, in its turn, will produce, indeed already produces, disruptive results upon Britain's relation with her colonies; so it is a veritable *cul-de-sac.*

Every effort made to get out of the impasse creates a set of new difficulties, the accumulation threatening to overwhelm the giant.

The empire was built on gigantic expansion of industry at home, huge accumulation of capital resulting therefrom and monopoly of trade created by the export of capital. All these pillars on which the imperial structure was reared are seriously undermined. The plan of rationalizing industry will be realized by accepting the present state of depression as permanent. British capitalist economy has decided to settle down on the basis of a limited production. But that is the antithesis of the empire which was the result of expansion of industry and trade.

Another way out of the impasse is sought in "empire development." But the obstacles to the successful realization of this scheme are almost insuperable. Development of the colonies in such a sufficiently rapid tempo as might relieve the situation of the empire, require as its condition large supplies of capital which Britain is not in a position to provide. Then, the disruptive forces which such development is sure to generate, will render the expected benefit for the empire of doubtful value. In any case, the scheme remains a scheme. The Liberal Industrial Enquiry Committee gives the reason for it:

> "The problem of imperial development has been rendered far more acute by the very economic difficulties which make it at this moment doubly urgent and important."

Here the problem of the British Empire is put in a nut shell.